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June 15, 2010

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BY HAND

Ms. Cynthia Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423-0001

Re: Western Coal Traffic League Reply Comments in
Ex Parte No. 558 (Sub-No. 13), Railroad Cost of Capital - 2009

Dear Acting Secretary Quinlan:

Enclosed for filing are an original and ten copies of the reply comments of the Western Coal Traffic League ("WCTL") in the above-captioned proceeding. Also enclosed is a CD containing a copy of the comments and the workpapers of WCTL's witnesses. The workpapers, including electronic spreadsheets, will be made available to any party upon request.

Please contact the undersigned if there are any questions concerning this matter.

Respectfully submitted,
Robert D. Rosenberg

Robert D. Rosenberg
An Attorney for the Western Coal
Traffic League

RDR:cef
cc: Service List

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BEFORE THE
SURFACE TRANSPORTATION BOARD



In the Matter of:)

RAILROAD COST OF CAPITAL –)
2009)

Ex Parte No. 558 (Sub-No. 13)

REPLY COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE

Of Counsel:

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Dated: June 15, 2010

WESTERN COAL TRAFFIC LEAGUE

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Its Attorneys

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BEFORE THE
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In the Matter of:)
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RAILROAD COST OF CAPITAL –) Ex Parte No. 558 (Sub-No. 13)
2009)
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REPLY COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE

Pursuant to the notice that the Surface Transportation Board (“STB” or “Board”) served in the above-captioned proceeding on March 30, 2010 (the “Notice”), the Western Coal Traffic League (“WCTL” or “League”)¹ submits these reply comments in response to the comments that the Association of American Railroads and its member railroads (“AAR” or “Railroads”) filed on May 17, 2010.

I. INTRODUCTION, SUMMARY, AND SCOPE

WCTL’s calculations relating to the determination of the railroad industry cost of capital for 2009 are presented in the Verified Statement of Thomas D. Crowley and Daniel L. Fapp (“Crowley/Fapp VS” or “Crowley/Fapp”) that is attached as Exhibit

¹WCTL is a voluntary association, whose regular membership consists entirely of shippers of coal mined west of the Mississippi River that is transported by rail. WCTL members currently ship and receive in excess of 175 million tons of coal by rail each year. WCTL’s members are: Ameren Energy Fuels and Services, Arizona Electric Power Cooperative, Inc., CLECO Corporation, Austin Energy (City of Austin, Texas), CPS Energy, Kansas City Power & Light Company, Lower Colorado River Authority, MidAmerican Energy Company, Minnesota Power, Nebraska Public Power District, Omaha Public Power District, Texas Municipal Power Agency, Western Farmers Electric Cooperative, Western Fuels Association, Inc., Wisconsin Public Service Corporation, and Xcel Energy.

A and the associated workpapers. Specifically, the Crowley/Fapp VS addresses the calculation of the cost of equity (“COE”) under both the Capital Asset Pricing Model (“CAPM”) and the Multi-Stage Discounted Cash Flow (“MSDCF”) model, the cost of debt (“COD”), the equity debt ratio, and the overall cost of capital (“COC”), as well as some related matters utilizing the Board’s current methodology.

The following Table 1 compares the the calculations of the AAR and WCTL with respect to the key COC components:

Table 1 Comparison of AAR and Crowley/Fapp COC Calculations		
Item	AAR	WCTL
CAPM COE	11.39%	11.39%
MSDCF COE	13.46%	13.04%
Average COE	12.43%	12.22%
Cost of Debt	5.72%	5.72%
Equity/Debt Ratio	70.90%/29.10%	70.89%/29.11%
Overall COC	10.47%	10.33%
Source: AAR Filing; Crowley/Fapp VS at 22.		

The Board’s Notice specifically requested comments on whether BNSF Railway Company (“BNSF”) should be retained n the calculation following the announcement that Berkshire Hathaway Inc. (“Berkshire”) intended to acquire BNSF’s shares. WCTL agrees that BNSF should be retained in the calculation for reasons explained in Crowley/Fapp at 23-26.

WCTL also agrees with the AAR that it would be appropriate to use geometric averaging in calculating the weekly risk-free rate of return in the CAPM calculation, although the impact is apt to be negligible, as discussed in Crowley/Fapp at 5.

The issue of how to calculate the cost of capital in future years, when BNSF might no longer be considered in the analysis because it ceased to be publicly traded earlier in 2010, was not included in the Board's Notice. Nonetheless, Kansas City Southern ("KCS") filed comments on the issue. WCTL does not believe that the issue is properly noticed or implicated in the 2009 cost of capital determination. Nonetheless, WCTL has asked Crowley/Fapp to address the issue out of an abundance of caution. Their comments opposing the KCS position are stated in Crowley/Fapp VS at 27-34.

WCTL notes that the issue of how to value BNSF assets following the Berkshire acquisition was also not discussed in the Notice, and the matter was not addressed in any of the railroad comments (AAR, BNSF, and KCS). Accordingly, WCTL has not addressed the issue.

WCTL does note that materials prepared by and for BNSF relating to Berkshire's acquisition of BNSF do address the issue of BNSF's cost of capital and show figures lower than those utilized by the Board and consistent with those previously urged by WCTL.

The matters discussed above are further addressed in these comments and the Crowley/Fapp VS.

II. ERRORS IN AAR'S CALCULATIONS

The Crowley/Fapp VS notes a few areas of disagreement with the AAR's cost of capital calculations.

The first area of dispute relates to the AAR's determination to ignore the restatement of reported railroad financial figures that are utilized in the MSDCF calculation. The Board's MSDCF model uses five-years of normalized cashflows, *e.g.*, the MSDCF calculation for 2009 uses 2005-2009 fiscal year financial/accounting data. However, firms, including the railroads, sometimes restate their financial/accounting data for past years, and such statements can alter the cashflows. BNSF/UP restated data for 2005, 2006, 2007, and 2008, and CSX restated data for 2007 and 2008. Crowley/Fapp VS at 9. In other words, there are restatements in six (or 30%) of the twenty relevant sets of data (five years of data for four carriers), which is a significant percentage. While the AAR does not mention that there were any restatements or discuss their substance, the AAR maintains that the restatements should be ignored, indicating AAR's awareness of the restatements. *See* Verified Statement of John T. Gray ("Gray VS"), which accompanied the AAR comments, at 38.

WCTL disagrees and submits that the restated data should be taken into account. As explained in Crowley/Fapp VS at 7-10, the restated information is relevant data that an efficient market would take into account in evaluating the firms, and there is no good reason to conclude that the information would be ignored. If the information is

sufficiently material that the firm concludes that it warrants or requires restatement, then it would seem difficult to conclude that the information is immaterial to investors and should be ignored in assessing investor expectations. Stated differently, an intelligent investor would not logically rely on inaccurate information when more accurate information is available. Yet, that is the import of the AAR's position.

The AAR does not defend the accuracy of its position directly. Instead, its position is either that it was done that way before or Morningstar/Ibbotson does it that way. Gray VS at 38. Neither claim is at all convincing. There is no indication that careful, or even casual, thought was given to the matter previously. The fact that a mistake or oversight was made before is a poor reason to perpetrate it. If Morningstar/Ibbotson actually does its calculations that way,¹ it would seem to represent a desire for administrative ease, that is, to avoid revisiting data that is already collected. But that is also a weak justification argument for intentionally relying on inaccurate information in a regulatory proceeding that has real consequences.² Furthermore, having done little to support its position on Opening, the AAR should not be allowed to introduce new arguments or support on Rebuttal.

¹ The AAR is less than forthcoming on the point. The Morningstar/Ibbotson Cost of Capital Yearbook does not address whether it restates the data. The Stangle 2008 VS referenced by Mr. Gray also did not explicitly address the issue, but rather just used the 10-K for each year of the five-year period.

² It may, however, be a reason for the Board to reexamine whether the Morningstar/Ibbotson methodology is an ideal model for the Board's alternate COE calculation.

The second area of disagreement relates to the selection of growth rates and involves two aspects. The first aspect is that the AAR somehow selected I/B/E/S growth rates from January 4, 2010, four days after the close of 2009. The AAR does not disclose the basis for the selection, and one has to look far in its filing to find that the date of selection was not December 31, 2009, even though the Gray VS at 39 notes that the STB made clear in STB Ex Parte No. 558 (Sub-No. 12), *Railroad Cost of Capital – 2008* (STB served Sept. 25, 2009), that values should be selected as of December 31, 2009, and the Gray VS at 39 states that “To comply with the preference of the Board stated in its cost of capital decision for 2008, growth rates from the *end* of 2009 (see Appendix L) have been utilized” (original emphasis). In fact, the values as of December 31, 2009, are different from -- and lower than -- the values used by the AAR. The CAPM calculation seeks to determine investor expectations as of December 31, 2009, and the growth rates should be the value as of that date. *See* Crowley/Fapp VS at 10-11.

The second aspect of the growth rates is that the AAR Witness Mr. Gray sought to independently calculate the median value of the growth estimates for each railroad, rather than rely on the Thomson One I/B/E/S calculation. Gray VS at 39. This attempt to introduce the AAR’s or Mr. Gray’s personal judgment runs afoul of the Board’s stated desire to rely on an independent, commercially-available data approach and also constitutes an attempt to override the Thompson quality control procedures. Crowley/Fapp VS at 12-15. Given the AAR’s proclivity to select data that yields values that favor the railroads, there is ample reason to rely instead on the Thomson procedures,

especially as Mr. Gray has not explained why his approach is superior. Accordingly, the figures presented by Crowley/Fapp are more credible and accurate, and they should be utilized.

The third area of disagreement is that Mr. Gray misstated the value of BNSF's Equipment Trust Certificates at \$236.7 million at Table 6 of his VS and Table 8 of his VS, but page 1 of Appendix C of his VS shows a correct value of \$243 million. Using the correct figure does not materially impact the composite cost of debt, but it does alter the equity/debt ratio. *See Crowley/Fapp VS at 17-18, 20-21.*

The cumulative impact of these corrections is shown on Table 1, *supra*.

III. INCLUSION OF BNSF IN COST OF CAPITAL CALCULATION

Crowley/Fapp at 23-25 explain why BNSF should be included in the 2009 cost of capital calculations. Briefly stated, BNSF continued to meet all the criteria after the planned Berkshire acquisition was announced, the announcement affected the stock of all the railroads, not just BNSF, and the impact of the announcement cannot be isolated from other factors.

However, WCTL disagrees with Mr. Gray's claim that BNSF was not acquired at an acquisition premium. Acquisition premiums are a recognized concept in such situations, and the price paid by Berkshire was at a substantial premium to the price prevailing at the time of the announcement. *See Crowley/Fapp VS at 25-26.*

IV. EXPANSION OF THE COST OF CAPITAL COMPOSITE GROUP

Crowley/Fapp at 27-34 explain why the cost of capital composite group should not be expanded to include KCS, Canadian National, or Canadian Pacific. Simply stated, they do not reflect predominately United States rail operations.

V. COST OF CAPITAL DATA FROM THE BERKSHIRE BNSF TRANSACTION

WCTL has previously commented that the Board's COE methodology, especially its MSDCF methodology as applied, yields COE values that are overstated relative to those commonly used by the investment community. WCTL recognizes that such matters are not strictly within the scope of the Notice, at least as the Board has interpreted its notices in the past. Nonetheless, WCTL believes that a prudent and responsible agency would retain an ongoing interest in the accuracy and reasonableness of its chosen methodology.

In that regard, WCLT directs attention to the Form S-4 that Berkshire filed with the Securities and Exchange Commission on November 25, 2009, in conjunction with its proposed acquisition of BNSF.³ The S-4 states that BNSF's Board of Directors retained Goldman Sachs and Evercore "as financial advisors in connection with the evaluation of the transaction" and that the two firms both delivered opinions finding that the transaction was fair to BNSF shareholders. See S-4 at 36-73 and Appendices C and D.

³ The document is available at <http://www.sec.gov/Archives/edgar/data/1067983/000119312509242246/ds4.htm>.

The S-4 states that Goldman Sachs performed valuation analyses “using discount rates ranging from 8% - 12%, reflecting estimates of BNSF’s cost of equity,” “discount rates ranging from 7.0% to 11.0%, reflecting estimates of BNSF’s weighted average cost of capital,” and “discount rates ranging from 7.0% to 11.0%, but using terminal values based on a perpetuity growth rate ranging from 1.5% to 3.5%.” *Id.* at 47-48. The S-4 also reports that Evercore used “discount rates ranging from 8.0% to 10.0%” reflecting “among other things, a weighted average cost of capital calculation” and “discount rates of 10.0% to 12.0%” reflecting “among other things, a cost of equity calculation.” *Id.* at 59.

The Goldman Sachs and Evercore analyses thus reflect median COE values of 10% (Goldman Sachs) and 11% (Evercore) and median overall COC values of 9% (both Goldman Sachs and Evercore). These values are considerably lower than those calculated under the Board’s methodology, particularly the MSDCF and hybrid approaches. The analyses reinforce WCTL’s prior view as to the unreasonableness of the Board’s methodology, especially the MSDCF component with the particular inputs and procedures recommended by the AAR and adopted by the Board. The discrepancy ought to be of concern to the Board, especially insofar as it purports to be measuring investor expectations.

VI. AAR WORKPAPER ISSUES

WCTL reluctantly raises another matter relating to the use and production of workpapers in this proceeding.

To assist in its review of and comment upon the AAR's Opening filing, WCTL sought to obtain electronic workpapers from the AAR, especially the Excel spreadsheets used to make calculations. The AAR provided a scanned hardcopy of its workpapers relatively quickly, later provided a computer-generated (electronically searchable) pdf of those workpapers, and still later provided some Excel spreadsheets. However, the AAR never provided Excel spreadsheets for some items, including the cost of debt and the MSDCF calculations. When WCTL inquired as to the matter, the AAR indicated that production of the items was inappropriate because of (a) the burden of producing the spreadsheets, (b) the materials involved proprietary data, (c) WCTL was asking AAR to do work that WCTL could just as easily do itself, or (d) some combination of the above.

WCTL respectfully, but strongly, disagrees with the AAR's position. Calculation of the cost of capital is necessarily a computational exercise. AAR's refusal to make its calculations available unquestionably makes review more difficult; indeed, that seems to be the AAR's motive for not producing the spreadsheets. WCTL's view is that the AAR should be required to submit the spreadsheets as part of its filing to the Board, as the Board cannot really verify the AAR's calculations otherwise, or would require inordinate time to do so. The AAR's claims of burden are makeweight, as the effort to select and copy the files and then include them in an email is negligible and is likely done anyway for other purposes. Insofar as the spreadsheets involve links to proprietary databases, forwarding the spreadsheets without the proprietary files will sever

the links anyway, thereby protecting the databases. Furthermore, the fact that the AAR is able to prepare the spreadsheets from data that it or its member maintain (what the AAR calls proprietary data), apparently for other purposes, demonstrates that WCTL and other members of the public would face greater burdens than the AAR in assembling the data. In short, none of the AAR's stated justifications for failing to produce the spreadsheets are persuasive in the least.

Beyond that, there is something offensive in the AAR's apparent position. The Board's established procedure is that the railroads submit the opening data. That procedure is appropriate because the railroads have superior access to the relevant information and superior resources or at least a more vital interest in the outcome. For the railroads then to seek to conceal their analysis or impede review is inappropriate. Indeed, the Board requires that spreadsheets be produced in some other proceedings. There is no good reason why the cost of capital proceedings should be any different. WCTL adds that it is willing to provide its spreadsheets to the Board and to other parties, and, in fact, has done so in past cost of capital proceedings.

Accordingly, the AAR should be required to submit its electronic spreadsheets, or at least make them available to other parties when requested.

VII. CONCLUSION

For the reasons stated above, the Board should adopt the cost of capital calculations presented in the Crowley/Fapp VS. BNSF should be included in the calculation for 2009. The AAR should be required to produce its electronic workpapers.

Respectfully submitted,

WESTERN COAL TRAFFIC LEAGUE

Of Counsel:

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Dated: June 15, 2010

William L. Slover
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Its Attorneys

Exhibit A

**Verified Statement of
Thomas D. Crowley and Daniel L. Fapp**

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**Railroad Cost of
Capital – 2009**

)
)
)
) **Ex Parte No. 558 (Sub- No.13)**
)
)
)

Reply Verified Statement

**Of
Thomas D. Crowley
President**

and

**Daniel L. Fapp
Vice President**

**L.E. Peabody & Associates, Inc.
On Behalf Of
Western Coal Traffic League**

June 15, 2010

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LIST OF EXHIBITS

<u>EXHIBIT NO.</u>	<u>EXHIBIT DESCRIPTION</u>
(1)	(2)
1	Statement of Qualifications of Thomas D. Crowley
2	Statement of Qualifications of Daniel L. Fapp
3	Comparison of Historic Financial Statistics to Restated Financial Statistics - - BNSF and CSXT
4	2009 Average Cashflow And Average Income Before Extraordinary Items Without Deferred Tax Adjustments - - BNSF, CSXT, NS and UP
5	Comparison of Gray's ETC Market Value to Corrected ETC Market Value
6	Summary of U.S. and Foreign Financial Statistics - - KCS, CN and CP

I. INTRODUCTION

We are Thomas D. Crowley and Daniel L. Fapp. We are economists and, respectively, the President and a Vice President of L. E. Peabody & Associates, Inc., an economic consulting firm that specializes in solving economic, transportation, marketing, financial, accounting and fuel supply problems. Mr. Crowley has spent most of his consulting career of over thirty-nine (39) years evaluating fuel supply issues and railroad operations, including railroad costs, prices, financing, capacity and equipment planning issues. His assignments in these matters were commissioned by railroads, producers, shippers of different commodities, and government departments and agencies. A copy of his credentials is included as Exhibit No. 1 to this Verified Statement (“VS”).

Mr. Fapp has been with L. E. Peabody & Associates, Inc. since 1997. During this time, he has worked on numerous projects dealing with railroad revenue, operational, economic and financial issues. Prior to joining L. E. Peabody & Associates, Inc., Mr. Fapp was employed by BHP Copper Inc. in the role of Transportation Manager - Finance and Administration, where he also served as an officer and Treasurer of the three BHP Copper Inc. subsidiary railroads. Mr. Fapp has also served as a guest lecturer in graduate level finance and economics classes discussing corporate capital theory and costs of equity determination. A copy of his credentials is included as Exhibit No. 2 to this VS.

Our consulting assignments regularly involve working with and determining various facets of railroad financial issues, including cost of capital determinations. In these assignments, we have calculated railroad capital structures, market values, cost of railroad debt, cost of preferred railroad equity and common railroad equity. We are also well acquainted with and have used the commonly accepted models for determining a

firm's cost of equity, including Single-Stage Discounted Cash Flow Models ("SS-DCF"), Multi-Stage Discounted Cash Flow Models ("MS-DCF"), the Capital Asset Pricing Model ("CAPM"), and the Fama-French Three Factor Model.

We have developed railroad industry average cost of capital and company specific cost of capital for use in litigation and for use in general business management. For several clients, we have both individually and together determined the Going Concern Value ("GCV") of privately held railroads. Developing the GCV under the Income Based Methodology requires developing company specific costs of debt and equity for use in discounting future company cash flows, as well as creating forecasts of expected cash flows to the firm and to holders of common equity from company financial statements. We have also developed cost of capital in order to capture the costs associated with shipper investment in railroad equipment and road property. Our findings regarding railroad cost of capital have been presented to U.S. District and State courts, the Interstate Commerce Commission, the Surface Transportation Board ("STB") and the Federal Railroad Administration.

