Touchbase JANUARY 2009

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New "One Price" plan for private equipment storage effective February 1, 2009

Most stations have a storage price of $75 per day for both loads and empties

Special Introduction

We'd like to take this opportunity to introduce to you to the newest member of the Tealinc team. Mr. Paul Dyson has joined our team as the Vice President of Sales and will be working with us out of our Burbank, CA office. Paul's career includes positions as an independent transportation project manager serving U.S. and international clients; director of intermodal and rail products for Wabash National Corporation; Vice President GATX Rail and GATX EnviroLease; National Accounts Director for Southern Pacific Railroad; owner and operator of a trans-load and drayage distribution company in the Los Angeles area; and Freight Manager for British Railways. We welcome Paul to the team and are excited for the experience he will bring to Tealinc. Feel free to contact Paul via email at paul@tealinc.com.

Railroad Updates

The BNSF announced that, effective February, 1, 2009, it will introduce a new "One Price" plan to equalize the price to store any private car at any BNSF station, to improve rail yard capacity and service consistency.

Today, most stations have a storage price of $75 per day for both loads and empties. The BNSF recognizes that it still has some locations at $20 per day for empties. To better align all stations and balance their network, the BNSF announces that the daily storage price for all private equipment being stored or held on railroad tracks will be the same. Conditions are as follows:

- For all remaining stations at $20 per day, the price for empty private car storage moves to $75 per day to equalize both empty and load prices across the network
- The price increase will apply to the following states and provinces:
  - All or parts of Alberta
  - Idaho
  - Iowa
  - Manitoba
  - Minnesota
  - Montana
  - New Mexico
  - North Dakota
  - Saskatchewan
  - South Dakota
  - Texas and
  - Wyoming
- The $75 surcharge for hazardous loads on storage will remain in effect

Learn more by visiting the website at:
http://domino.bnsf.com/website/updates.nsf/updates-marketing-industrial/BE33D615FFCB4B3086257520006BB685?Open

The UMLER system is an electronic resource that contains critical data for North American transportation equipment.

Railinc Debuts Equipment Index

In November 2008, Railinc Corporation launched the “Umler Equipment Index”, a new quarterly analysis of the total make-up of the North American rail equipment fleet. The Umler Equipment Index will present the total rail equipment fleet size and composition of the fleet by segments and equipment type, including cars, locomotives and end-of-train devices.

“Car owners and investors have knowledge of their own fleets, but have little visibility into the industry-wide fleet,” said Alan McDonald, director of asset services for Railinc. “The index presents them with a complete picture of the industry’s equipment fleet and how it changes on a quarterly basis.”

The Umler Equipment Index is created at the close of each quarter and is based on data is queried from Railinc’s Umler system. Data in the index represents all equipment units on file in Railinc's Umler system, including pre-registered, restricted and scrapped units.
The inaugural index reports data for the third quarter 2008 and can be found on the Railinc website. The Umler Equipment Index will be published again in the first week of January, after the close of the fourth quarter for 2008.

Learn more at:
https://www.railinc.com/rportal/web/guest/newsroom_details?p_p_id=1_WAR_AlfrescoJSPPortlet_INSTANCE_XMsy&p_p_lifecycle=0&cntid=11-1-2008%20-%20Umler%20Equip%20Index.html

Fitch Finds Railroads Strong In a Weak Economy

Fitch Ratings finds the railroad industry "well positioned financially to confront the challenges of a weakened U. S. economy." For 2009, Fitch forecasts "a relatively favorable pricing environment, strong liquidity, and ongoing capital markets access."

This assessment is part of Fitch's broad overview, released December 9, 2008, of what lies ahead for the railroad and trucking industries in the coming year.

"Following a resurgence in the railroad industry over the past five years, the largest Class I railroads are well positioned financially to confront the challenges of a recessionary economic period," said Fitch. "Although volume growth has slowed over the past couple of years, the industry continues to enjoy favorable pricing environment. This has resulted in strong margins across the industry... Industry liquidity remains strong as well, with each of the top four railroads maintaining relatively large cash balances and access to large, undrawn revolving credit facilities... Fitch expects railroads generally to rein their pricing power in 2009, although lower overall volumes could result in some deterioration in pricing later in the year. A significant portion of the railroads' book of business re-prices in the first half of the year, and the railroads have indicated that negotiations on those contracts so far are yielding percentage price increases in line with those seen in 2008,

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"...the trucking industry is more exposed than the railroads to the relative strength of the U. S. economy."