We have previously submitted, either individually or jointly, verified statements in prior STB annual cost of capital proceedings, including Ex Parte No. 558 (Sub-No. 9), *Railroad Cost of Capital – 2005*, Ex Parte No. 558 (Sub-No. 10), *Railroad Cost of Capital – 2006* ("2006 Cost of Capital"), Ex Parte No. 558 (Sub-No. 11), *Railroad Cost of Capital – 2007* ("2007 Cost of Capital") and Ex Parte No. 558 (Sub-No. 12), *Railroad Cost of Capital – 2008* ("2008 Cost of Capital"). We have also submitted evidence in Ex Parte No. 664, *Methodology To Be Employed In Determining The Railroad Industry's Cost Of Capital* ("Ex Parte 664"), and Ex Parte No. 664 (Sub-No. 1), *Use Of A Multi-*

Stage Discounted Cashflow Model In Determining The Railroad Industry's Cost Of Capital ("MS-DCF Cost of Equity").

We have been requested by Counsel for the Western Coal Traffic League ("WCTL") to review the testimony submitted by Mr. John T. Gray ("Gray") included with the Association of American Railroads' ("AAR") Opening Evidence filed pursuant to the Surface Transportation Board's ("STB") Decision in Ex Parte No. 558 (Sub-No. 13), *Railroad Cost Of Capital – 2009*, served March 30, 2010 ("*2009 Cost of Capital*"), and the Comments of the Kansas City Southern Railway Company ("KCS") and BNSF Railway Company ("BNSF"). Counsel has specifically requested that we review and comment on Mr. Gray's calculation of the railroad industry's CAPM cost of equity, calculation of the railroad industry's MS-DCF cost of equity and overall railroad industry cost of capital, on Mr. Gray's and BNSF's comments regarding the inclusion of the BNSF in the 2009 cost of capital composite group, and KCS' comments on expanding the composite group for the 2010 railroad cost of capital proceedings.

Our testimony is discussed further below under the following topical headings:

- II. CAPM Cost Of Equity
- III. MS-DCF Cost Of Equity
- IV. Railroad Cost Of Debt
- V. Railroad Cost Of Capital
- VI. Inclusion Of The BNSF In The 2009 Cost Of Capital Calculation
- VII. Expansion Of The Cost Of Capital Composite Group

II. CAPM COST OF EQUITY

In its decision in *Ex Parte 664*, the STB modified the procedure used to estimate the railroad cost of equity by switching from the SS-DCF cost of equity approach to the widely accepted CAPM approach. The STB's *Ex Parte 664* procedures directed parties to calculate the CAPM cost of equity using three specific inputs:

1. The average annual yield-to-maturity on 20-Year Treasury Bonds ("T-Bonds");
2. A beta estimate developed by regressing over five (5) years excess returns on a market weighted portfolio of railroad stocks against excess returns on the S&P 500 Price Return Index over 3-Month Treasury Bill ("T-Bill"); and
3. An estimate of the market risk premium based on the historical average equity market risk premium from 1926 to the subject year.

Moreover, the STB's *2008 Cost of Capital* decision clarified the identification of trading weeks and trading years to be used in the 5-year beta estimate regression.¹ Rather than assuming a trading year would consist of a static 52-trading week period, the STB clarified that the first trading week within a particular year would be the first week in a year that contains three (3) or more trading days. As such, a trading year within the beta estimation regression could consist of 53-trading weeks.

We have reviewed Mr. Gray's inputs and agree that the T-Bond yield-to-maturity of 4.11 percent and average market risk premium from 1926 to 2009 of 6.67 percent are consistent with the STB's CAPM cost of equity methodology. We also concur with his composite railroad industry equity beta estimate of 1.0915. The calculation of the 2009 CAPM cost of equity is shown in Table 1 below.

¹ See *2008 Cost of Capital* at 7.

Table 1
2009 CAPM Cost Of Equity

<u>Item</u> (1)	<u>2009 CAPM</u> <u>Cost Of Equity</u> (2)
1. Risk Free Rate ^{1/}	4.11%
2. Beta ^{2/}	1.0915
3. Market Risk Premium ^{3/}	<u>6.67%</u>
4. Cost of Equity ^{4/}	11.39%

^{1/} Gray VS at 28.
^{2/} Gray VS at 33.
^{3/} Gray VS at 29.
^{4/} Line 1 + (Line 2 x Line 3).

As shown in Table 1 above, the 2009 CAPM cost of equity equals 11.39%.

Mr. Gray also discusses the STB's methodology for converting annual T-Bill yields to weekly yields by dividing the annual return by 52.² As Mr. Gray notes, in our *2007 Cost of Capital* evidence, we, along with Mr. Gray, converted annual T-Bill yields to weekly yields using a geometric approach rather than an arithmetic approach. Based on our prior experiences in developing beta estimates, we have always used a geometric approach in converting annual risk-free rates of returns to daily, weekly or monthly returns, as required by the time period used in the analysis, as this accounts for the compounding nature of interest. The difference in using an arithmetic or geometric approach is so small in this proceeding that either approach produces virtually the same final result.

² See Gray VS at 32.

III. MS-DCF COST OF EQUITY

The STB ruled in its *MS-DCF Cost of Equity* decision that the railroad industry cost of equity after the 2007 determination would be calculated as the simple average of the railroad industry CAPM cost of equity and the railroad industry MS-DCF cost of equity as calculated using the Morningstar/Ibbotson MS-DCF model as modified to reflect only qualifying railroad holding companies, e.g., BNSF, CSX Corporation (“CSX”), Norfolk Southern Corporation (“NS”), and Union Pacific Corporation (“UP”).³ A MS-DCF model calculates the cost of equity by determining the discount rate that equates a firm’s market value to the present value of the stream of cash flows that could impact an investor. The Morningstar/Ibbotson model adopted by the STB defines cash flows, for the first two stages of the model, as income before extraordinary items, plus depreciation and deferred taxes, and minus capital expenditures.⁴ Cash flows are then normalized over a five (5) year period to mitigate the impact of potentially anomalous years. Total cash flows over the five (5) year period are then divided by total sales over the same period to develop an average cash flow-to-sales ratio, which is then multiplied by the analysis year’s revenues to obtain the average cashflow estimate for the year. For the third and final model stage, the Morningstar/Ibbotson model utilizes normalized earnings before extraordinary items as a surrogate for perpetual cashflows under the assumption that over the long-term capital expenditures will equal depreciation and deferred taxes are zero.

We have reviewed the MS-DCF cost of equity estimates developed by Mr. Gray, and accept, for present purposes, his estimate of the long-term nominal growth rate in the

³ See *MS-DCF Cost of Equity* at 15.

⁴ See *MS-DCF Cost of Equity* at 5 to 6 for a summary of the Morningstar/Ibbotson MS-DCF model.

U.S. economy, the formulas he used in the iterative process to calculate each railroad's estimated cost of equity, his calculation of each railroad's equity market value, and the weighting methodology used to develop the industry average cost of equity. However, we disagree with Mr. Gray's calculation of each railroad's normalized cashflows, and his application of the Institutional Broker's Estimating System ("IBES") growth rates. We discuss each of these issues below.

A. NORMALIZED CASH FLOWS

The Morningstar/Ibbotson MS-DCF model defines cash flows, for the first two stages, as income before extraordinary items ("IBEI"), minus capital expenditures ("CAPEX"), plus depreciation and deferred taxes.⁵ While the *MS-DCF Cost of Equity* decision was silent on the source of the cash flow calculation data inputs, the STB accepted in its *2008 Cost of Capital* decision the data inputs retrieved from the railroads' annual Form 10-K filings with the Securities and Exchange Commission ("SEC").⁶

Mr. Gray states that his cash flow calculations were calculated using the same procedures used by the AAR for the 2008 cost of capital determination. Specifically, Mr. Gray states that 2009 railroad SEC Form 10-K were the sources for 2009 cash flow data statistics.⁷ For the 2005 to 2008 statistics used in the normalized cash flow calculations, Mr. Gray states he relied upon the same statistics for those years as used in the 2008 MS-DCF cost of equity determination. Mr. Gray notes "In any cases where a railroad has

⁵ See *MS-DCF Cost of Equity* at 5. Cash flow in the third stage of the model is based on two assumptions. First, that CAPEX will equal depreciation in the long run, and second, deferred taxes will be zero (0).

Stated differently, cash flow in the third stage is based solely on IBEI.

⁶ See *2008 Cost of Capital* at 9.

⁷ See Gray VS at 38. The railroad companies within the composite group all filed their Form 10-K Annual Reports for fiscal year 2009 in the first quarter 2010. When discussing the years for the Form 10-K, we are referencing the fiscal year the annual report covers and not the year it was filed with the SEC.

restated prior year's data, original data were used in the model instead of revised data, following the Ibbotson procedure that was used in Dr. Stangle's 2008 cash flow calculations."⁸

We disagree with Mr. Gray's use of original 2005 to 2008 financial data instead of restated and updated data presented in more recent financial reports. Finance theory holds that, at any particular time, a firm's stock price incorporates all historic price information, as well as all current publicly available information. In other words, under the theory of efficient markets, prices at any given point in time impound all available information about the value of the security.⁹

In his MS-DCF cost of equity calculation, Mr. Gray used 2009 stock price data and financial statement data from original (non-restated) 2005-2008 financial statements. If markets are efficient though, as the STB has repeatedly held them to be, this creates an inconsistency in the method of calculation. Using the current stock price data assumes that all publicly available and historical information is incorporated in the stock price. The 2005-2008 financial data, when it was released, was held as most correct and up to date. However, any restated or corrected financial information that was released after the original publication of these financial statements is now what is implicitly embedded in the current stock prices, and is what should be used in calculating the MS-DCF cost of equity.

⁸ See Gray VS at 38.

⁹ See, for example, Fama, E.F., "Efficient Capital Markets: A Review of Theory and Empirical Work," *The Journal of Finance*, Vol. 25, No. 2, May 1970, pages 383-417, and Fama, E.F., "Efficient Capital Markets: II," *The Journal of Finance*, Vol. 46, No. 5, December 1991, pages 1575-1617. Also see, Brealey, R. A., Myers, S. C., and Allen, F., "Principles of Corporate Finance, Eighth Edition," McGraw-Hill Irwin, 2006, pages 333-354 ("Brealey, Myers and Allen") and Brigham, E.F., & Ehrhardt, M. C. "Financial Management: Theory and Practice" (12th ed.), South-Western Cengage Learning., 2008, pages 301-302.

To include the most current publicly information available, we relied upon the most current audited financial statements for each year. For the 2007 to 2009 time period, this reflects the financial statistics shown in the railroads' fiscal year 2009 SEC Form 10-K. Each of the railroads' SEC Form 10-K included the current year's financial statements and any restatements for the prior two years. For example, the 2009 financials include any restated financial statements for 2008 and 2007. Because the railroads update their financial statements on a rolling basis, the most current 2006 financial information is found in each railroad's 2008 SEC Form 10-K. In a similar fashion, the railroads' 2007 SEC Form 10-K include the most current financial information for 2005.¹⁰

Comparing the railroads' most current and historic financial statements shows that both BNSF and CSX have restated several financial records between 2005 and 2008. BNSF's 2007 and 2008 10-K show the railroad restated 2005 and 2006 net income, depreciation and deferred taxes, while BNSF's 2009 10-K indicates BNSF restated its 2007 and 2008 CAPEX statistics.¹¹ Similarly, CSX's 2009 10-K reflect the railroad's restating charges related to discontinued operations that impact the calculation of IBEI. Exhibit No. 3 to this VS compares BNSF's and CSX's original financial statistics as used by Mr. Gray and the restated statistics shown by the two railroads.

We can assume based on efficient market theory that the restated financial statements data has been impounded in the current stock price, as the restated data has been released to the public domain. Therefore, using the original financial statements and the current stock price creates an inconsistency in the method used to calculate the

¹⁰ A possibility exists that a railroad would want or need to restate results from some earlier year. In that event, it might expand the range of years included in a report.

¹¹ Mr. Gray's workpapers show he calculated BNSF's 2009 CAPEX by summing BNSF's reported "Capital expenditures excluding equipment" and "Acquisition of equipment" statistics from BNSF's 2009 Consolidated Statement of Cash Flows. Summing the 2007 and 2008 statistics from the BNSF's 2009 10-K produces different CAPEX figures than presented in the 2007 and 2008 10-K used by Mr. Gray.

cost of equity. Because the 2005-2008 data has been restated and is publicly available, it should be used when calculating the MS-DCF, which would eliminate the inconsistency in the calculation. Stated differently, a rational investor would not logically rely on dated information that the company has determined is sufficiently accurate that it needs to be restated.

**B. CORRECT
GROWTH RATES**

As indicated by the STB in its *2008 Cost of Capital* decision, the Morningstar/Ibbotson model adjusts earnings in three stages.¹² In the first stage (years 1 to 5), a firm's annual earnings growth is assumed to be the median value of the qualifying railroad's 3 to 5 year growth estimates as determined by railroad industry analysts and published by IBES. In the second stage (years 6 to 10), the growth rate is the average of all growth rates in stage 1. In stage 3 (years 11 and onwards), the growth is the long-run nominal growth rate of the U.S. economy, and is estimated by using historical growth in real GDP and the long-run expected inflation rate. The STB specified in its *2008 Cost of Capital* decision that growth rates should be as of December 31 of the subject year.

Mr. Gray states that he obtained each railroad's long-term growth rates from Thomson Financial through its Thomson ONE Investment Management Service ("Thomson ONE").¹³ He also states that while Thomson ONE distributes medians of the IBES growth rates, he did not use the Thomson ONE values because they do not always reflect the full set of growth rates.¹⁴ Instead, Mr. Gray calculated his own median value

¹² See *2008 Cost of Capital* at 9.

¹³ See Gray VS at 39.

¹⁴ See Gray VS at 39.

for each railroad's growth rate. For the long-term median growth rate in the economy, Mr. Gray used an estimate of 5.8 percent as published by Morningstar.¹⁵

While we accept, for present purposes, Mr. Gray's use of the unadjusted Morningstar calculation of the long-term median growth rate in the U.S. economy, we disagree with his calculation of the railroads' median long-term growth rates. First, Mr. Gray obtained growth estimates four days after the close of the year. Second, the median IBES growth rate values as reported by Thomson are independent estimates that have been scrutinized and verified for consistency by neutral third-party researchers, and require no adjustment. We discuss both issues below.

**1. Growth Rates
Should Reflect
December 31 Values**

As Mr. Gray noted at page 39 of his VS, "In Ex Parte No. 558 (Sub No 12), the STB clarified their [*sic*] interpretation of the Morningstar/Ibbotson MSDCF model by specifying December 31 dates for growth rates, stock prices, and stock shares outstanding." Appendix L of his VS shows, however, that Mr. Gray obtained his estimates on January 4, 2010, four days after the close of 2009.

While seemingly trivial, the date and timing of the availability of the information is critical when dealing with stock price information. As we indicate above, stock price information incorporates all publicly known information, including information on long-term growth estimates. Publication of an earnings estimate after the close of the issue year would not be reflected in the year-end stock price.

¹⁵ See Gray VS at 40 and 41.

**2. Unadjusted IBES
Median Values
Should Be Used**

Mr. Gray states that he independently calculated the median value of each railroad's growth estimates because the Thomson One banker service does not always reflect the full set of growth rate estimates. We have two issues with Mr. Gray's approach. First, it deviates from the STB's desire of the use of a commercially accepted, neutral model that is not made for litigation or regulation. Second, it circumvents the quality control standards IBES includes in its estimates.

In selecting the Morningstar/Ibbotson model as the MS-DCF model used to calculate the railroad industry cost of equity, the STB stated that it choose the model in large part due to its wide use in other industries and neutral approach.

Finally, the Morningstar/Ibbotson model is a commercially accepted multi-stage DCF model. It was developed by disinterested, respected third parties and created for use by the financial community in evaluating publicly traded equities and in making real-world investment decisions. It was not developed as a tool for litigation or advocacy, and the same model is used by Morningstar to estimate the cost of equity for hundreds of different industries.¹⁶

The STB clearly desired an approach that relied as much as possible on neutral, third party inputs, and not a methodology that could be manipulated towards any single party. The use of the unadjusted IBES median values meets this goal. The IBES median value calculations are developed by a disinterested respected third party without a stake in the cost of capital proceeding. Moreover, the IBES median estimates were not developed as a tool for litigation or advocacy, but instead provided in the normal course

¹⁶ See *MS-DCF Cost of Equity*, Notice of Proposed Rule Making at 5 and 6.

of business by Thomson as part of its standard IBES report. Simply stated, it is a neutral input that has not been manipulated for use in this proceeding.

In addition, adjusting the calculated IBES median value circumvents the quality control standards Thomson uses to ensure quality financial statistics. In describing why organizations choose to use IBES data and calculations, Thomson states it is in large part due to the extensive quality control measures in place to ensure the highest quality data:

Why Choose I/B/E/S?

- Proactive Enhancements: Thomson Reuters works closely with our contributors and clients to stay ahead of new content offerings and changes in regional accounting requirements, such as FAS 123(R) in the US and IFRS in Europe and Asia.
- Quality Control: Thomson Reuters reviews all estimates according to rigorous quality control measures, both pre- and post-product quality reviews. Quality checks incorporate automated algorithms such as standard deviation, percentage difference from the previous, and number of revisions in a short time period. Monthly audits show accuracy levels greater than 99.9%.
- Comparability: Mean estimates only include estimates on the same accounting basis for apples-to-apples comparisons.¹⁷

Using anything other than the median values prepared by Thomson and reported in its IBES database would circumvent the quality control standards imputed into the median value calculations developed by Thomson. The above information from the Thomson website indicates Thomson goes to great efforts to evaluate and validate the

¹⁷ See Thomson Reuters I/B/E/S website at http://thomsonreuters.com/products_services/financial/financial_products/products_az/ibes.

data it reports. If Thomson excludes an estimate from its calculations, it is clear it has a valid reason to do so.

3. Corrected Growth Rates

In place of the median long-term growth estimates developed for this proceeding by Mr. Gray, we have utilized the median IBES consensus growth rates as reported by Thomson on December 31, 2009.¹⁸ The use of this data corrects for the two primary shortcomings of Mr. Gray's approach. First, it reports the median consensus forecasts for each company at the end of the issue year and not four days into the next year. Second, it is extracted directly from Thomson's dataset without manipulation or circumvention of Thomson's quality controls.

Table 2 below compares the median values as reported directly by Thomson from its IBES database and the median values calculated by Mr. Gray.

¹⁸ Copies of the downloaded data are contained in our workpapers. The data was downloaded directly from Thomson via a proprietary reporting platform at the investment-banking firm of Goldman Sachs.

<u>Railroad</u> (1)	December 31, 2009 <u>I/B/E/S Median Growth Rates</u> ^{1/} (2)	January 4, 2010 <u>Gray Median Growth Rates</u> ^{2/} (3)
1. BNSF	9.55%	12.00%
2. CSX	11.55%	11.60%
3. NS	12.00%	12.00%
4. UP	<u>13.10%</u>	<u>13.10%</u>
5. Average	11.55%	12.18%

^{1/} Source: Thomson IBES.
^{2/} Source: Gray VS at 40.

As shown in Table 2 above, the railroad median growth rates developed by Mr. Gray are the same as the median IBES growth rates reported by Thomson for only two railroads, the NS and the UP, while the unadjusted IBES growth rates developed by Thomson for BNSF and CSX are lower than those calculated by Mr. Gray. In addition, the simple average of the four median growth rates, which is used in the second stage of the Morningstar/Ibbotson model, is lower by 63 basis points.

C. MS-DCF COST OF EQUITY

Based on the corrections to the cashflow calculations and growth rates discussed above, we have restated the MS-DCF cost of equity. We show the restated MS-DCF models in Exhibit No. 4 to this VS and summarize the results in Table 3 below.