Change in OT-5 Applications for Private Equipment

Effective January 1, 2009, OT-5 applications must be submitted through the Railinc website

U.S. rail carload traffic down sharply in November

Commodities showing the largest carload declines in November 2008 were motor vehicles and equipment; chemicals; metals

which Fitch estimates are in the mid-to-high single digits."

Fitch also expects railroad operating ratios to remain relatively low stating "Although operating ratios may worsen somewhat from the strong levels seen in the third quarter of this year, when lagging fuel surcharges provided the railroads with a substantial tailwind, Fitch expects the four largest Class I railroads to continue posting operating ratios in the low-to-mid-70% range in the latter part of the year, still relatively strong but off the low levels seen in 2008."

Fitch expects railroad capital spending in 2009 to be near or below the level of spending in 2008, strengthening free cash flow and permitting stock repurchases.

Fitch finds truckers to be in far less fortunate position stating "In sharp contrast to the strong financial positioning of the U.S. railroad industry, the U.S. trucking industry is entering 2009 in a weakened state. Overcapacity, particularly in the less-than-truckload sector, has eroded pricing over the past year, while high fuel costs added to the industry's difficulties ... Trucking is closely tied to the shipment of cyclical products like retail goods and industrial components. As a result, the trucking industry is more exposed than the railroads to the relative strength of the U. S. economy."

Read the entire article:
http://www.railwayage.com/breaking_news.shtml#Feature1-12-10

AAR Updates

Announced by the CSX in December of 2008 and effective January 1, 2009, OT-5 applications must be submitted through the Railinc website at **www.railinc.com**. Although the review process remains the same, the status of your application will be managed through Railinc.

If you are new to Railinc, you will need to register by following the instructions under the 'Register Here' link on their home page. We are familiar with the OT-5 process and are happy to help. You can find the OT-5 form linked on our website at **www.tealinc.com/OT5.htm** or call us directly and we'll be happy to assist you.

Visit the AAR at:
http://www.aar.org

Railroad Traffic

U.S. railroads originated 1,189,472 carloads of freight in November 2008, down 133,504 carloads or 10.1 percent from November 2007. U.S. railroads also originated 851,517 intermodal units in November 2008, a decrease of 72,978 trailers and containers down 7.9 percent from November 2007, the Association of American Railroads (AAR) reported December 4, 2008.

and metal products; and grain

"This is obviously a very difficult period. Railroads join with everyone else in hoping that this economic downturn changes course sooner rather than later"

Projections show that U.S. coal production and exports should fall in 2009 as global demand ebbs

An expected decline in electricity consumption in 2009, combined with projected increases from other generation sources (nuclear, natural gas, petroleum, and wind), are expected to contribute to a projected 0.2 percent decline in electric-power-sector coal

Two of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in November 2008 compared to November 2007. Coal carloads were up 2.1 percent, while the catch-all "all other carloads" category was up 23.1 percent.

Commodities showing the largest carload declines in November 2008 were motor vehicles and equipment (down 32.7 percent); chemicals (down 16.3 percent); metals and metal products (down 39.6 percent); and grain (down 16.6 percent).

For the first 11 months of 2008, total U.S. rail carloads were down 212,665 carloads (1.4 percent), as year-over-year increases in coal (up 3.6 percent) and grain (up 5.0 percent) were not enough to offset declines in most other commodity categories, including motor vehicles and equipment (down 20.0 percent); coke (down 32.1 percent); and crushed stone, sand, and gravel (down 7.8 percent).

"November's 10.1 percent decline in U.S. rail carload freight and 7.9 percent decline in intermodal freight are by far the largest monthly declines since we started keeping track of monthly traffic in 1997 – and probably since well before then," said AAR Senior Vice President John T. Gray. "This is obviously a very difficult period. Railroads join with everyone else in hoping that this economic downturn changes course sooner rather than later."

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 385,608 trailers and containers (3.5 percent) for the first 11 months of 2008.

Total volume was estimated at 1.62 trillion ton-miles, down 0.3 percent from the first 11 months of 2007.