<u>Railroad</u> (1)	<u>2009 Cost of Equity</u> ^{1/} (2)	<u>2009 Equity Weight</u> ^{1/} (3)	<u>2009 Weighted Cost of Equity</u> ^{2/} (4)
1. BNSF	11.96%	32.24%	3.86%
2. CSX	13.49%	18.28%	2.47%
3. NS	14.69%	18.52%	2.72%
4. UP	<u>12.90%</u>	<u>30.96%</u>	<u>3.99%</u>
5. Total ^{3/}	---	100.0%	13.04%

^{1/} Source: Exhibit No. 4.
^{2/} Column (2) x Column (3).
^{3/} Sums of Lines 1 to 4.

As shown in Table 3 above, the 2009 MS-DCF cost of equity is 13.04%.

IV. RAILROAD COST OF DEBT

We have reviewed Mr. Gray's calculation of the railroad industry cost of debt, and concur that he calculated the cost of debt in a manner consistent with prior railroad cost of capital proceedings in all matters, except for his calculation of the market value of equipment trust certificates ("ETC").

Table 6 of Mr. Gray's VS indicates the market value of BNSF's ETC equals \$236.7 million.¹⁹ Mr. Gray includes this figure as part of his estimation of the market value of all railroad industry debt shown in Table 8 of his VS, and his calculation of the railroad industry's total modeled debt used to estimate the railroad industry composite cost of debt shown in Table 11 of his VS.²⁰ However, page 1 of Appendix C to Mr. Gray's VS shows that he estimated the market value of BNSF's ETC to equal \$243.0 million. Correcting for this technical error does not materially impact the composite cost of debt calculated by Mr. Gray due to the STB's practice of rounding the cost of debt to two decimal places.

Table 4 below contains the corrected market values of market industry debt.

¹⁹ See Gray VS at 14.

²⁰ See Gray VS at 18 and 23.

<u>Type of Debt</u> (1)	<u>Gray's Calculations (thousands)</u> ^{1/} (2)	<u>Corrected Calculations (thousands)</u> ^{2/} (3)
1. Bonds, Notes and Debentures	\$29,547,506	\$29,547,506
2. Equipment Trust Certificates	708,061	714,381
3. Conditional Sales Agreements	43,349	43,349
4. All Other Debt	<u>3,919,014</u>	<u>3,919,014</u>
4. Total ^{3/}	\$34,217,930	\$34,224,250

^{1/} Source: Gray VS at 18
^{2/} Exhibit No. 5.
^{3/} Sum of Lines 1 to 4.

As shown in Table 4 above, correcting the value in BNSF's ETC increases the total market value of railroad debt by \$6.32 million. As indicated above, it has no material impact on the composite cost of debt.

V. RAILROAD COST OF CAPITAL

Based on the corrections to the MS-DCF cost of equity and the market value of railroad industry debt, we have restated the 2009 cost of capital developed by Mr. Gray. We discuss our restatement below.

A. COST OF EQUITY

As we discussed above, we made corrections to Mr. Gray's MS-DCF cost of equity. Table 5 below shows the development of the 2009 average cost of equity based on our corrections.

<u>Item</u> (1)	<u>2009 Average Cost Of Equity</u> (2)
1. CAPM Cost of Equity ^{1/}	11.39%
2. MS-DCF Cost of Equity ^{2/}	<u>13.04%</u>
3. Average Cost of Equity ^{3/}	12.22%

^{1/} Gray VS at 35.
^{2/} Exhibit No. 4.
^{3/} Simple Average of Lines 1 and 2.

As shown in Table 5 above, the 2009 average cost of railroad equity equals 12.22%.

**B. COST OF
DEBT**

As discussed above, we have corrected the market value of BNSF's ETC to reflect the value shown in Mr. Gray's workpapers. Making this correction increases the total market value of railroad industry debt, but has no material impact on the composite cost of railroad debt. We therefore use Mr. Gray's estimate of 5.72 percent for the railroad industry cost of debt.

**C. COST OF
PREFERRED EQUITY**

As noted by Mr. Gray, the railroads included in the 2009 composite group had no preferred equity outstanding at the end of the year.²¹ Therefore, we have included no cost for preferred equity in our restated cost of capital, and assigned preferred equity a market value of zero (\$0).

**D. CAPITAL
STRUCTURE**

In developing his calculation of the 2009 market value of common equity, Mr. Gray used the stock price and common shares outstanding data for the 52-week period beginning the week of January 5, 2009 and ending the week of December 28, 2009.²² We have reviewed Mr. Gray's calculations and agree with his equity market value.

As discussed above, we found a technical error in Mr. Gray's calculation of the market value of railroad industry debt, which leads to a slight understatement. Table 6 below shows our restated 2009 railroad industry capital structure.

²¹ See Gray VS at 47 and 48.

²² See Gray VS at Appendix H, Page 5 of 5.

Table 6
2009 Railroad Industry Capital Structure

<u>Railroad</u> (1)	<u>Market Value</u> <u>(thousands)</u> (2)	<u>Capital Structure</u> <u>Weight</u> ^{1/} (3)
1. Common Equity ^{2/}	\$83,349,876	70.89%
2. Debt ^{3/}	\$34,224,250	29.11%
3. Preferred Equity	<u>\$0</u>	<u>0%</u>
4. Total ^{4/}	\$117,574,126	100.0%

^{1/} Line 1 to 4, Column (2) divided by Line 4, Column (2)
^{2/} Gray VS at 48.
^{3/} Table 4.
^{4/} Sum of Lines 1 to 3.

As shown in Table 6 above, the 2009 railroad industry capital structure is 70.89% common equity capital, 29.11% debt capital, and 0.0% preferred equity capital.

E. COST OF CAPITAL

Based on the restated cost of equity, assumed cost of debt and restated capital structure discussed above, we have restated the 2009 railroad industry cost of capital as shown in Table 7 below.

Table 7
2009 Cost of Capital

<u>Item</u> (1)	<u>2009</u> (2)
1. Weighted Cost of Equity	
a. Railroad Industry Cost of Equity ^{1/}	12.22%
b. Common Equity Portion of Capital Structure ^{2/}	<u>70.89%</u>
c. Weighted Cost of Railroad Industry Common Equity ^{3/}	8.66%
2. Weighted Cost of Debt	
a. Railroad Industry Cost of Debt ^{4/}	5.72%
b. Debt Portion of Capital Structure ^{2/}	<u>29.11%</u>
c. Weighted Cost of Railroad Industry Debt ^{5/}	1.67%
3. Weighted Cost of Preferred Equity ^{6/}	
a. Railroad Industry Cost of Debt	0.0%
b. Debt Portion of Capital Structure	<u>0.0%</u>
c. Weighted Cost of Railroad Industry Debt	0.0%
4. Railroad Industry Weighted Cost of Capital ^{7/}	10.33%

^{1/} Table 5.

^{2/} Table 6.

^{3/} Line 1a x Line 1b.

^{4/} Gray VS at 23.

^{5/} Line 2a x Line 2b.

^{6/} The railroads included in this analysis had no preferred equity issued in 2009.

^{7/} Line 1c + Line 2c + Line 3c.

As shown in Table 7 above, the 2009 railroad industry cost of capital equals 10.33%.

**VI. INCLUSION OF THE BNSF IN THE
2009 COST OF CAPITAL CALCUALTION**

On November 3, 2009, Berkshire Hathaway Inc. (“Berkshire”) and BNSF announced an agreement to merge BNSF with an indirect, wholly owned subsidiary of Berkshire, with the Berkshire subsidiary being the surviving company. The merger agreement called for Berkshire to acquire the outstanding BNSF shares it already did not own at a price of \$100 per share, payable in cash or Berkshire Class A common stock.²³ Berkshire’s offer price represented an approximate 30 percent premium over the previous trading day’s BNSF closing price. While announced in November 2009, the transaction did not close until February 2010. In the interceding three months between the announcement of the merger and the merger closing date, BNSF’s common stock continued to trade on the New York Stock Exchange (“NYSE”) in a very narrow range in the high \$90s per share.

The STB sought comments as part of this *2009 Cost of Capital* determination on how the change in BNSF share prices from the November 2009 through December 2009 should be considered in calculating the 2009 cost of common equity capital.²⁴ We believe that no adjustments should be made to the 2009 cost of capital determination to account for Berkshire’s acquisition of BNSF.

First, from a practical standpoint, there is no effective way to remove the premium from the actual BNSF stock price data after the announcement date. In the three months prior to the announcement, BNSF traded between approximately \$74 and \$84 per share. Subsequent to the merger plans being announced, BNSF’s stock price traded in a very narrow band between \$96 and \$98 between the November announcement

²³ See Berkshire Form S-4 Registration Statement as filed with the SEC on November 25, 2009.

²⁴ See *2009 Cost of Capital*.

date and the end of the year. There is no objective way to suggest what BNSF's stock price would have been had Berkshire not made its acquisition offer.

Moreover, Berkshire's announcement not only impacted BNSF's share price, but the share price of the other railroads within the industry. On the day of the Berkshire announcement, CSX, NS and UP each experienced significant jumps in their stock prices.²⁵ Many analysts attribute the jump in railroad stock prices on November 11 to the Berkshire acquisition announcement. If the STB wanted to adjust BNSF's stock price, it would also have to find a way to remove the impact of the Berkshire announcement from all other railroad stock prices.

Second, BNSF stock was still actively trading between the announcement date and the end of 2009. The fact that BNSF's stock price traded in a narrow band only slightly below the announced acquisition price reflects market sentiment that it expected Berkshire to close the deal at the announced price of \$100 per share. There are numerous examples of acquisitions being announced and the stock price moving higher than the acquisition price due to the expectation of a higher competing bid coming from other parties. Similarly, there are numerous examples of the market not expecting the deal to be completed, and the announcement having only a slight impact on the stock price.

Because there is no practical way to adjust the railroad's stock prices, the other potential alternative is to eliminate BNSF from the composite group altogether for the 2009 cost of equity determination. While there is precedent for removing certain railroad companies from the railroad industry cost of equity determination,²⁶ we would propose

²⁵ CSX saw a 7.3 percent increase, NS a 5.4 percent increase and UP a 7.9 percent increase, while the S&P 500 index closed down 1 percent on that day.

²⁶ See for example ICC Ex Parte No. 353, *Adequacy of Railroad Revenue (1978 Determination)*, 361 ICC at 79. In that proceeding, the ICC accepted the removal of the Missouri Pacific from part of the cost of equity determination due to a recapitalization in 1973 that impacted the 1978 determination.

such an action not be made here. Simply stated, Berkshire's announcement of its acquisition of the BNSF did not impact BNSF meeting all the criteria used to identify which railroads should be included in the composite group of railroads. BNSF continued to be a Class I railroad, its debt continued to be rated investment grade by the ratings agencies, its stock was continuously traded on the New York Stock Exchange and it paid dividends throughout the year. We can foresee no reason to exclude BNSF from the composite group.

While we agree with Mr. Gray that no adjustment is warranted for Berkshire's announced acquisition, we disagree with his disclaiming that BNSF was not acquired at a premium. Standard financial nomenclature states that the difference between the market price of a target company and the acquisition price is the "acquisition premium."²⁷ For want of the announced acquisition, there is no basis to say that the stock price of the target firm would have reached the acquisition price level.

Professor Stewart C. Meyers, an expert witness for the AAR in prior cost of capital proceedings, explains how premiums come about due to an announced acquisition.

In most takeovers, the acquiring firm is willing to pay a large premium over the current market price of the acquired firm; therefore, when a firm becomes the target of a takeover attempt, its stock price increases in anticipation of the takeover premium....Thus within the day [of the takeover announcement], the new stock prices apparently reflect (at least on average) the magnitude of the takeover premium.²⁸

²⁷ See for example, Damodaran, A., *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*, Second Edition, 2002 at 692. A copy of the relevant page is included in our workpapers.

²⁸ See Brealey, Myers and Allen at 339.

Mr. Gray infers that there was no premium offered by Berkshire because the proposed acquisition price was less than prior BNSF stock prices, and the relative change in BNSF stock over the year was less than the relative change in stock prices for other railroad companies in 2009.²⁹ These points are irrelevant and have no bearing on whether Berkshire paid a premium for BNSF. Berkshire offered, and eventually paid, approximately 30 percent more for BNSF's common equity shares than what they were trading prior to Berkshire's offer and BNSF's agreement to the acquisition. While it should have no impact on this cost of capital proceeding, this fact does not negate the fact that Berkshire paid a premium to acquire BNSF.

²⁹ See Gray VS at 46.

VII. EXPANSION OF THE COST OF CAPITAL COMPOSITE GROUP

In a separate filing from that submitted by the AAR in this proceeding, the KSC suggests that the STB conduct a separate proceeding, before the 2010 cost of capital determination is made, to consider whether to expand the cohort of railroads included in the railroad cost of capital determination. KSC believes that with the removal of the BNSF from the cost of capital calculation beginning with the 2010 determination, the industry cost of capital will be based on only three railroads, CSX, NS and UP, under the existing selection criteria.³⁰ KCS also claims that including only three companies could lead to an understated cost of capital.³¹

KCS believes that a way to solve this issue is to expand the composite railroad group to include three additional railroads in the 2010 cost of capital proceeding, i.e., KCS, the Canadian National Railway (“CN”) and the Canadian Pacific Railway (“CP”). KCS believes that expanding the group to include itself would provide a more accurate representation of the true cost of capital for the railroad industry because the existing methodology tends to understate the cost of capital for smaller railroads. KCS also believes that the corporate structures of the two Canadian railroads have changed dramatically in recent years, with each expanding its U.S. presence through the acquisition of U.S. based railroads, including the Illinois Central, Wisconsin Central and the Dakota, Minnesota and Eastern.³² Therefore, KCS believes that the STB should

³⁰ Under the existing inclusion criteria, BNSF would be excluded because its parent company Berkshire does not pay dividends on common stock, and has less than 50 percent of its assets devoted to railroad operations.

³¹ See KCS Statement at 4.

³² See KCS Statement at 4.

reflect CP and CN's larger presence in the U.S. by their inclusion in the railroad cost of capital.

We believe that expansion of the composite group to include the KCS, CN and CP is unwarranted. While each of these three railroads have U.S. operations, the vast majority of CN and CP's revenues and assets come from outside the U.S., and a near majority of KCS' revenues and assets come from Mexico. In each case, the railroads cost of acquiring debt and equity are impacted by factors outside the U.S., and not representative of the risks faced by the U.S. railroad industry. In addition, CN and CP publish their financial statements in Canadian and not U.S. dollars, which could prove extremely problematic when attempting to develop debt and equity costs using the STB's current methodologies. We discuss each of these issues below.

A. IMPACT OF NON-U.S. OPERATIONS

1. Risks Faced By International Firms

A basic financial principle holds that a safe dollar is worth more than a risky dollar. As such, investments with greater risk, holding all else constant, will require a higher rate of return to induce investors to invest in the project or asset. Financial economists have long recognized the differing types of risk that investors implicitly and explicitly take into consideration when evaluating investments. These include, but are not limited to, market risk, stand-alone risk, business risk and financial risk.³³

³³ For a further exploration of risk see Brigham, E.F., & Ehrhardt, M. C. "*Financial Management: Theory and Practice*" (12th ed.), South-Western Cengage Learning., 2008, pages 567 and 568.

While all companies face these general types of risk, companies with large foreign operations face additional risks not customarily faced by domestic firms. International operations, especially those operating at the retail or local wholesale level, may receive payment in a currency different than that of the company's home country. This means that the value of the company's foreign operation depends in part on what happens with exchange rates. This is known as exchange rate risk, and, depending upon how the local currency trades against the currency of the home country, can either increase or decrease the value of the operation, and impact the rate of return on the foreign investment.

In addition to the exchange rate risk, companies operating outside their home country also face country risk. This risk depends upon the foreign country's economic, political and social environment. Countries with stable economic, social, political and regulatory systems provide a safer climate, and therefore have less country risk than unstable countries. Examples of country risk include risks associated with changes in tax rates, business regulations, environmental regulations, and, in extreme situations, expropriation of assets.

Exchange rate risk and country risk are assessed by the market and included in the price of an equity share or debt instrument for companies with extensive foreign operations. Obviously, a company that operates an offshore asset in a nation with a history of expropriation will need to offer a premium to obtain the capital necessary to develop the asset. But even smaller, less drastic changes, such as changes in environmental or labor regulations will have an impact. These risks are in addition to the general risks faced by companies with only U.S. operations.

In its cost of capital determinations, the STB is attempting to estimate the cost of capital for the U.S. railroad industry and not worldwide railroad industry in general. In simple terms, including companies with extensive non-U.S. operations would distort the cost of capital for the U.S. railroad industry.

**2. Exchange Rate
Risk Facing Railroads**

The three additional railroads KCS states suggests should be in the cost of capital determination (itself, CN and CP) have extensive non-U.S. operations and generate either a majority or near majority of the revenues outside the U.S. Table 8 below displays the percentage of revenues each company generates from non-U.S. operations based on each railroad's 2009 annual report to shareholders.

<u>Railroad</u> (1)	<u>Percentage Of Revenue From U.S. Operations</u> (2)	<u>Percentage Of Revenue From Non-U.S. Operations</u> (3)
<u>KCS</u>		
1. 2007	53.3%	46.7%
2. 2008	55.8%	44.2%
3. 2009	58.4%	41.6%
<u>CN</u>		
4. 2007	33.3%	66.7%
5. 2008	33.6%	66.4%
6. 2009	32.5%	67.5%
<u>CP</u>		
7. 2007	21.1%	78.9%
8. 2008	22.6%	77.4%
9. 2009	28.5%	71.5%

Source: Exhibit No. 6.

As shown in Table 8 above, the vast majority of CN and CP's revenues come from their Canadian operations. The KCS on the other hand receives over 40 percent of its revenues from its Mexican subsidiaries.³⁴ Each company's extensive foreign operations means that it faces exchange rate risks that will ultimately find its way into its security prices. The railroads are well aware of this risk and communicate this fact to their shareholders. For example, in its 2009 SEC Form 10-K, KCS states, "KCSM's financial condition, results of operations and prospects may be impacted by currency fluctuations..."³⁵ Because these three railroads face currency exchange risk that the other Class I railroads do not, it would be inappropriate to include this risk in the U.S. railroad industry's cost of capital.

3. Country Risk Faced by Railroads

In addition to the exchange rate risk, all three railroads face country risk that impacts their cost of capital. Country risk will customarily impacts the assets that the company will have in a particular country. Examples would include new regulatory, safety or environmental standards that would impact a railroad's infrastructure or locomotives. As such, knowing the value of the assets within a country can provide a rough estimate of exposure of country risk faced by the companies.

Table 9 below compares the percentage of assets each railroad has in the U.S. and in either Canada (CN and CP) or Mexico (KCS).

³⁴ This excludes between \$8 and \$18 million per year that KCS receives from unconsolidated subsidiary companies that operate in Mexico and Panama.

³⁵ See KCS 2009 SEC Form 10-K at 19.

Table 9
Percentage Of Long-Term Assets
In and Outside the U.S. – 2007 to 2009

<u>Railroad</u>	<u>Percentage</u> <u>Of Long-Term</u> <u>Assets In U.S.</u>	<u>Percentage</u> <u>Of Long-Term</u> <u>Assets Outside U.S.</u>
(1)	(2)	(3)
<u>KCS</u>		
1. 2007	49.5%	50.5%
2. 2008	50.9%	49.1%
3. 2009	52.7%	47.3%
<u>CN</u>		
4. 2007	42.3%	57.7%
5. 2008	45.4%	54.6%
6. 2009	43.5%	56.5%
<u>CP</u>		
7. 2007	16.8%	83.2%
8. 2008	35.8%	64.2%
9. 2009	32.5%	67.5%

Source: Exhibit No. 6.