Canadian rail carload traffic (including the U.S. operations of Canadian railroads) was down 12.3 percent in November 2008 and down 5.4 percent for the year to date. In November, nearly every commodity category registered carload declines for Canadian railroads, including motor vehicles and equipment (down 37.5 percent); chemicals (down 12.3 percent); and metallic ores (down 13.0 percent), among many others.

Visit the AAR at:
http://www.aar.org

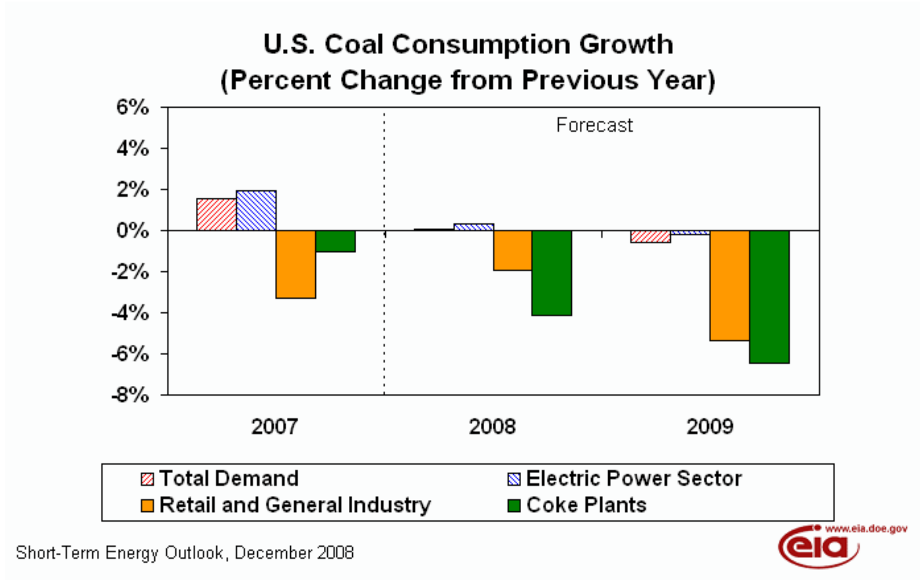
Industrial Inside

Projections show that U.S. coal production and exports should fall in 2009 as global demand ebbs, the federal Energy Information Administration said December 9, 2009.

consumption

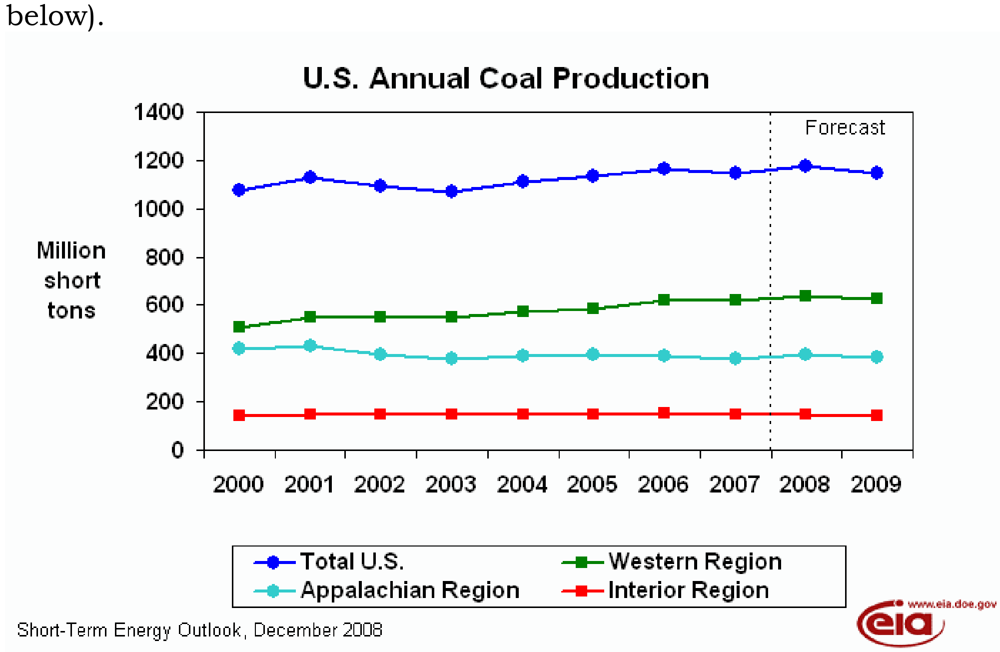
Production is expected to fall by 2.6 percent in 2009 as lower total domestic coal consumption is combined with declines in exports and a small increase in imports