As shown in Table 9 above, both the majority of the CN and CP's assets are located outside the U.S. In 2007, the value of KCS' Mexican assets exceeded the value of its U.S. assets, but has recently shifted back to a U.S. majority.³⁶

All three companies face certain levels of country risk. However, KCS most likely faces greater risks given the current social, economic and political issues within Mexico as compared to Canada and the U.S. KCS clearly understands these risks, and has listed them in its SEC filings and annual reports. According to KCS' 2009 SEC Form

³⁶ How long KCS maintains more U.S. assets than Mexican assets is uncertain. In March 2010 KSC acquired an intermodal facility for \$25 million. Depending upon the value assigned to the intermodal facility assets and other new assets placed in service by KCS in 2010, the percent of U.S. to non-U.S. assets could swing back to the majority being within Mexico.

10-K, KCS states it faces risks from the following factors due to its extensive operations within Mexico:

- KCS's Mexican concession is subject to revocation or termination in certain circumstances, which would prevent KCS from operating its railroad.
- KCS faces economic and political risk in Mexico stemming from the Mexican government's extensive influence over the economy.
- KCS believes that the Mexican government may in certain circumstances invoke foreign exchange controls, thus limiting KCS's ability to repatriate cash from Mexico, and hampering KCS liquidity.
- KCS states that Mexican national politicians are currently focused on certain regional, political and social tensions, and reforms regarding fiscal and labor policies. These issues could impact the Mexican economy, which in turn could have material adverse impact on KCS.
- KCS believes Mexico could experience high levels of inflation in the future that could adversely impact the results of KCS's operations, and its cost of doing business in the country.
- KCS is involved in litigation in Mexican courts regarding KCS's acquisition of its Mexican railroad concession. An adverse ruling in that case could return the stock of its Mexican concession to the Government of Mexico.

These risks, along with others, have not gone unnoticed by U.S. equity analysts.

A June 5, 2010 report by Standard & Poor's notes the increased levels of risk that KCS faces due to its Mexican operations:

Risks to our recommendations and target price include lower than expected economic growth, a more virulent outbreak of swine flu over coming months, the build out of other ports in Mexico to compete with Lazaro Cardenas, and an unfavorable ruling in any legal disputes in Mexico.³⁷

³⁷ See Standard & Poor's June 5, 2010 Stock Report for Kansas City Southern.

KCS, along with CP and CN, face unique country risks that ultimately impact the KCS, CN and CP's stock and debt values. It would not be reasonable for U.S. shippers to pay for risks associated with these companies non-U.S. operations.

**B. CN AND CP REPORT
IN CANADAIN DOLLARS**

Both CN and CP develop financial statements according to U.S. Generally Accepted Accounting Principles ("GAAP"), meaning that they file the necessary financial statistics to develop a MS-DCF cost of equity for each firm.³⁸ However, each company presents its financials in Canadian dollars and not U.S. dollars as all other railroad companies being considered for the cost of capital composite group. Adding currency conversion issues to the cost of capital process would add significant complexity and variance to the determination.

Using the CN and CP's Annual Report Form R-1 filed with the STB, which are shown in U.S. dollars, would not be an acceptable substitution for the currency conversion problem. The STB's cost of capital methodologies use data and prices based on the railroads' publicly traded parent companies and not the railroad operating companies financial statements, which may be significantly different. This is even more true for the CP and CN, whose U.S. subsidiaries that report in the Form R-1 make up only a small portion of the larger publicly traded parent company.

³⁸ CN and CP common equity trade on the NYSE in U.S. dollars, so developing a beta estimate would not be an issue.

STATEMENT OF QUALIFICATIONS

My name is Thomas D. Crowley. I am an economist and President of the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314, 760 E. Pusch View Lane, Suite 150, Tucson, Arizona 85737, and 21 Founders Way, Queensbury, New York 12804.

I am a graduate of the University of Maine from which I obtained a Bachelor of Science degree in Economics. I have also taken graduate courses in transportation at George Washington University in Washington, D.C. I spent three years in the United States Army and since February 1971 have been employed by L. E. Peabody & Associates, Inc.

I am a member of the American Economic Association, the Transportation Research Forum, and the American Railway Engineering and Maintenance-of-Way Association.

The firm of L. E. Peabody & Associates, Inc. specializes in analyzing matters related to the rail transportation of coal. As a result of my extensive economic consulting practice since 1971 and my participating in maximum-rate, rail merger, service disputes and rule-making proceedings before various government and private governing bodies, I have become thoroughly familiar with the rail carriers that move coal over the major coal routes in the United States. This familiarity extends to subjects of railroad service, costs and profitability, railroad capacity, railroad traffic prioritization and the structure and operation of the various contracts and tariffs that historically have governed the movement of coal by rail.

STATEMENT OF QUALIFICATIONS

As an economic consultant, I have organized and directed economic studies and prepared reports for railroads, freight forwarders and other carriers, for shippers, for associations and for state governments and other public bodies dealing with transportation and related economic problems. Examples of studies I have participated in include organizing and directing traffic, operational and cost analyses in connection with multiple car movements, unit train operations for coal and other commodities, freight forwarder facilities, TOFC/COFC rail facilities, divisions of through rail rates, operating commuter passenger service, and other studies dealing with markets and the transportation by different modes of various commodities from both eastern and western origins to various destinations in the United States. The nature of these studies enabled me to become familiar with the operating practices and accounting procedures utilized by railroads in the normal course of business.

Additionally, I have inspected and studied both railroad terminal and line-haul facilities used in handling various commodities, and in particular unit train coal movements from coal mine origins in the Powder River Basin and in Colorado to various utility destinations in the eastern, mid-western and western portions of the United States and from the Eastern coal fields to various destinations in the Mid-Atlantic, northeastern, southeastern and mid-western portions of the United States. These operational reviews and studies were used as a basis for the determination of the traffic and operating characteristics for specific movements of coal and numerous other commodities handled by rail.

STATEMENT OF QUALIFICATIONS

I have frequently been called upon to develop and coordinate economic and operational studies relative to the acquisition of coal and the rail transportation of coal on behalf of electric utility companies. My responsibilities in these undertakings included the analyses of rail routes, rail operations and an assessment of the relative efficiency and costs of railroad operations over those routes. I have also analyzed and made recommendations regarding the acquisition of railcars according to the specific needs of various coal shippers. The results of these analyses have been employed in order to assist shippers in the development and negotiation of rail transportation contracts which optimize operational efficiency and cost effectiveness.

I have developed property and business valuations of privately held freight and passenger railroads for use in regulatory, litigation and commercial settings. These valuation assignments required me to develop company and/or industry specific costs of debt, preferred equity and common equity, as well as target and actual capital structures. I am also well acquainted with and have used the commonly accepted models for determining a company's cost of common equity, including the Discounted Cash Flow Model ("DCF"), Capital Asset Pricing Model ("CAPM"), and the Farma-French Three Factor Model.

Moreover, I have developed numerous variable cost calculations utilizing the various formulas employed by the Interstate Commerce Commission ("ICC") and the Surface Transportation Board ("STB") for the development of variable costs for common carriers,

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with particular emphasis on the basis and use of the Uniform Railroad Costing System (“URCS”) and its predecessor, Rail Form A. I have utilized URCS/Rail form A costing principles since the beginning of my career with L. E. Peabody & Associates Inc. in 1971.

I have frequently presented both oral and written testimony before the ICC, STB, Federal Energy Regulatory Commission, Railroad Accounting Principles Board, Postal Rate Commission and numerous state regulatory commissions, federal courts and state courts. This testimony was generally related to the development of variable cost of service calculations, rail traffic and operating patterns, fuel supply economics, contract interpretations, economic principles concerning the maximum level of rates, implementation of maximum rate principles, and calculation of reparations or damages, including interest. I presented testimony before the Congress of the United States, Committee on Transportation and Infrastructure on the status of rail competition in the western United States. I have also presented expert testimony in a number of court and arbitration proceedings concerning the level of rates, rate adjustment procedures, service, capacity, costing, rail operating procedures and other economic components of specific contracts.

Since the implementation of the Staggers Rail Act of 1980, which clarified that rail carriers could enter into transportation contracts with shippers, I have been actively

STATEMENT OF QUALIFICATIONS

involved in negotiating transportation contracts on behalf of coal shippers. Specifically, I have advised utilities concerning coal transportation rates based on market conditions and carrier competition, movement specific service commitments, specific cost-based rate adjustment provisions, contract reopeners that recognize changes in productivity and cost-based ancillary charges.

I have been actively engaged in negotiating coal supply contracts for various users throughout the United States. In addition, I have analyzed the economic impact of buying out, brokering, and modifying existing coal supply agreements. My coal supply assignments have encompassed analyzing alternative coals to determine the impact on the delivered price of operating and maintenance costs, unloading costs, shrinkage factor and by-product savings.

I have developed different economic analyses regarding rail transportation matters for over sixty (60) electric utility companies located in all parts of the United States, and for major associations, including American Paper Institute, American Petroleum Institute, Chemical Manufacturers Association, Coal Exporters Association, Edison Electric Institute, Mail Order Association of America, National Coal Association, National Industrial Transportation League, North America Freight Car Association, the Fertilizer Institute and Western Coal Traffic League. In addition, I have assisted numerous government agencies, major industries and major railroad companies in solving various transportation-related problems.

STATEMENT OF QUALIFICATIONS

In the two Western rail mergers that resulted in the creation of the present BNSF Railway Company and Union Pacific Railroad Company and in the acquisition of Conrail by Norfolk Southern Railway Company and CSX Transportation, Inc., I reviewed the railroads' applications including their supporting traffic, cost and operating data and provided detailed evidence supporting requests for conditions designed to maintain the competitive rail environment that existed before the proposed mergers and acquisition. In these proceedings, I represented shipper interests, including plastic, chemical, coal, paper and steel shippers.

I have participated in various proceedings involved with the division of through rail rates. For example, I participated in ICC Docket No. 35585, *Akron, Canton & Youngstown Railroad Company, et al. v. Aberdeen and Rockfish Railroad Company, et al.* which was a complaint filed by the northern and mid-western rail lines to change the primary north-south divisions. I was personally involved in all traffic, operating and cost aspects of this proceeding on behalf of the northern and mid-western rail lines. I was the lead witness on behalf of the Long Island Rail Road in ICC Docket No. 36874, *Notice of Intent to File Division Complaint by the Long Island Rail Road Company.*

STATEMENT OF QUALIFICATIONS

My name is Daniel L. Fapp. I am Vice President of the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, VA 22314; 760 E. Pusch View Lane, Suite 150, Tucson, Arizona 85737; and 21 Founders Way, Queensbury, New York 85737.

I received a Bachelor of Science degree in Business Administration with an option in Marketing (cum laude) from the California State University, Northridge in 1987, and a Master of Business Administration degree from the University of Arizona's Eller College of Management in 1993, specializing in finance and operations management. I am also a member of Beta Gamma Sigma, the national honor society for collegiate schools of business.

I have been employed by L. E. Peabody & Associates, Inc. since December 1997. Prior to joining L. E. Peabody & Associates, Inc., I was employed by BHP Copper Inc. in the role of Transportation Manager - Finance and Administration, and where I also served as an officer and treasurer of the three BHP Copper Inc. subsidiary railroads, The San Manuel Arizona Railroad, the Magma Arizona Railroad (also known as the BHP Arizona Railroad) and the BHP Nevada Railroad. I have also held operations management positions with Arizona Lithographers in Tucson, AZ and MCA-Universal Studios in Universal City, CA.

While at BHP Copper Inc., I was responsible for all financial and administrative functions of the company's transportation group. I also directed the BHP Copper Inc. subsidiary railroads' cost and revenue accounting staff, and managed the San Manuel Arizona Railroad's and BHP Arizona Railroad's dispatchers and the railroad dispatching functions. I served on the company's Commercial and Transportation Management Team and the company's Railroad Acquisition Team where I was responsible for evaluating the acquisition of new railroads,

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including developing financial and economic assessment models. While with MCA-Universal Studios, I held several operations management positions, including Tour Operations Manager, where my duties included vehicle routing and scheduling, personnel scheduling, forecasting facilities utilization, and designing and performing queuing analyses.

As part of my work for L. E. Peabody & Associates, Inc., I have performed and directed numerous projects and analyses undertaken on behalf of utility companies, short line railroads, bulk shippers, and industry and trade associations. Examples of studies which I have participated in organizing and directing include, traffic, operational and cost analyses in connection with the rail movement of coal, metallic ores, pulp and paper products, and other commodities. I have also analyzed multiple car movements, unit train operations, divisions of through rail rates and switching operations throughout the United States. The nature of these studies enabled me to become familiar with the operating procedures utilized by railroads in the normal course of business.

Since 1997, I have participated in the development of cost of service analyses for the movement of coal over the major eastern and western coal-hauling railroads. I have conducted on-site studies of switching, detention and line-haul activities relating to the handling of coal. I have also participated in and managed several projects assisting short-line railroads. In these engagements, I assisted short-line railroads in their negotiations with connecting Class I carriers, performed railroad property and business evaluations, and worked on rail line abandonment projects.

I have been frequently called upon to perform financial analyses and assessments of Class I, Class II and Class III railroad companies. I have determined the Going Concern Value

STATEMENT OF QUALIFICATIONS

of privately held freight and passenger railroads, including developing company specific costs of debt and equity for use in discounting future company cash flows. My consulting assignments regularly involve working with and determining various facets of railroad financial issues, including cost of capital determinations. In these assignments, I have calculated railroad capital structures, market values, cost of railroad debt, cost of preferred railroad equity and common railroad equity. I am also well acquainted with and have used financial industry accepted models for determining a firm's cost of equity, including Discounted Cash Flow Model ("DCF") models, Capital Asset Pricing Model ("CAPM"), Fama-French Three Factor Model and Arbitrage Pricing Models. Based on these assignments, I have frequently spoken and provided guest lectures on developing divisional, corporate and industry costs of equity to undergraduate and graduate level classes.

In my tenure with L. E. Peabody & Associates, Inc., I have presented stand-alone cost evidence, including discounted cash-flow models and cost of capital determinations, in numerous proceedings before the STB. I have also presented evidence before the STB in Ex Parte No. 661, *Rail Fuel Surcharges*, Ex Parte No. 558 (Sub-No. 10), *Railroad Cost of Capital – 2006*, Ex Parte No. 558 (Sub-No. 11), *Railroad Cost of Capital – 2007*, Ex Parte No. 558 (Sub-No. 12), *Railroad Cost of Capital – 2008*, Ex Parte No. 664, *Methodology To Be Employed In Determining The Railroad Industry Cost Of Capital*, and Ex Parte No. 664 (Sub-No.1), *Use Of A Multi-Stage Discounted Cash Flow Model In Determining The Railroad Industry's Cost Of Capital*. In addition, my reports on railroad valuations have been used as evidence before the Nevada State Tax Commission.

**Comparison of BNSF Historic
Financial Statistics to Restated Financial Statistics**
(All Values in Millions)

<u>Item</u> (1)	<u>2005</u> (2)	<u>2006</u> (3)	<u>2007</u> (4)	<u>2008</u> (5)	<u>2009</u> (6)
<u>Historic</u> ^{1/}					
1. Net Income	\$1,531	\$1,887	\$1,829	\$2,115	\$1,721
2. Extraordinary Items					
a. Cumulative Effect of Accounting Change, Net of Tax	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	\$0	\$0	\$0	\$0	\$0
c. Extraordinary gains or losses	\$0	\$0	\$0	\$0	\$0
3. Capital Expenditures	\$1,750	\$2,014	\$2,248	\$2,175	\$2,724
4. Depreciation	\$1,075	\$1,130	\$1,293	\$1,397	\$1,537
5. Deferred Taxes	\$217	\$314	\$280	\$417	\$612
6. Revenues	\$12,987	\$14,985	\$15,802	\$18,018	\$14,016
<u>Restated</u> ^{2/}					
7. Net Income	\$1,534	\$1,889	\$1,829	\$2,115	\$1,721
8. Extraordinary Items					
a. Cumulative Effect of Accounting Change, Net of Tax	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	\$0	\$0	\$0	\$0	\$0
c. Extraordinary gains or losses	\$0	\$0	\$0	\$0	\$0
9. Capital Expenditures	\$1,750	\$2,014	\$2,993	\$3,116	\$2,724
10. Depreciation	\$1,111	\$1,176	\$1,293	\$1,397	\$1,537
11. Deferred Taxes	\$219	\$316	\$280	\$417	\$612
12. Revenues	\$12,987	\$14,985	\$15,802	\$18,018	\$14,016
<u>Difference</u> ^{3/}					
13. Net Income	-\$3	-\$2	\$0	\$0	\$0
14. Extraordinary Items					
a. Cumulative Effect of Accounting Change, Net of Tax	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	\$0	\$0	\$0	\$0	\$0
c. Extraordinary gains or losses	\$0	\$0	\$0	\$0	\$0
15. Capital Expenditures	\$0	\$0	-\$745	-\$941	\$0
16. Depreciation	-\$36	-\$46	\$0	\$0	\$0
17. Deferred Taxes	-\$2	-\$2	\$0	\$0	\$0
18. Revenues	\$0	\$0	\$0	\$0	\$0

1/ BNSF 2005 to 2009 SEC Form 10-K, respectively.

2/ For years 2007 to 2009 the 2009 BNSF SEC Form 10-K was used.
For the year 2006, the 2008 BNSF SEC Form 10-K was used. For the year 2005,
the 2007 BNSF SEC Form 10-K was used.

3/ Line 1-6 minus line 7-12, respectively by year.

**Comparison of CSXT Historic
Financial Statistics to Restated Financial Statistics**
(All Values in Millions)

<u>Item</u> (1)	<u>2005</u> (2)	<u>2006</u> (3)	<u>2007</u> (4)	<u>2008</u> (5)	<u>2009</u> (6)
<u>Historic</u> ^{1/}					
1. Net Income	\$1,145	\$1,310	\$1,336	\$1,365	\$1,152
2. Extraordinary Items					
a. Cumulative Effect of Accounting Change, Net of Tax	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	\$425	\$0	\$110	\$0	\$15
c. Extraordinary gains or losses	\$0	\$0	\$0	\$0	\$0
3. Capital Expenditures	\$1,136	\$1,639	\$1,773	\$1,740	\$1,447
4. Depreciation	\$833	\$867	\$890	\$918	\$908
5. Deferred Taxes	-\$46	\$42	\$272	\$435	\$436
6. Revenues	\$8,618	\$9,566	\$10,030	\$11,255	\$9,041
<u>Restated</u> ^{2/}					
7. Net Income	\$1,145	\$1,310	\$1,336	\$1,365	\$1,152
8. Extraordinary Items					
a. Cumulative Effect of Accounting Change, Net of Tax	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	\$425	\$0	\$100	-\$130	\$15
c. Extraordinary gains or losses	\$0	\$0	\$0	\$0	\$0
9. Capital Expenditures	\$1,136	\$1,639	\$1,773	\$1,740	\$1,447
10. Depreciation	\$833	\$867	\$890	\$918	\$908
11. Deferred Taxes	-\$46	\$42	\$272	\$435	\$436
12. Revenues	\$8,618	\$9,566	\$10,030	\$11,255	\$9,041
<u>Difference</u> ^{3/}					
13. Net Income	\$0	\$0	\$0	\$0	\$0
14. Extraordinary Items					
a. Cumulative Effect of Accounting Change, Net of Tax	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	\$0	\$0	\$10	\$130	\$0
c. Extraordinary gains or losses	\$0	\$0	\$0	\$0	\$0
15. Capital Expenditures	\$0	\$0	\$0	\$0	\$0
16. Depreciation	\$0	\$0	\$0	\$0	\$0
17. Deferred Taxes	\$0	\$0	\$0	\$0	\$0
18. Revenues	\$0	\$0	\$0	\$0	\$0

1/ CSXT 2005 to 2009 SEC Form 10-K, respectively.

2/ For years 2007 to 2009 the 2009 CSXT SEC Form 10-K was used.
For the year 2006, the 2008 CSXT SEC Form 10-K was used. For the year 2005,
the 2007 CSXT SEC Form 10-K was used.

3/ Line 1-6 minus line 7-12, respectively by year.

**2009 Average BNSF Cashflow And Average Income
Before Extraordinary Items Without Deferred Tax Adjustments**

<u>Item</u> (1)	<u>Source</u> (2)	<u>2005</u> (3)	<u>2006</u> (4)	<u>2007</u> (5)	<u>2008</u> (6)	<u>2009</u> (7)
1. Net Income	Annual Report 10-K <u>1/</u>	\$1,534	\$1,889	\$1,829	\$2,115	\$1,721
2. Extraordinary Items						
a. Cumulative Effect of Accounting Change, Net of Tax	Annual Report 10-K <u>1/</u>	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	Annual Report 10-K <u>1/</u>	\$0	\$0	\$0	\$0	\$0
c. Extraordinary gains or losses	Annual Report 10-K <u>1/</u>	\$0	\$0	\$0	\$0	\$0
3. Income Before Extraordinary Items	L1 - (L2a + L2b + L2c)	\$1,534	\$1,889	\$1,829	\$2,115	\$1,721
4. Capital Expenditures	Annual Report 10-K <u>1/</u>	\$1,750	\$2,014	\$2,993	\$3,116	\$2,724
5. Depreciation	Annual Report 10-K <u>1/</u>	\$1,111	\$1,176	\$1,293	\$1,397	\$1,537
6. Deferred Taxes	Annual Report 10-K <u>1/</u>	\$219	\$316	\$280	\$417	\$612
7. Cashflow	L3 - L4 + L5 + L6	\$1,114	\$1,367	\$409	\$813	\$1,146
8. Revenues	Annual Report 10-K <u>1/</u>	\$12,987	\$14,985	\$15,802	\$18,018	\$14,016
9. Average Cashflow as a Percentage of Revenues	Sum L7 ÷ Sum L8	6.40%				
10. 2009 Average Cashflow	L8,C7 x L9	\$896.52				
11. Average Income Before Extraordinary Items as Percentage of Sales	Sum L3 ÷ Sum L8	11.99%				
12. 2009 Average Income Before Extraordinary Items	L8,C7 x L11	\$1,680.26				

1/ Column (3) based on 2007 Form 10-K. 2006. Column (4) based on 2008 Form 10-K. Columns (5) to (7) based on 2009 Form 10-K.

**2009 Average CSXT Cashflow And Average Income
Before Extraordinary Items Without Deferred Tax Adjustments**

<u>Item</u> (1)	<u>Source</u> (2)	<u>2005</u> (3)	<u>2006</u> (4)	<u>2007</u> (5)	<u>2008</u> (6)	<u>2009</u> (7)
1. Net Income	Annual Report 10-K 1/	\$1,145	\$1,310	\$1,336	\$1,365	\$1,152
2. Extraordinary Items						
a. Cumulative Effect of Accounting Change, Net of Tax	Annual Report 10-K 1/	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	Annual Report 10-K 1/	\$425	\$0	\$100	-\$130	\$15
c. Extraordinary gains or losses	Annual Report 10-K 1/	\$0	\$0	\$0	\$0	\$0
3. Income Before Extraordinary Items	L1 - (L2a + L2b + L2c)	\$720	\$1,310	\$1,236	\$1,495	\$1,137
4. Capital Expenditures	Annual Report 10-K 1/	\$1,136	\$1,639	\$1,773	\$1,740	\$1,447
5. Depreciation	Annual Report 10-K 1/	\$833	\$867	\$890	\$918	\$908
6. Deferred Taxes	Annual Report 10-K 1/	-\$46	\$42	\$272	\$435	\$436
7. Cashflow	L3 - L4 + L5 + L6	\$371	\$580	\$625	\$1,108	\$1,034
8. Revenues	Annual Report 10-K 1/	\$8,618	\$9,566	\$10,030	\$11,255	\$9,041
9. Average Cashflow as a Percentage of Revenues	Sum L7 ÷ Sum L8	7.66%				
10. 2009 Average Cashflow	L8,C7 x L9	\$692.94				
11. Average Income Before Extraordinary Items as Percentage of Sales	Sum L3 ÷ Sum L8	12.16%				
12. 2009 Average Income Before Extraordinary Items	L8,C7 x L11	\$1,099.23				

1/ Column (3) based on 2007 Form 10-K. 2006. Column (4) based on 2008 Form 10-K. Columns (5) to (7) based on 2009 Form 10-K.

**2009 Average NS Cashflow And Average Income
Before Extraordinary Items Without Deferred Tax Adjustments**

<u>Item</u> (1)	<u>Source</u> (2)	<u>2005</u> (3)	<u>2006</u> (4)	<u>2007</u> (5)	<u>2008</u> (6)	<u>2009</u> (7)
1. Net Income	Annual Report 10-K 1/	\$1,281	\$1,481	\$1,464	\$1,716	\$1,034
2. Extraordinary Items						
a. Cumulative Effect of Accounting Change, Net of Tax	Annual Report 10-K 1/	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	Annual Report 10-K 1/	\$0	\$0	\$0	\$0	\$0
c. Extraordinary gains or losses	Annual Report 10-K 1/	\$0	\$0	\$0	\$0	\$0
3. Income Before Extraordinary Items	L1 - (L2a + L2b + L2c)	\$1,281	\$1,481	\$1,464	\$1,716	\$1,034
4. Capital Expenditures	Annual Report 10-K 1/	\$1,025	\$1,178	\$1,341	\$1,558	\$1,299
5. Depreciation	Annual Report 10-K 1/	787	750	786	815	\$845
6. Deferred Taxes	Annual Report 10-K 1/	80	-8	125	290	338
7. Cashflow	L3 - L4 + L5 + L6	\$1,123	\$1,045	\$1,034	\$1,263	\$918
8. Revenues	Annual Report 10-K 1/	\$8,527	\$9,407	\$9,432	\$10,661	\$7,969
9. Average Cashflow as a Percentage of Revenues	Sum L7 ÷ Sum L8	11.70%				
10. 2008 Average Cashflow	L8,C7 x L9	\$932.63				
11. Average Income Before Extraordinary Items as Percentage of Sales	Sum L3 ÷ Sum L8	15.17%				
12. 2008 Average Income Before Extraordinary Items	L8,C7 x L11	\$1,208.62				

1/ Column (3) based on 2007 Form 10-K. 2006. Column (4) based on 2008 Form 10-K. Columns (5) to (7) based on 2009 Form 10-K.

**2009 Average UP Cashflow And Average Income
Before Extraordinary Items Without Deferred Tax Adjustments**

<u>Item</u> (1)	<u>Source</u> (2)	<u>2005</u> (3)	<u>2006</u> (4)	<u>2007</u> (5)	<u>2008</u> (6)	<u>2009</u> (7)
1. Net Income	Annual Report 10-K I/	\$1,026	\$1,606	\$1,855	\$2,338	\$1,898
2. Extraordinary Items						
a. Cumulative Effect of Accounting Change, Net of Tax	Annual Report 10-K I/	\$0	\$0	\$0	\$0	\$0
b. Discontinued Operations, Net of Tax	Annual Report 10-K I/	\$0	\$0	\$0	\$0	\$0
c. Extraordinary gains or losses	Annual Report 10-K I/	\$0	\$0	\$0	\$0	\$0
3. Income Before Extraordinary Items	L1 - (L2a + L2b + L2c)	\$1,026	\$1,606	\$1,855	\$2,338	\$1,898
4. Capital Expenditures	Annual Report 10-K I/	\$2,169	\$2,242	\$2,496	\$2,780	\$2,384
5. Depreciation	Annual Report 10-K I/	\$1,175	\$1,237	\$1,321	\$1,387	\$1,444
6. Deferred Taxes	Annual Report 10-K I/	\$320	\$235	\$332	\$547	723
7. Cashflow	L3 - L4 + L5 + L6	\$352	\$836	\$1,012	\$1,492	\$1,681
8. Revenues	Annual Report 10-K I/	\$13,578	\$15,578	\$16,283	\$17,970	\$14,143
9. Average Cashflow as a Percentage of Revenues	Sum L7 ÷ Sum L8	6.93%				
10. 2009 Average Cashflow	L8,C7 x L9	\$979.86				
11. Average Income Before Extraordinary Items as Percentage of Sales	Sum L3 ÷ Sum L8	11.25%				
12. 2009 Average Income Before Extraordinary Items	L8,C7 x L11	\$1,590.80				

I/ Column (3) based on 2007 Form 10-K. 2006. Column (4) based on 2008 Form 10-K. Columns (5) to (7) based on 2009 Form 10-K.

2009 MS-DCF Railroad Cost of Equity Without Deferred Tax Adjustments

- 1/ Individual railroad cash flow and earnings before extraordinary items calculations Line 10.
- 2/ Individual railroad cash flow and earnings before extraordinary items calculations Line 12.
- 3/ Median December 31, 2009 I/B/E/S long-term earnings per share growth forecast.
- 4/ Simple average of line 3.
- 5/ Grey VS at 40 to 41.
- 6/ Line 6 = Line 1 x (1 + Line 3).
- Lines 7 to 10 = Prior Year-End Cashflow x (1 + Line 3).
- Lines 11 to 15 = Prior Year-End Cashflow x (1 + Line 4).
- Line 16 = {Line 2 x [(1 + Line 3)⁵] x [(1 + Line 4)⁵] x (1 + Line 5)} ÷ (Line 20 - Line 5).
- Lines 6 to 15 = Current Year Column (2) ÷ [(1 + Line 20)⁵ × Current Year Column (1)].
- Line 16 = Current Year Column (2) ÷ [(1 + Line 20)⁵ × Line 15, Column (1)].
- 8/ Sum of Lines 6 to 16.
- 9/ Grey VS at 41.
- 10/ Line 17 - Line 18.
- 11/ The implicit discount rate that sets Line 19 equal to zero (0).
- 12/ Line 18, Column (2), (4), (6) and (8) - Sum of Line 18.
- 13/ Sum product of Line 10 and Line 21.

**Comparison of Gray's ETC
Market Value to Corrected ETC Market Value
(All Values in Thousands)**

<u>Railroad</u>	Gray's Current <u>Market Value</u> <u>1/</u>	Corrected Current <u>Market Value</u> <u>2/</u>	<u>Difference</u> <u>3/</u>
(1)	(2)	(3)	(4)
1. BNSF	\$236,658	\$242,978	\$6,320
2. CSX	\$158,148	\$158,148	\$0
3. NS	\$97,756	\$97,756	\$0
4. UP	<u>\$215,499</u>	<u>\$215,499</u>	<u>\$0</u>
5. Total <u>4/</u>	\$708,061	\$714,381	\$6,320

1/ Source: Gray VS at 14.

2/ Source: Gray VS at Appendix C.

3/ Column (3) - Column (2).

4/ Sum of Lines 1 to 4.

**Summary of KCS U.S.
and Foreign Financial Statistics**
(All Values in U.S. Millions)

<u>Item</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
(1)	(2)	(3)	(4)
<u>Revenues</u>			
1. United States	\$864	\$1,034	\$930
2. Mexico <u>1/</u>	<u>\$616</u>	<u>\$819</u>	<u>\$813</u>
3. Total <u>2/</u>	\$1,480	\$1,852	\$1,743
<u>% of Revenues</u>			
4. United States <u>3/</u>	58.4%	55.8%	53.3%
5. Mexico <u>4/</u>	<u>41.6%</u>	<u>44.2%</u>	<u>46.7%</u>
6. Total <u>5/</u>	100.0%	100.0%	100.0%
<u>Assets</u>			
7. United States	\$2,501	\$2,342	\$2,045
8. Mexico	<u>\$2,246</u>	<u>\$2,256</u>	<u>\$2,088</u>
9. Total <u>6/</u>	\$4,747	\$4,598	\$4,133
<u>% of Assets</u>			
10. United States <u>7/</u>	52.7%	50.9%	49.5%
11. Mexico <u>8/</u>	<u>47.3%</u>	<u>49.1%</u>	<u>50.5%</u>
12. Total <u>9/</u>	100.0%	100.0%	100.0%

1/ Excludes revenues from unconsolidated Mexican and Panamanian subsidiaries of \$12.8 million in 2008 and \$4.2 million in 2009.

2/ Sum of Lines 1 and 2.

3/ Line 1 ÷ Line 3.

4/ Line 2 ÷ Line 3.

5/ Sum of Lines 4 and 5.

6/ Sum of Lines 7 and 8.

7/ Line 7 ÷ Line 9.

8/ Line 8 ÷ Line 9.

9/ Sum of Lines 10 and 11.

10/ Not Available.

Source: KSC 2008 and 2009 SEC Form 10-K.

**Summary of CN U.S.
and Foreign Financial Statistics**
(All Values in Canadian Millions)

<u>Item</u> (1)	<u>2009</u> (2)	<u>2008</u> (3)	<u>2007</u> (4)
<u>Revenues</u>			
1. United States	\$2,396	\$2,850	\$2,632
2. Canada	<u>\$4,971</u>	<u>\$5,632</u>	<u>\$5,265</u>
3. Total <u>1/</u>	\$7,367	\$8,482	\$7,897
<u>% of Revenues</u>			
4. United States <u>2/</u>	32.5%	33.6%	33.3%
5. Canada <u>3/</u>	<u>67.5%</u>	<u>66.4%</u>	<u>66.7%</u>
6. Total <u>4/</u>	100.0%	100.0%	100.0%
<u>Assets</u>			
7. United States	\$9,852	\$10,286	\$8,636
8. Canada	<u>\$12,778</u>	<u>\$12,377</u>	<u>\$11,777</u>
9. Total <u>5/</u>	\$22,630	\$22,663	\$20,413
<u>% of Assets</u>			
10. United States <u>6/</u>	43.5%	45.4%	42.3%
11. Canada <u>7/</u>	<u>56.5%</u>	<u>54.6%</u>	<u>57.7%</u>
12. Total <u>8/</u>	100.0%	100.0%	100.0%

-
- 1/ Sum of Lines 1 and 2.
2/ Line 1 ÷ Line 3.
3/ Line 2 ÷ Line 3.
4/ Sum of Lines 4 and 5.
5/ Sum of Lines 7 and 8.
6/ Line 7 – Line 9.
7/ Line 8 ÷ Line 9.
8/ Sum of Lines 10 and 11.
9/ Not Available.

Source: CN 2008 and 2009 Annual Report.

**Summary of CP U.S.
and Foreign Financial Statistics**
(All Values in Canadian Millions)

<u>Item</u> (1)	<u>2009</u> (2)	<u>2008</u> (3)	<u>2007</u> (4)
<u>Revenues</u>			
1. United States	\$1,227	\$1,117	\$991
2. Canada	<u>\$3,076</u>	<u>\$3,815</u>	<u>\$3,716</u>
3. Total <u>1/</u>	\$4,303	\$4,932	\$4,708
<u>% of Revenues</u>			
4. United States <u>2/</u>	28.5%	22.6%	21.1%
5. Canada <u>3/</u>	<u>71.5%</u>	<u>77.4%</u>	<u>78.9%</u>
6. Total <u>4/</u>	100.0%	100.0%	100.0%
<u>Assets</u>			
7. United States	\$3,887	\$4,430	\$1,536
8. Canada	<u>\$8,081</u>	<u>\$7,954</u>	<u>\$7,582</u>
9. Total <u>5/</u>	\$11,968	\$12,385	\$9,118
<u>% of Assets</u>			
10. United States <u>6/</u>	32.5%	35.8%	16.8%
11. Canada <u>7/</u>	<u>67.5%</u>	<u>64.2%</u>	<u>83.2%</u>
12. Total <u>8/</u>	100.0%	100.0%	100.0%

1/ Sum of Lines 1 and 2.

2/ Line 1 ÷ Line 3.

3/ Line 2 ÷ Line 3.

4/ Sum of Lines 4 and 5.

5/ Sum of Lines 7 and 8.

6/ Line 7 ÷ Line 9.

7/ Line 8 ÷ Line 9.

8/ Sum of Lines 10 and 11.

Source: CP 2009 Annual Report.

WORK PAPERS FOR EX PARTE NO. 558 (Sub-No.13)

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Part 1 – Growth Rates



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Historical estimates for Burlington Northern Santa Fe Corporation
 Issue: BNI (NYSE, BNI)

EPS Historical Actuals

FY Dec 2004	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008
2.87	4.13	5.03	5.24	6.34

These numbers are as provided by majority of analysts contributing estimates for this company and might vary from what the company has reported. Refer to company filings and press releases for actuals-as reported numbers

EPS Median historical estimates (annual series)

Month	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Jan 2005	2.74	3.27	3.71	4.05	4.58	-	-	-	-	-
Feb 2005	-	3.40	3.85	4.22	-	-	-	-	-	-
Mar 2005	-	3.44	3.89	4.34	-	-	-	-	-	-
Apr 2005	-	3.48	3.95	4.39	-	-	-	-	-	-
May 2005	-	3.80	4.25	4.58	-	-	-	-	-	-
Jun 2005	-	3.80	4.27	4.58	-	-	-	-	-	-
Jul 2005	-	3.77	4.23	4.81	-	-	-	-	-	-
Aug 2005	-	3.90	4.40	4.88	-	-	-	-	-	-
Sep 2005	-	3.90	4.40	4.88	-	-	-	-	-	-
Oct 2005	-	3.90	4.45	5.00	-	-	-	-	-	-
Nov 2005	-	4.02	4.55	5.13	-	-	-	-	-	-
Dec 2005	-	4.02	4.55	5.15	-	-	-	-	-	-
Jan 2006	-	4.03	4.55	5.15	-	-	-	-	-	-
Feb 2006	-	-	4.75	5.35	6.00	-	-	-	-	-
Mar 2006	-	-	4.78	5.43	6.00	-	-	-	-	-
Apr 2006	-	-	4.84	5.48	6.15	-	-	-	-	-
May 2006	-	-	4.90	5.58	6.20	-	-	-	-	-
Jun 2006	-	-	4.93	5.62	6.25	-	-	-	-	-
Jul 2006	-	-	4.95	5.65	6.25	-	-	-	-	-
Aug 2006	-	-	4.95	5.65	6.33	-	-	-	-	-
Sep 2006	-	-	4.95	5.65	6.33	-	-	-	-	-
Oct 2006	-	-	4.99	5.84	6.30	-	-	-	-	-
Nov 2006	-	-	5.01	5.88	6.41	-	-	-	-	-
Dec 2006	-	-	5.01	5.85	6.46	-	-	-	-	-
Jan 2007	-	-	5.01	5.88	6.45	7.57	-	-	-	-
Feb 2007	-	-	-	5.71	6.40	7.54	-	-	-	-
Mar 2007	-	-	-	5.70	6.41	7.32	-	-	-	-
Apr 2007	-	-	-	5.67	6.40	7.28	-	-	-	-
May 2007	-	-	-	5.55	6.38	7.14	-	-	-	-
Jun 2007	-	-	-	5.50	6.36	7.09	-	-	-	-
Jul 2007	-	-	-	5.43	6.35	7.07	-	-	-	-
Aug 2007	-	-	-	5.24	6.22	6.97	-	-	-	-
Sep 2007	-	-	-	5.19	6.20	6.82	-	-	-	-
Oct 2007	-	-	-	5.14	5.84	6.93	-	-	-	-
Nov 2007	-	-	-	5.21	5.90	7.04	-	-	-	-
Dec 2007	-	-	-	5.18	5.82	6.88	-	-	-	-
Jan 2008	-	-	-	5.17	5.79	6.76	7.17	-	-	-
Feb 2008	-	-	-	-	5.92	6.80	7.68	-	-	-
Mar 2008	-	-	-	-	5.92	6.80	7.68	-	-	-
Apr 2008	-	-	-	-	5.93	6.84	7.75	8.40	9.11	-
May 2008	-	-	-	-	6.06	7.00	8.14	8.52	9.29	-
Jun 2008	-	-	-	-	5.95	7.04	8.29	8.64	9.66	-
Jul 2008	-	-	-	-	5.89	6.97	8.29	8.53	9.54	-
Aug 2008	-	-	-	-	5.95	6.97	8.39	8.45	9.40	-
Sep 2008	-	-	-	-	5.95	7.00	8.37	9.18	10.47	-
Oct 2008	-	-	-	-	6.02	6.97	8.23	9.18	10.46	-
Nov 2008	-	-	-	-	6.30	6.99	7.92	8.83	10.17	-
Dec 2008	-	-	-	-	6.27	6.52	7.39	8.31	9.52	-
Jan 2009	-	-	-	-	6.26	6.38	7.33	8.10	9.31	-
Feb 2009	-	-	-	-	-	5.62	6.55	7.59	8.70	9.85
Mar 2009	-	-	-	-	-	5.50	6.40	7.20	8.32	9.49
Apr 2009	-	-	-	-	-	5.35	6.00	7.04	7.92	8.99
May 2009	-	-	-	-	-	5.15	5.83	6.64	7.94	9.14
Jun 2009	-	-	-	-	-	5.15	5.75	6.67	7.99	9.10
Jul 2009	-	-	-	-	-	4.95	5.66	6.60	7.62	8.93
Aug 2009	-	-	-	-	-	5.00	5.60	6.45	7.77	8.71
Sep 2009	-	-	-	-	-	5.00	5.58	6.50	7.77	8.71
Oct 2009	-	-	-	-	-	4.92	5.80	6.55	7.82	8.88
Nov 2009	-	-	-	-	-	4.88	5.50	6.40	8.05	9.20
Dec 2009	-	-	-	-	-	4.88	5.50	6.40	8.05	9.20
Jan 2010	-	-	-	-	-	4.88	5.48	6.40	8.05	9.20

EPS Consensus Estimates as of December 31, 2009

ValueHeader	Q1 Dec 2009	Q2 Mar 2010	Q3 Jun 2010	Q4 Sep 2010	LT Growth %	FY Dec 2009	FY Dec 2010	FY Dec 2011
Median	1.20	1.17	1.27	1.53	9.55%	4.88	5.50	6.40
Mean	1.22	1.15	1.27	1.53	9.55%	4.88	5.50	6.39
High	1.38	1.30	1.41	1.64	12.00%	5.08	6.35	7.00
Low	1.12	1.04	1.11	1.35	7.10%	4.80	4.89	5.33
No of Analysts	22	14	14	14	2	15	23	17
No Est Up	0	0	0	0	0	0	0	0
No Est Down	0	0	0	0	0	0	1	0

Consensus Estimates include options expenses per FASB 123(R) accounting change. Consensus Estimates exclude options expenses as majority of analysts still exclude these expenses. Refer to individual analyst estimates to see status for each.

Source: Thomson IBES 25 May 2010

Historical estimates for CSX Corporation
Issue: CSX (NYSE, CSX)

EPS Historical Actuals

FY Dec 2004	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009
1.06	1.67	2.22	2.70	3.52	2.87

These numbers are as provided by majority of analysts contributing estimates for this company and might vary from what the company has reported. Refer to company filings and press releases for actuals-as reported numbers.

EPS Median historical estimates (annual series)

Month	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Jan 2005	1.02	1.28	1.51	1.86	2.17	-	-	-	-	-	-
Feb 2005	-	1.32	1.52	1.87	-	-	-	-	-	-	-
Mar 2005	-	1.31	1.52	1.81	-	-	-	-	-	-	-
Apr 2005	-	1.31	1.52	1.71	-	-	-	-	-	-	-
May 2005	-	1.54	1.75	1.96	-	-	-	-	-	-	-
Jun 2005	-	1.54	1.77	2.00	-	-	-	-	-	-	-
Jul 2005	-	1.55	1.76	2.00	-	-	-	-	-	-	-
Aug 2005	-	1.62	1.82	2.10	-	-	-	-	-	-	-
Sep 2005	-	1.62	1.82	2.10	-	-	-	-	-	-	-
Oct 2005	-	1.61	1.81	2.09	-	-	-	-	-	-	-
Nov 2005	-	1.60	1.83	2.09	-	-	-	-	-	-	-
Dec 2005	-	1.60	1.85	2.08	2.29	-	-	-	-	-	-
Jan 2006	-	1.60	1.85	2.08	2.29	-	-	-	-	-	-
Feb 2006	-	-	1.85	2.09	2.32	-	-	-	-	-	-
Mar 2006	-	-	1.89	2.10	2.53	-	-	-	-	-	-
Apr 2006	-	-	2.15	2.59	2.98	-	-	-	-	-	-
May 2006	-	-	2.15	2.59	2.98	-	-	-	-	-	-
Jun 2006	-	-	2.21	2.62	3.00	-	-	-	-	-	-
Jul 2006	-	-	2.20	2.83	2.92	-	-	-	-	-	-
Aug 2006	-	-	2.20	2.55	2.86	-	-	-	-	-	-
Sep 2006	-	-	2.20	2.55	2.86	-	-	-	-	-	-
Oct 2006	-	-	2.25	2.58	2.89	-	-	-	-	-	-
Nov 2006	-	-	2.25	2.58	2.99	-	-	-	-	-	-
Dec 2006	-	-	2.24	2.58	2.89	-	-	-	-	-	-
Jan 2007	-	-	2.20	2.58	2.92	3.29	-	-	-	-	-
Feb 2007	-	-	-	2.57	2.90	3.26	-	-	-	-	-
Mar 2007	-	-	-	2.58	3.00	3.38	-	-	-	-	-
Apr 2007	-	-	-	2.46	3.00	3.40	-	-	-	-	-
May 2007	-	-	-	2.47	3.02	3.57	-	-	-	-	-
Jun 2007	-	-	-	2.48	3.01	3.57	-	-	-	-	-
Jul 2007	-	-	-	2.56	3.08	3.64	-	-	-	-	-
Aug 2007	-	-	-	2.56	3.08	3.64	-	-	-	-	-
Sep 2007	-	-	-	2.50	2.96	3.55	-	-	-	-	-
Oct 2007	-	-	-	2.54	2.99	3.56	-	-	-	-	-
Nov 2007	-	-	-	2.54	2.99	3.55	-	-	-	-	-
Dec 2007	-	-	-	2.52	2.95	3.46	-	-	-	-	-
Jan 2008	-	-	-	2.50	2.93	3.42	3.73	-	-	-	-
Feb 2008	-	-	-	-	3.04	3.50	4.12	-	-	-	-
Mar 2008	-	-	-	-	3.46	4.10	4.69	-	-	-	-
Apr 2008	-	-	-	-	3.60	4.18	4.95	4.82	5.22	-	-
May 2008	-	-	-	-	3.60	4.20	4.95	5.40	5.83	-	-
Jun 2008	-	-	-	-	3.58	4.23	5.12	5.58	6.18	-	-
Jul 2008	-	-	-	-	3.55	4.25	5.12	5.59	6.20	-	-
Aug 2008	-	-	-	-	3.56	4.25	5.10	5.80	6.73	-	-
Sep 2008	-	-	-	-	3.60	4.44	5.31	6.05	6.90	-	-
Oct 2008	-	-	-	-	3.66	4.28	5.38	5.69	6.48	-	-
Nov 2008	-	-	-	-	3.66	4.22	5.19	5.61	6.37	-	-
Dec 2008	-	-	-	-	3.64	3.81	4.91	5.11	6.01	-	-
Jan 2009	-	-	-	-	3.53	3.50	4.08	4.51	5.40	-	-
Feb 2009	-	-	-	-	-	3.13	3.64	4.00	4.78	5.38	-
Mar 2009	-	-	-	-	-	2.97	3.47	3.84	4.14	4.68	-
Apr 2009	-	-	-	-	-	2.93	3.22	3.77	4.17	4.68	-
May 2009	-	-	-	-	-	2.96	3.30	3.78	4.71	5.33	-
Jun 2009	-	-	-	-	-	2.81	3.27	3.79	3.99	5.10	-
Jul 2009	-	-	-	-	-	2.66	3.27	3.77	4.12	5.43	-
Aug 2009	-	-	-	-	-	2.86	3.28	3.80	4.12	5.43	-
Sep 2009	-	-	-	-	-	2.82	3.25	3.83	4.02	5.23	-
Oct 2009	-	-	-	-	-	2.85	3.25	3.90	4.84	5.61	-
Nov 2009	-	-	-	-	-	2.85	3.25	3.90	4.94	5.68	-
Dec 2009	-	-	-	-	-	2.85	3.25	3.90	4.94	5.68	-
Jan 2010	-	-	-	-	-	2.85	3.26	3.90	4.81	5.63	-
Feb 2010	-	-	-	-	-	-	3.17	3.77	4.30	5.53	6.36
Mar 2010	-	-	-	-	-	-	3.20	3.80	4.57	5.84	6.46
Apr 2010	-	-	-	-	-	-	3.48	4.13	4.90	6.02	6.90

EPS Consensus Estimates as of December 31, 2009

ValueHeader	Q1 Dec 2009	Q2 Mar 2010	Q3 Jun 2010	Q4 Sep 2010	LT Growth %	FY Dec 2009	FY Dec 2010	FY Dec 2011
Median	0.76	0.71	0.79	0.86	11.55%	2.85	3.25	3.90
Mean	0.76	0.69	0.79	0.87	11.53%	2.85	3.26	3.95
High	0.79	0.78	0.87	0.97	13.00%	2.89	3.51	4.50
Low	0.71	0.59	0.70	0.80	10.00%	2.81	2.92	3.60
No. of Analysts	23	14	14	14	4	22	24	17
No. Est Up	0	0	0	0	0	1	1	0
No. Est Down	1	0	0	0	0	1	1	0

Consensus Estimates include options expenses per FASB 123(R) accounting change. Consensus Estimates exclude options expenses as majority of analysts still exclude these expenses. Refer to individual analyst estimates to see status for each.

Historical estimates for Norfolk Southern Corporation
 Issue: NSC (NYSE, NSC)

EPS Historical Actuals

FY Dec 2004	FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009
2.18	2.82	3.57	3.73	4.54	2.76

These numbers are as provided by majority of analysts contributing estimates for this company and might vary from what the company has reported.
 Refer to company filings and press releases for actuals-as reported numbers

EPS Median historical estimates (annual series)

Month	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Jan 2005	2.18	2.52	2.85	3.04	3.02	-	-	-	-	-	-
Feb 2005	-	2.51	2.82	3.13	-	-	-	-	-	-	-
Mar 2005	-	2.50	2.82	3.17	-	-	-	-	-	-	-
Apr 2005	-	2.50	2.83	3.30	-	-	-	-	-	-	-
May 2005	-	2.50	2.85	3.31	-	-	-	-	-	-	-
Jun 2005	-	2.50	2.85	3.33	-	-	-	-	-	-	-
Jul 2005	-	2.50	2.85	3.30	-	-	-	-	-	-	-
Aug 2005	-	2.69	3.05	3.47	-	-	-	-	-	-	-
Sep 2005	-	2.71	3.08	3.47	-	-	-	-	-	-	-
Oct 2005	-	2.71	3.09	3.52	-	-	-	-	-	-	-
Nov 2005	-	2.70	3.12	3.55	-	-	-	-	-	-	-
Dec 2005	-	2.70	3.14	3.55	3.89	-	-	-	-	-	-
Jan 2006	-	2.70	3.15	3.58	3.89	-	-	-	-	-	-
Feb 2006	-	-	3.28	3.73	4.00	-	-	-	-	-	-
Mar 2006	-	-	3.25	3.87	4.23	-	-	-	-	-	-
Apr 2006	-	-	3.36	3.90	4.38	-	-	-	-	-	-
May 2006	-	-	3.44	3.98	4.34	-	-	-	-	-	-
Jun 2006	-	-	3.48	4.00	4.30	-	-	-	-	-	-
Jul 2006	-	-	3.48	4.00	4.30	-	-	-	-	-	-
Aug 2006	-	-	3.35	3.75	4.13	-	-	-	-	-	-
Sep 2006	-	-	3.35	3.70	4.11	-	-	-	-	-	-
Oct 2006	-	-	3.33	3.70	4.08	-	-	-	-	-	-
Nov 2006	-	-	3.61	4.00	4.50	-	-	-	-	-	-
Dec 2006	-	-	3.59	4.00	4.50	-	-	-	-	-	-
Jan 2007	-	-	3.58	4.00	4.50	5.03	-	-	-	-	-
Feb 2007	-	-	-	3.97	4.35	4.98	-	-	-	-	-
Mar 2007	-	-	-	3.95	4.35	4.84	-	-	-	-	-
Apr 2007	-	-	-	3.85	4.31	4.85	-	-	-	-	-
May 2007	-	-	-	3.84	4.30	4.86	-	-	-	-	-
Jun 2007	-	-	-	3.83	4.30	4.82	-	-	-	-	-
Jul 2007	-	-	-	3.75	4.30	4.82	-	-	-	-	-
Aug 2007	-	-	-	3.83	4.30	4.88	-	-	-	-	-
Sep 2007	-	-	-	3.81	4.30	4.77	-	-	-	-	-
Oct 2007	-	-	-	3.71	4.07	4.74	-	-	-	-	-
Nov 2007	-	-	-	3.69	4.00	4.70	-	-	-	-	-
Dec 2007	-	-	-	3.62	3.98	4.67	-	-	-	-	-
Jan 2008	-	-	-	3.60	3.96	4.49	4.47	-	-	-	-
Feb 2008	-	-	-	-	4.00	4.54	5.05	-	-	-	-
Mar 2008	-	-	-	-	4.00	4.54	5.06	-	-	-	-
Apr 2008	-	-	-	-	4.02	4.55	5.03	5.30	5.68	-	-
May 2008	-	-	-	-	4.07	4.65	5.25	5.58	6.03	-	-
Jun 2008	-	-	-	-	4.05	4.62	5.25	5.59	6.13	-	-
Jul 2008	-	-	-	-	4.04	4.62	5.25	5.59	6.13	-	-
Aug 2008	-	-	-	-	4.32	4.91	5.55	5.90	6.39	-	-
Sep 2008	-	-	-	-	4.34	4.91	5.57	6.13	6.80	-	-
Oct 2008	-	-	-	-	4.35	4.88	5.55	6.13	6.80	-	-
Nov 2008	-	-	-	-	4.55	5.00	5.50	6.03	6.63	-	-
Dec 2008	-	-	-	-	4.55	4.57	5.25	5.64	6.20	-	-
Jan 2009	-	-	-	-	4.51	4.46	4.98	5.49	6.70	-	-
Feb 2009	-	-	-	-	-	4.09	4.65	4.77	6.08	6.90	-
Mar 2009	-	-	-	-	-	3.90	4.50	4.88	5.71	6.49	-
Apr 2009	-	-	-	-	-	3.72	4.20	4.46	5.47	6.26	-
May 2009	-	-	-	-	-	3.27	3.69	4.11	4.74	5.39	-
Jun 2009	-	-	-	-	-	3.19	3.66	4.00	4.43	5.35	-
Jul 2009	-	-	-	-	-	3.00	3.60	3.66	4.35	5.25	-
Aug 2009	-	-	-	-	-	2.78	3.45	4.08	4.39	5.22	-
Sep 2009	-	-	-	-	-	2.75	3.45	4.09	4.62	5.70	-
Oct 2009	-	-	-	-	-	2.78	3.45	4.04	4.99	5.69	-
Nov 2009	-	-	-	-	-	2.80	3.43	4.00	5.00	5.68	-
Dec 2009	-	-	-	-	-	2.80	3.43	4.00	5.00	5.68	-
Jan 2010	-	-	-	-	-	2.79	3.40	4.00	5.00	5.68	-
Feb 2010	-	-	-	-	-	-	3.27	3.98	4.60	5.62	6.37
Mar 2010	-	-	-	-	-	-	3.34	3.99	4.65	5.72	6.45
Apr 2010	-	-	-	-	-	-	3.35	4.08	4.75	5.81	6.55

EPS Consensus Estimates as of December 31, 2009

ValueHeader	Q1 Dec 2009	Q2 Mar 2010	Q3 Jun 2010	Q4 Sep 2010	LT Growth %	FY Dec 2009	FY Dec 2010	FY Dec 2011
Median	0.84	0.64	0.76	0.96	12.00%	2.80	3.43	4.00
Mean	0.84	0.64	0.78	0.96	10.76%	2.80	3.41	4.03
High	0.90	0.76	0.98	1.01	15.00%	2.85	3.80	4.75
Low	0.79	0.52	0.71	0.91	2.80%	2.75	2.95	3.30
No. of Analysts	23	14	14	14	5	21	24	18
No Est Up	0	0	0	0	0	0	0	0
No Est Down	1	0	0	0	0	1	1	0

Consensus Estimates include options expenses per FASB 123(R) accounting change.

Historical estimates for Union Pacific Corporation
 Issue: UNP (NYSE, UNP)

EPS Historical Actuals

FY Dec 2005	FY Dec 2006	FY Dec 2007	FY Dec 2008	FY Dec 2009
1.71	2.96	3.48	4.54	3.60

These numbers are as provided by majority of analysts contributing estimates for this company and might vary from what the company has reported. Refer to company filings and press releases for actuals-as reported numbers.

EPS Median historical estimates (annual series)

Month	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Jan 2005	1.43	1.83	2.46	3.07	3.69	-	-	-	-	-	-
Feb 2005	-	1.54	2.25	2.85	-	-	-	-	-	-	-
Mar 2005	-	1.56	2.25	2.75	-	-	-	-	-	-	-
Apr 2005	-	1.62	2.33	2.78	-	-	-	-	-	-	-
May 2005	-	1.67	2.35	2.75	-	-	-	-	-	-	-
Jun 2005	-	1.67	2.30	2.79	-	-	-	-	-	-	-
Jul 2005	-	1.65	2.26	2.69	-	-	-	-	-	-	-
Aug 2005	-	1.70	2.38	2.77	-	-	-	-	-	-	-
Sep 2005	-	1.70	2.38	2.77	-	-	-	-	-	-	-
Oct 2005	-	1.67	2.38	2.75	-	-	-	-	-	-	-
Nov 2005	-	1.64	2.33	2.73	-	-	-	-	-	-	-
Dec 2005	-	1.64	2.35	2.73	3.46	-	-	-	-	-	-
Jan 2006	-	-	2.36	2.88	3.28	-	-	-	-	-	-
Feb 2006	-	-	2.40	2.88	3.34	-	-	-	-	-	-
Mar 2006	-	-	2.52	2.98	3.46	-	-	-	-	-	-
Apr 2006	-	-	2.54	3.07	3.46	-	-	-	-	-	-
May 2006	-	-	2.83	3.20	3.76	-	-	-	-	-	-
Jun 2006	-	-	2.64	3.23	3.79	-	-	-	-	-	-
Jul 2006	-	-	2.65	3.22	3.79	-	-	-	-	-	-
Aug 2006	-	-	2.79	3.33	3.92	-	-	-	-	-	-
Sep 2006	-	-	2.80	3.33	3.92	-	-	-	-	-	-
Oct 2006	-	-	2.81	3.35	3.90	-	-	-	-	-	-
Nov 2006	-	-	2.85	3.36	3.90	-	-	-	-	-	-
Dec 2006	-	-	2.85	3.36	3.90	-	-	-	-	-	-
Jan 2007	-	-	2.85	3.37	3.90	4.78	-	-	-	-	-
Feb 2007	-	-	-	3.41	3.91	4.48	-	-	-	-	-
Mar 2007	-	-	-	3.41	3.93	4.58	-	-	-	-	-
Apr 2007	-	-	-	3.42	3.94	4.58	-	-	-	-	-
May 2007	-	-	-	3.43	3.98	4.76	-	-	-	-	-
Jun 2007	-	-	-	3.42	3.95	4.72	-	-	-	-	-
Jul 2007	-	-	-	3.40	3.99	4.71	-	-	-	-	-
Aug 2007	-	-	-	3.40	3.99	4.88	-	-	-	-	-
Sep 2007	-	-	-	3.40	3.98	4.77	-	-	-	-	-
Oct 2007	-	-	-	3.39	3.97	4.83	-	-	-	-	-
Nov 2007	-	-	-	3.51	4.17	5.03	-	-	-	-	-
Dec 2007	-	-	-	3.42	4.10	4.95	-	-	-	-	-
Jan 2008	-	-	-	3.40	4.10	4.91	5.50	-	-	-	-
Feb 2008	-	-	-	-	4.10	4.78	5.88	-	-	-	-
Mar 2008	-	-	-	-	4.07	4.78	5.52	6.03	6.54	-	-
Apr 2008	-	-	-	-	4.08	4.78	5.53	6.03	6.54	-	-
May 2008	-	-	-	-	4.11	4.85	5.44	5.88	6.38	-	-
Jun 2008	-	-	-	-	4.07	5.00	6.49	7.47	8.84	-	-
Jul 2008	-	-	-	-	4.07	5.01	6.49	7.47	8.84	-	-
Aug 2008	-	-	-	-	4.20	5.11	6.41	7.67	8.98	-	-
Sep 2008	-	-	-	-	4.24	5.15	6.36	7.54	8.97	-	-
Oct 2008	-	-	-	-	4.37	5.18	6.36	7.59	8.97	-	-
Nov 2008	-	-	-	-	4.56	5.20	6.27	6.88	8.22	-	-
Dec 2008	-	-	-	-	4.55	5.00	5.87	6.15	7.51	-	-
Jan 2009	-	-	-	-	4.51	4.74	5.50	6.10	6.85	-	-
Feb 2009	-	-	-	-	-	4.29	5.05	5.50	6.47	7.31	-
Mar 2009	-	-	-	-	-	4.15	4.85	5.25	6.12	6.91	-
Apr 2009	-	-	-	-	-	3.95	4.55	5.05	5.80	6.45	-
May 2009	-	-	-	-	-	3.89	4.40	5.03	6.17	7.03	-
Jun 2009	-	-	-	-	-	3.80	4.35	5.05	5.58	6.96	-
Jul 2009	-	-	-	-	-	3.67	4.35	4.97	5.56	6.96	-
Aug 2009	-	-	-	-	-	3.60	4.25	4.95	5.49	6.85	-
Sep 2009	-	-	-	-	-	3.57	4.25	4.84	5.49	6.85	-
Oct 2009	-	-	-	-	-	3.56	4.25	4.92	6.25	7.23	-
Nov 2009	-	-	-	-	-	3.56	4.25	4.89	5.91	6.84	-
Dec 2009	-	-	-	-	-	3.55	4.24	4.93	5.91	6.84	-
Jan 2010	-	-	-	-	-	3.56	4.25	4.97	5.91	6.84	-
Feb 2010	-	-	-	-	-	-	4.24	4.98	5.67	6.82	7.78
Mar 2010	-	-	-	-	-	-	4.29	5.09	5.80	6.73	7.63
Apr 2010	-	-	-	-	-	-	4.40	5.20	6.00	7.22	8.16

EPS Consensus Estimates as of December 31, 2009

ValueHeader	Q1 Dec 2009	Q2 Mar 2010	Q3 Jun 2010	Q4 Sep 2010	LT Growth %	FY Dec 2009	FY Dec 2010	FY Dec 2011
Median	1.03	0.85	0.98	1.19	13.10%	3.55	4.24	4.93
Mean	1.03	0.84	0.97	1.20	13.22%	3.55	4.20	4.93
High	1.09	0.95	1.10	1.35	15.00%	3.61	4.57	5.85
Low	0.94	0.70	0.85	1.10	10.00%	3.46	3.80	4.26
No of Analysts	23	12	13	13	5	21	24	18
No Est Up	1	0	0	0	0	1	0	1
No Est Down	0	0	0	0	0	0	2	0

Consensus Estimates include options expenses per FASB 123(R) accounting change. Consensus Estimates exclude options expenses as majority of analysts still exclude these expenses. Refer to individual analyst estimates to see status for each.

Part 2 – Acquisition Premium



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The acquiring firm offers a price higher than the target firm's market price prior to the acquisition and invites stockholders in the target firm to tender their shares for the price.

In both friendly and hostile acquisitions, the difference between the acquisition price and the market price prior to the acquisition is called the acquisition premium. The acquisition price, in the context of mergers and consolidations, is the price that will be paid by the acquiring firm for each of the target firm's shares. This price is usually based on negotiations between the acquiring firm and the target firm's managers. In a tender offer, it is the price at which the acquiring firm receives enough shares to gain control of the target firm. This price may be higher than the initial price offered by the acquirer, if there are other firms bidding for the same target firm or if an insufficient number of stockholders tender at that initial price. For instance, in 1991 AT&T initially offered to buy NCR for \$80 per share, a premium of \$25 over the stock price at the time of the offer. AT&T ultimately paid \$110 per share to complete the acquisition.

There is one final comparison that can be made, and that is between the price paid on the acquisition and the accounting book value of the equity in the firm being acquired. Depending on how the acquisition is accounted for, this difference will be recorded as goodwill on the acquiring firm's books or not be recorded at all. Figure 25.2 presents the breakdown of the acquisition price into these component parts.

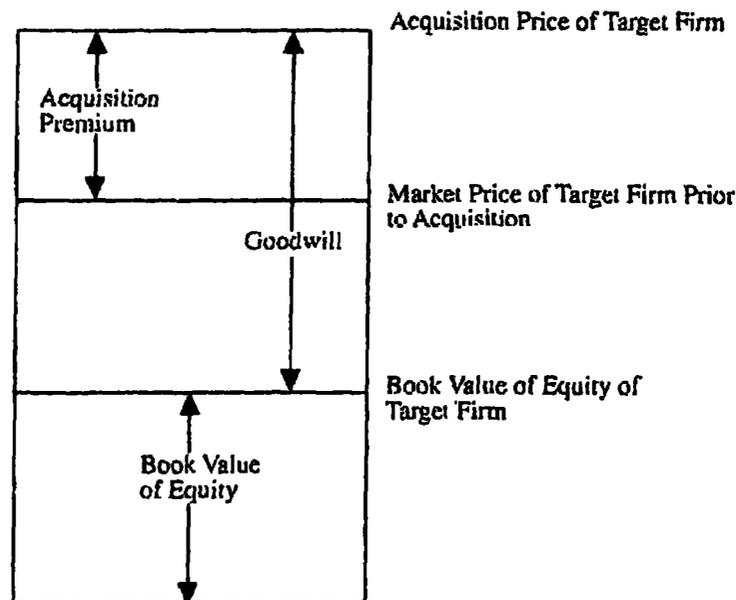


FIGURE 25.2 Breaking Down the Acquisition Price

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PRINCIPLES OF CORPORATE FINANCE

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Relative stock return = return on stock - return on market index

This is almost certainly better than simply looking at the returns on the stock. However, if you are concerned with performance over a period of several months or years, it could be preferable to recognize that fluctuations in the market have a larger effect on some stocks than others. For example, past experience might suggest that a change in the market index affected the value of a stock as follows:

Expected stock return = $\alpha + \beta \times$ return on market index⁶

Alpha (α) states how much on average the stock price changed when the market index was unchanged. Beta (β) tells us how much *extra* the stock price moved for each 1 percent change in the market index.⁷ Suppose that subsequently the stock price provides a return of \bar{r} in a month when the market return is \bar{r}_m . In that case we would conclude that the abnormal return for that month is

Abnormal stock return = actual stock return - expected stock return
 $= \bar{r} - (\alpha + \beta \bar{r}_m)$

This abnormal return abstracts from the fluctuations in the stock price that result from marketwide influences.⁸

Figure 13.5 illustrates how the release of news affects abnormal returns. The graph shows the price run-up of a sample of 194 firms that were targets of takeover attempts. In most takeovers, the acquiring firm is willing to pay a large premium over the current market price of the acquired firm; therefore when a firm becomes the target of a takeover attempt, its stock price increases in anticipation of the takeover premium. Figure 13.5 shows that on the day the public become aware of a takeover attempt (Day 0 in the graph), the stock price of the typical target takes a big upward jump. The adjustment in stock price is immediate: After the big price move on the public announcement day, the run-up is over, and there is no further drift in the stock price, either upward or downward.⁹ Thus within the day, the new stock prices apparently reflect (at least on average) the magnitude of the takeover premium.

A study by Patell and Wolfson shows just how fast prices move when new information becomes available.¹⁰ They found that, when a firm publishes its latest earnings or announces a dividend change, the major part of the adjustment in price occurs within 5 to 10 minutes of the announcement.

⁶This relationship is often referred to as the *market model*.

⁷It is important when estimating α and β that you choose a period in which you believe that the stock behaved normally. If its performance was abnormal, then estimates of α and β cannot be used to measure the returns that investors expected. As a precaution, ask yourself whether your estimates of expected returns look sensible. Methods for estimating abnormal returns are analyzed in A. C. MacKinlay, "Event Studies in Economics and Finance," *Journal of Economic Literature* 35 (1997), pp. 13-39.

⁸The market is not the only common influence on stock prices. For example, in Section 8.4 we described the Fama-French three-factor model, which states that a stock's return is influenced by three common factors—the market factor, a size factor, and a book-to-market factor. In this case we would calculate the expected stock return as $\alpha + b_{\text{market}}(\text{market factor}) + b_{\text{size}}(\text{size factor}) + b_{\text{book-to-market}}(\text{book-to-market factor})$.

⁹See A. Keown and J. Pinkerton, "Merger Announcements and Insider Trading Activity," *Journal of Finance* 36 (September 1981), pp. 855-869. Note that prices on the days before the public announcement do show evidence of a sustained upward drift. This is evidence of a gradual leakage of information about a possible takeover attempt.

¹⁰See J. M. Patell and M. A. Wolfson, "The Intraday Speed of Adjustment of Stock Prices to Earnings and Dividend Announcements," *Journal of Financial Economics* 13 (June 1984), pp. 223-252.

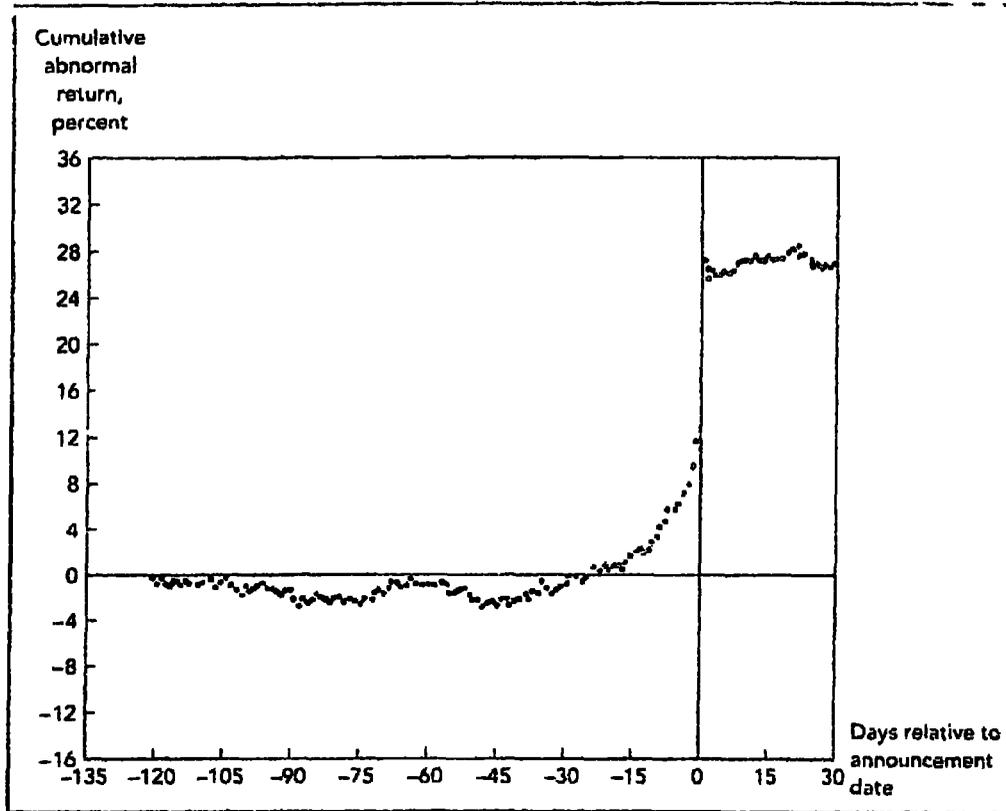


FIGURE 13.5

The performance of the stocks of target companies compared with that of the market. The prices of target stocks jump up on the announcement day, but from then on, there are no unusual price movements. The announcement of the takeover attempt seems to be fully reflected in the stock price on the announcement day.

Source: A. Keown and J. Pinkerton, "Merger Announcements and Insider Trading Activity," *Journal of Finance* 36 (September 1981), pp. 855-869. Reprinted with permission of Blackwell Publishers Journal Rights.

Tests of the strong form of the hypothesis have examined the recommendations of professional security analysts and have looked for mutual funds or pension funds that could predictably outperform the market. Some researchers have found a slight persistent outperformance, but just as many have concluded that professionally managed funds fail to recoup the costs of management. Look, for example, at Figure 13.6, which is taken from a study by Mark Carhart of the average return on nearly 1,500 U.S. mutual funds. You can see that in some years the mutual funds beat the market, but as often as not it was the other way around. Figure 13.6 provides a fairly crude comparison, for mutual funds have tended to specialize in particular sectors of the market, such as low-beta stocks or large-firm stocks, that may have given below-average returns. To control for such differences, each fund needs to be compared with a benchmark portfolio of similar securities. The study by Mark Carhart did this, but the message was unchanged: The funds earned a lower return than the benchmark portfolios *after* expenses and roughly matched the benchmarks *before* expenses.

Part 3 - Non-U.S. Operations

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-4717

KANSAS CITY SOUTHERN

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

427 West 12th Street,
Kansas City, Missouri
(Address of principal executive offices)



44-0663509
(I.R.S. Employer
Identification No.)

64105
(Zip Code)

816.983.1303

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Preferred Stock, Par Value \$25 Per Share, 4%, Noncumulative
Common Stock, \$.01 Per Share Par Value

New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant was \$1.49 billion at June 30, 2009. There were 96,519,854 shares of \$.01 par common stock outstanding at February 4, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Kansas City Southern's Definitive Proxy Statement for the 2010 Annual Meeting of Stockholders which will be filed no later than 120 days after December 31, 2009, is incorporated by reference in Parts I and III.

Kansas City Southern

Notes to Consolidated Financial Statements — (Continued)

The following tables (*in millions*) provide information by geographic area in accordance with the accounting guidance on segment reporting:

	Years Ended December 31		
	2009	2008	2007
Revenues			
U.S.	\$ 864.2	\$1,033.6	\$ 929.6
Mexico	<u>616.0</u>	<u>818.5</u>	<u>813.2</u>
Total revenues	<u>\$1,480.2</u>	<u>\$1,852.1</u>	<u>\$1,742.8</u>
	Years Ended December 31		
	2009	2008	
Property and equipment (including concession assets), net			
U.S.	\$2,501.2	\$2,342.1	
Mexico	<u>2,246.0</u>	<u>2,256.3</u>	
Total property and equipment (including concession assets), net	<u>\$4,747.2</u>	<u>\$4,598.4</u>	

Note 18. Subsequent Event

Fuel Derivative Transactions. In anticipation of future increases in diesel fuel prices, the Company entered into fuel swap agreements in the first quarter of 2010 to hedge 22.6 million gallons of diesel fuel purchases through the end of 2010 at an average swap price per gallon of \$2.22.

The Company has evaluated subsequent events through February 11, 2010, the date that these financial statements were issued and determined that no additional subsequent events occurred that would require additional recognition or disclosure.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-4717

KANSAS CITY SOUTHERN

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

**427 West 12th Street,
Kansas City, Missouri**
(Address of principal executive offices)



44-0663509
*(I.R.S. Employer
Identification No.)*

64105
(Zip Code)

816.983.1303

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Preferred Stock, Par Value \$25 Per Share, 4%, Noncumulative
Common Stock, \$.01 Per Share Par Value

New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant was \$3.55 billion at June 30, 2008. There were 91,559,729 shares of \$.01 par common stock outstanding at February 5, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Kansas City Southern's Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders which will be filed no later than 120 days after December 31, 2008, is incorporated by reference in Parts I and III.

Kansas City Southern

Notes to Consolidated Financial Statements — (Continued)

The role of each region is to manage the operational activities and monitor and control costs over the coordinated rail network. Such cost control is required to ensure that pre-established efficiency standards set at the corporate level are attained. The regional activity centers are responsible for executing the overall corporate strategy and operating plan established by corporate management as a coordinated system.

The following tables (*in millions*) provide information by geographic area pursuant to Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") as follows:

	Years Ended December 31		
	2008	2007	2006
Revenues			
U.S.	\$1,033.6	\$ 929.6	\$ 885.7
Mexico	818.5	813.2	774.0
Total revenues	\$1,852.1	\$1,742.8	\$1,659.7
	Years Ended December 31		
	2008	2007	
Long-lived Assets			
U.S.	\$2,342.1	\$2,045.0	
Mexico	2,245.8	2,088.3	
Total long-lived assets	\$4,587.9	\$4,133.3	

Note 17. Subsequent Event

Fuel Derivative Transactions. In anticipation of future increases in diesel fuel prices, the Company entered into several fuel swap agreements in January 2009 to hedge 8.8 million gallons of diesel fuel purchases through the end of 2009 at an average swap price per gallon of \$1.76.

for the recovery

2009 ANNUAL REPORT



15 Segmented information

The Company manages its operations as one business segment over a single network that spans vast geographic distances and territories, with operations in Canada and the United States. Financial information reported at this level, such as revenues, operating income, and cash flow from operations, is used by corporate management, including the Company's chief operating decision-maker, in evaluating financial and operational performance and allocating resources across CN's network.

The Company's strategic initiatives, which drive its operational direction, are developed and managed centrally by corporate management and are communicated to its regional activity centers (the Western Region, Eastern Region and Southern Region). Corporate management is responsible for, among others, CN's marketing strategy, the management of large customer accounts, overall planning and control of infrastructure and rolling stock, the allocation of resources, and other functions such as financial planning, accounting and treasury.

The role of each region is to manage the day-to-day service requirements within their respective territories and control direct costs incurred locally. Such cost control is required to ensure that pre-established efficiency standards set at the corporate level are met. The regions execute the overall corporate strategy and operating plan established by corporate management, as their management of throughput and control of direct costs does not serve as the platform for the Company's decision-making process. Approximately 91% of the Company's freight revenues are from national accounts for which freight traffic spans North America and touches various commodity groups. As a result, the Company does not manage revenues on a regional basis since a large number of the movements originate in one region and pass through and/or terminate in another region.

The regions also demonstrate common characteristics in each of the following areas:

- (i) each region's sole business activity is the transportation of freight over the Company's extensive rail network;
- (ii) the regions service national accounts that extend over the Company's various commodity groups and across its rail network;
- (iii) the services offered by the Company stem predominantly from the transportation of freight by rail with the goal of optimizing the rail network as a whole;
- (iv) the Company and its subsidiaries, not its regions, are subject to single regulatory regimes in both Canada and the U.S.

For the reasons mentioned herein, the Company reports as one operating segment.

The following tables provide information by geographic area:

<i>In millions</i>	<i>Year ended December 31,</i>	2009	2008	2007
<i>Revenues</i> ⁽¹⁾				
Canada		\$ 4,971	\$ 5,632	\$ 5,265
U.S.		2,396	2,850	2,632
		\$ 7,367	\$ 8,482	\$ 7,897

(1) For the year ended December 31, 2009, one customer represented approximately 3% of total revenues (approximately 2% and 3% for the years ended December 31, 2008 and 2007, respectively).

<i>In millions</i>	<i>Year ended December 31,</i>	2009	2008	2007
<i>Net income</i>				
Canada		\$ 1,691	\$ 1,507	\$ 1,706
U.S.		163	388	452
		\$ 1,854	\$ 1,895	\$ 2,158

<i>In millions</i>	<i>December 31,</i>	2009	2008
<i>Properties</i>			
Canada		\$ 12,778	\$ 12,377
U.S.		9,852	10,826
		\$ 22,630	\$ 23,203

16 Earnings per share

	<i>Year ended December 31,</i>	2009	2008	2007
Basic earnings per share		\$ 3.95	\$ 3.99	\$ 4.31
Diluted earnings per share		\$ 3.92	\$ 3.95	\$ 4.25

The following table provides a reconciliation between basic and diluted earnings per share:

<i>In millions</i>	<i>Year ended December 31,</i>	2009	2008	2007
<i>Net income</i>				
		\$ 1,854	\$ 1,895	\$ 2,158
Weighted-average shares outstanding		469.2	474.7	501.2
Effect of stock options		4.3	5.3	6.8
Weighted-average diluted shares outstanding		473.5	480.0	508.0

For the years ended December 31, 2009, 2008 and 2007, the weighted-average number of stock options that were not included in the calculation of diluted earnings per share, as their inclusion would have had an anti-dilutive impact, were 0.4 million, 0.3 million and 0.1 million, respectively.



2008 Annual Report

The Bottom Line:

Notes to Consolidated Financial Statements

The following tables provide information by geographic area:

<i>In millions</i>	<i>Year ended December 31,</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Revenues				
Canada		\$5,632	\$ 5,265	\$ 5,293
U.S.		2,850	2,632	2,636
		\$8,482	\$ 7,897	\$ 7,929

<i>In millions</i>	<i>Year ended December 31,</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Net income				
Canada		\$1,507	\$ 1,706	\$ 1,671
U.S.		388	452	416
		\$1,895	\$ 2,158	\$ 2,087

<i>In millions</i>	<i>December 31,</i>	<i>2008</i>	<i>2007</i>
Properties			
Canada		\$12,377	\$11,777
U.S.		10,826	8,636
		\$23,203	\$20,413

16 Earnings per share

	<i>Year ended December 31,</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Basic earnings per share		\$ 3.99	\$ 4.31	\$ 3.97
Diluted earnings per share		\$ 3.95	\$ 4.25	\$ 3.91

The following table provides a reconciliation between basic and diluted earnings per share:

<i>In millions</i>	<i>Year ended December 31,</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Net income		\$1,895	\$2,158	\$2,087
Weighted-average shares outstanding		474.7	501.2	525.9
Effect of stock options		5.3	6.8	8.4
Weighted-average diluted shares outstanding		480.0	508.0	534.3

For the years ended December 31, 2008, 2007 and 2006, the weighted-average number of stock options that were not included in the calculation of diluted earnings per share, as their inclusion would have had an anti-dilutive impact, were 0.3 million, 0.1 million and 0.2 million, respectively.

17 Major commitments and contingencies

A. Leases

The Company has operating and capital leases, mainly for locomotives, freight cars and intermodal equipment. Of the capital leases, many provide the option to purchase the leased items at fixed values during or at the end of the lease term. As at December 31, 2008, the Company's commitments under these operating and capital leases were \$876 million and \$1,837 million, respectively. Minimum rental payments for operating leases having initial non-cancelable lease terms of one year or more and

minimum lease payments for capital leases in each of the next five years and thereafter are as follows:

<i>In millions</i>	<i>Operating</i>	<i>Capital</i>
2009	\$166	\$ 207
2010	134	158
2011	112	199
2012	87	96
2013	65	145
2014 and thereafter	312	1,032
	\$876	1,837
Less: Imputed interest on capital leases at rates ranging from approximately 2.1% to 7.9%		525
Present value of minimum lease payments included in debt		\$1,312

The Company also has operating lease agreements for its automotive fleet with minimum one-year non-cancelable terms for which its practice is to renew monthly thereafter. The estimated annual rental payments for such leases are approximately \$30 million and generally extend over five years.

Rent expense for all operating leases was \$202 million, \$207 million and \$202 million for the years ended December 31, 2008, 2007 and 2006, respectively. Contingent rentals and sublease rentals were not significant.

B. Other commitments

As at December 31, 2008, the Company had commitments to acquire railroad ties, rail, freight cars, locomotives, and other equipment and services, as well as outstanding information technology service contracts and licenses, at an aggregate cost of \$1,006 million. The Company also has agreements with fuel suppliers to purchase approximately 82% of the estimated 2009 volume and 32% of its anticipated 2010 volume, at market prices prevailing on the date of the purchase.

C. Contingencies

The Company becomes involved, from time to time, in various legal actions seeking compensatory, and occasionally punitive damages including actions brought on behalf of various purported classes of claimants and claims relating to personal injuries, occupational disease, and property damage, arising out of harm to individuals or property allegedly caused by derailments or other accidents.

Canada

Employee injuries are governed by the workers' compensation legislation in each province whereby employees may be awarded either a lump sum or future stream of payments depending on the nature and severity of the injury. Accordingly, the Company accounts for costs related to employee work-related injuries based on actuarially developed estimates of the ultimate cost associated with such injuries, including compensation, health care and third-party administration costs. For all other legal actions, the Company maintains, and regularly updates on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information

CANADIAN PACIFIC

Annual Report 2009

GEOGRAPHIC INFORMATION

(in millions of Canadian dollars)	Canada	United States	Total
2009			
Revenues	\$ 3,075.9	\$ 1,227.3	\$ 4,303.2
Net properties	\$ 8,080.7	\$ 3,887.1	\$ 11,967.8
2008 (Restated Note 2)			
Revenues	\$ 3,814.6	\$ 1,117.0	\$ 4,931.6
Net properties	\$ 7,954.4	\$ 4,430.2	\$ 12,384.6
2007 (Restated Note 2)			
Revenues	\$ 3,716.4	\$ 991.2	\$ 4,707.6
Net Properties	\$ 7,582.2	\$ 1,535.5	\$ 9,117.7

CP's principal subsidiaries present unconsolidated financial statements in accordance with generally accepted accounting practices for railways as prescribed in the regulations of the Canadian Transportation Agency and the Surface Transportation Board in the United States. As part of the Company's consolidation process, CP's subsidiaries' unconsolidated accounts have been adjusted from these regulatory accounting bases to Canadian GAAP.

The condensed income statement and balance sheet information, which follows, includes the Canadian operations prepared in accordance with the Uniform Classification of Accounts issued by the Canadian Transportation Agency. The changes required to consolidate the Company's operations are identified as consolidating entries.

CONSOLIDATING INFORMATION – 2009

(in millions of Canadian dollars)	Canada	United States	Other countries	Consolidating entries	Total
Revenues	\$ 3,072.1	\$ 1,227.3	\$ –	\$ 3.8	\$ 4,303.2
Operating expenses	2,479.6	960.4	–	(36.9)	3,403.1
Revenues less operating expenses	592.5	266.9	–	40.7	900.1
Net interest expense, other income and charges, gain on sales of partnership interest and significant properties and loss on termination of lease with shortline railway	(35.6)	88.2	136.4	(2.8)	186.2
Income tax expense	60.0	62.0	1.5	(22.0)	101.5
Net income (loss)	\$ 568.1	\$ 116.7	\$ (137.9)	\$ 65.5	\$ 612.4
Current assets	\$ 1,183.8	\$ 472.5	\$ 29.1	\$ (258.0)	\$ 1,427.4
Net properties	6,096.0	3,828.8	–	2,043.0	11,967.8
Other long-term assets	3,140.0	241.0	1,364.8	(2,609.6)	2,136.2
Total assets	\$ 10,419.8	\$ 4,542.3	\$ 1,393.9	\$ (824.6)	\$ 15,531.4
Current liabilities	\$ 1,162.6	\$ 228.4	\$ 2.0	\$ (10.0)	\$ 1,383.0
Long-term liabilities	5,710.1	2,160.5	(0.3)	(427.9)	7,442.4
Shareholders' equity	3,547.1	2,153.4	1,392.2	(386.7)	6,706.0
Total liabilities and shareholders' equity	\$ 10,419.8	\$ 4,542.3	\$ 1,393.9	\$ (824.6)	\$ 15,531.4

Kansas City Southern

S&P Recommendation **HOLD** ★★

Price
\$36.75 (as of Jun 4, 2010)

12-Mo. Target Price
\$43.00

Investment Style
Mid-Cap Blend

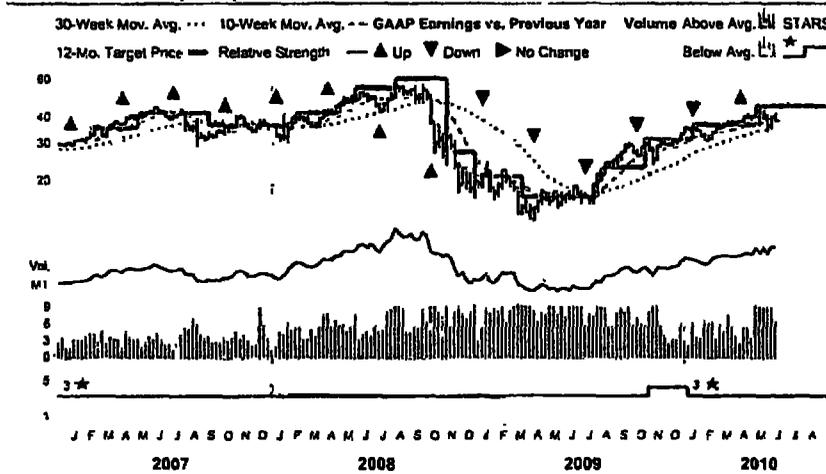
GICS Sector Industrials
Sub-Industry Railroads

Summary KSU is a holding company with railroad investments serving the central and south central U.S., northeastern and central Mexico, and Panama.

Key Stock Statistics (Source: S&P, Vickers, company reports)

52-Wk Range	\$42.32–14.75	S&P Oper. EPS 2010E	1.50	Market Capitalization(B)	\$3.554	Beta	1.46
Trailing 12-Month EPS	\$1.03	S&P Oper. EPS 2011E	1.93	Yield (%)	Nil	S&P 3-Yr. Proj. EPS CAGR(%)	10
Trailing 12-Month P/E	35.7	P/E on S&P Oper. EPS 2010E	24.5	Dividend Rate/Share	Nil	S&P Credit Rating	B
\$10K Invested 5 Yrs Ago	\$18,193	Common Shares Outstg. (M)	96.7	Institutional Ownership (%)	93		

Price Performance



Qualitative Risk Assessment

LOW	MEDIUM	HIGH
-----	---------------	------

Our risk assessment reflects what we see as KSU's exposure to economic cycles and regulations in both the U.S. and Mexico, currency fluctuations, and a high level of debt. This is offset by its diverse customer base and what we consider a historically solid generation of cash from its operations.

Quantitative Evaluations

S&P Quality Ranking **B-**

D	C	B-	B	B+	A-	A	A+
---	---	-----------	---	----	----	---	----

Relative Strength Rank **MODERATE**

1	2	3	4	5	6	7	8	9	10
					6				

Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2010	436.3	--	--	--	--
2009	346.0	341.3	386.1	406.8	1,480
2008	450.6	486.2	491.5	423.8	1,852
2007	411.3	427.1	444.1	460.3	1,743
2006	388.4	413.1	415.7	442.4	1,660
2005	198.2	381.1	384.6	388.1	1,352

Earnings Per Share (\$)	2010	2009	2008	2007	2006	2005
2010	0.21	€0.36	€0.41	€0.39	€1.50	
2009	-0.08	0.07	0.27	0.33	0.61	
2008	0.39	0.56	0.52	0.40	1.86	
2007	0.21	0.30	0.48	0.65	1.57	
2006	0.11	0.24	0.32	0.41	1.08	
2005	0.09	-0.33	1.14	0.03	1.10	

Fiscal year ended Dec. 31. Next earnings report expected: Late July. EPS Estimates based on S&P Operating Earnings, historical GAAP earnings are as reported

Dividend Data

Cash dividends were last paid in 2000

Analysis prepared by Kevin Kirkeby on May 05, 2010, when the stock traded at \$ 39.39.

Highlights

- ▶ We forecast an 18% recovery in revenues during 2010, following a 20% decline in 2009. About half of this increase is attributable to volumes as we anticipate increased production levels at facilities located along KSU's network, notably in Mexico. We expect auto-related goods and intermodal to be the fastest-growing shipment categories. Price and mix, in our view, will contribute the other nine percentage points of the increase. We believe KSU is benefiting from the recent renegotiation of older contracts, and inclusion of enhanced fuel surcharge mechanisms.
- ▶ We expect margins to widen in 2010 as volumes recover and average trip length increases. KSU has been retiring old locomotives as new ones are put into service. This is raising depreciation charges, but is expected to lower fuel consumption as the new ones are considerably more efficient.
- ▶ Fluctuations in the Mexican peso relative to the U.S. dollar increase the volatility of KSU's earnings. In early May 2010, KSU completed a secondary stock offering of 5.8 million shares, which would increase shares outstanding by about 6%.

Investment Rationale/Risk

- ▶ We see KSU focused on increasing revenue and network efficiency, contributing to net income growth of about 13% annually over the next five years. Also, we look for capital spending to slow following several years of aggressive investments, and KSU's capital structure to improve. As the economy and credit markets improve, we think investors will focus more on KSU's growth potential than its high leverage, including operating leases. We believe the stock should trade at a premium to historical average valuations, and above peers.
- ▶ Risks to our recommendation and target price include lower-than-anticipated economic growth, a more virulent outbreak of swine flu, the buildout of other ports in Mexico to compete with Lazaro Cardenas, and an unfavorable ruling in any legal disputes in Mexico.
- ▶ Our discounted cash flow model, assuming an 11.5% cost of equity and 3.5% terminal growth, indicates intrinsic value of \$36. Applying a P/E of 30X, which is above the ten-year average of 26X, to our forward four-quarter earnings estimate leads to a value of \$49. Our 12-month target price of \$43 reflects a weighted blend of these metrics.

Please read the Required Disclosures and Analyst Certification on the last page of this report.

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-4717

KANSAS CITY SOUTHERN

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

427 West 12th Street,
Kansas City, Missouri
(Address of principal executive offices)



44-0663509
*(I.R.S. Employer
Identification No.)*

64105
(Zip Code)

816.983.1303
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$0.01 per share par value

Outstanding at April 20, 2010
96,712,467 Shares

Kansas City Southern
Notes to Consolidated Financial Statements — (Continued)

	Liability Derivatives		
	Balance Sheet Location	March 31, 2010	December 31, 2009
Derivatives designated as hedging instruments:			
Interest rate contracts	Accounts payable & accrued liabilities	\$3.9	\$3.2
Interest rate contracts	Other non-current liabilities & deferred credits	—	1.7
Total derivatives designated as hedging instruments		3.9	4.9
Derivatives not designated as hedging instruments:			
Fuel swap contracts	Accounts payable & accrued liabilities	0.2	—
Total derivatives not designated as hedging instruments		0.2	—
Total liability derivatives		\$4.1	\$4.9

The following table presents the amounts affecting the consolidated statement of operations for the three months ended March 31, (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2010	2009		2010	2009		2010	2009
	Interest rate contracts	\$(0.6)		\$(0.7)	Interest expense		\$(1.5)	\$(0.7)
Fuel swap contracts	—	(1.6)	Fuel expense	—	(0.2)	Fuel Expense	—	(2.0)
Total	\$(0.6)	\$(2.3)		\$(1.5)	\$(0.9)		\$—	\$(2.0)
Derivatives not designated as hedging instruments			Location of Gain/(Loss) Recognized in Income on Derivative	2010	2009			
Fuel swap contracts			Fuel expense	\$0.3	\$—			
Total				\$0.3	\$—			

7. Acquisition

On March 3, 2010, the Company acquired an intermodal facility in Mexico. The aggregate purchase price for the intermodal facility was \$25.0 million, which was funded by existing cash reserves. The Company has determined that the acquisition is not material to the Company's consolidated financial statements; therefore, pro forma financial information is not presented. In addition, the Company has made a preliminary purchase allocation as of March 31, 2010, based on incomplete valuations. The Company expects to complete the purchase valuation during the second quarter of 2010.



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3/8/2010

C. Dorteie Kane, 816-983-1372

Kansas City Southern Acquires Puerto Mexico Intermodal Facility, Adds Direct Train Service

Kansas City, Mo., March 8, 2010 – Kansas City Southern (KCS) (NYSE: KSU) announced today that it has acquired the Puerto Mexico intermodal facility at Toluca in the State of Mexico. Later this month, Kansas City Southern de Mexico, S.A. de C.V. (KCSM) will add direct train service from Lazaro Cardenas to Puerto Mexico, providing Mexico City import and export shippers with a service alternative featuring improved consistency and reliability and better transit times.

"Puerto Mexico is well-positioned on KCS' International Intermodal Corridor, making it a valuable enhancement for our cross border service offering," said David L. Stirling, KCS president and chief operating officer.

KCS executive vice president sales and marketing Patrick J. Ottensmeyer, added that, "The growth of manufacturing activity and international trade flows in the Mexico City area is increasing the demand for modern, multi-modal terminals in Mexico's industrial heartland. The strategic location and modern facilities at Puerto Mexico will allow KCS to better serve these growing markets."

With its connection to the KCS rail network, Puerto Mexico serves the industrial centers of Mexico and the U.S., several important seaports and the Toluca-Mexico City industrial corridor. The facility provides intermodal rail and truck services, warehouse storage and has the only inland customs-clearing facility in the State of Mexico.

In addition to train service, Puerto Mexico offers multi-modal terminal services and on-site customs and bonded warehousing facilities to ocean carriers, intermodal and other logistics service providers. With its direct access to KCSM's "N" line, Puerto Mexico will become the terminal of choice for service to and from the central valley, the Port of Lazaro Cardenas and the border crossing at Nuevo Laredo/Laredo. With an estimated capacity exceeding 150,000 containers and two million plus tons of cargo per year on more than 130 developed acres, it essentially doubles the intermodal capacity available to the greater Mexican central valley region and alleviates congestion in the region.

"Since 1996, KCS has invested over \$3 billion to expand and improve Mexico's rail infrastructure. The purchase of Puerto Mexico further demonstrates KCS' commitment to Mexico and its institutions, the appeal of Mexican markets and the viability of direct foreign investment in Mexico," said KCSM president and executive representative Jose G. Zozaya. "Puerto Mexico is a key link in KCS' International Intermodal Corridor, creating a continuous cycle of economic growth for Central Mexico."

Headquartered in Kansas City, Mo., KCS is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. Its primary U.S. holding is The Kansas City Southern Railway Company, serving the central and south central U.S. Its international holdings include KCSM serving northeastern and central Mexico and the port cities of Lazaro Cardenas, Tampico and Veracruz, and a 50 percent interest in Panama Canal Railway Company, providing ocean-to-ocean freight and passenger service along the Panama Canal. KCS' North American rail holdings and strategic alliances are primary components of a NAFTA Railway system, linking the commercial and industrial centers of the U.S., Mexico and Canada.

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CERTIFICATE OF SERVICE

I hereby certify that on this 15th day of June 2010 I have caused true and accurate copies of the foregoing Reply Comments of the Western Coal Traffic League to be served upon all parties on the service list in this proceeding by first class mail, postage prepaid.


Robert D. Rosenberg