Worldwide demand for coal is projected to lead to a nearly 40 percent increase in U.S. coal exports in 2008



The report shows that while electric-power-sector coal consumption for the first half of 2008 grew by 1.3 percent, due in part to a decline in the summer of 2008, electricity consumption growth figures are expected to be limited to only 0.3 percent in 2008. An expected decline in electricity consumption in 2009, combined with projected increases from other generation sources (nuclear, natural gas, petroleum, and wind), are expected to contribute to a projected 0.2 percent decline in electric-power-sector coal consumption. Consumption in the coke plant sector is expected to fall by 4.1 percent [when final figures are tallied] in 2008 and an additional 6.4 percent in 2009 (see chart above.)

Analysts expect a significant increase in coal exports in 2008 contributed to a 2.8 percent increase in coal production [once end of the year figures are collected.] Production is expected to fall by 2.6 percent in 2009 as lower total domestic coal consumption is combined with declines in exports and a small increase in imports (see chart below).



Meanwhile, strong global demand for coal, combined with supply disruptions in several key coal-exporting countries (Australia, South Africa, and China), spurred an increase in U.S. coal exports. Although the supply disruptions have ended, worldwide demand for coal is projected to lead to a nearly 40 percent increase in U.S. coal exports in 2008. Reductions in global coal demand, coupled with the return to normal supply conditions in other major coal-producing and exporting countries are expected to reduce U.S. coal exports by 11 million short tons (a 13-percent decrease) in 2009.

Learn more about coal and other types of energy at:
http://www.eia.doe.gov/steo

Financial Focus

The Federal Reserve cut its key interest rate to a range of between zero percent and 0.25%; said it expects to keep rates near that unprecedented low level for some time to come

In its latest effort to try and stimulate the U.S. economy, the Federal Reserve cut its key interest rate to a range of between zero percent and 0.25%, and said it expects to keep rates near that unprecedented low level for some time to come marking the tenth time it has cut rates in the last 15 months.

The central bank typically sets a specific target for its federal funds rate instead of a range. The rate had previously been at 1% and this marks the first time the Fed has cut rates below 1%. Most investors were expecting the Fed to cut rates to either 0.25% or 0.5%.

Some banks announce they were lowering their prime rate of 3.25% in light of the Fed's decision

Several banks announced they were lowering their prime rate to 3.25% in light of the Fed's decision. Typically, the prime rate is 3 percentage points higher than the fed funds rate, [but] it was 4 percent before Tuesday's rate cut.

The federal funds rate is an overnight lending rate used as a benchmark to set rates for a variety of loans, including adjustable rate mortgages, credit cards, home equity lines of credit and business loans

Despite the dramatic nature of the Fed's move, some economists questioned whether it will have much effect on the economy. They said the problem for consumers and businesses right now is not the cost of borrowing, but the availability of credit and the weaker economic fundamentals.

"Lowering rates to this level is purely a psychological move made to send the message that the Fed is committed to righting the sinking economic ship," said Rich Yamarone, director of economic research at Argus Research. He noted the previous rate cuts did little to stop home and auto sales from plunging.

Running out of arrows

There are some concerns that taking the fed funds rate so close to zero leaves the Fed with little room for additional moves if the economy does not start to show signs of improvement soon, but the Fed said in a statement that it is looking at different steps it can take to stimulate

Official says the Fed set a range for the rate rather than give a specific number as an acknowledgement that it has trouble precisely controlling the rate at a time when rates are this low

Feds declare that the U.S. government has officially been in a recession for a year... risk of inflation had decreased "appreciably."

DEFLATION: The phenomenon of drastically lower prices that can hurt the economy

the economy and keep market rates low, including the purchases of long-term U.S. Treasury notes. The Fed also said it will consider other, yet to be disclosed, moves as well.

"The Federal Reserve will continue to consider ways of using its balance sheet to further support credit markets and economic activity," the Fed said.

A senior Fed official who briefed reporters after the announcement said the Fed set a range for the rate rather than give a specific number as an acknowledgement that it has trouble precisely controlling the rate at a time when rates are this low.

The effective rate, which is based on market trades of Treasury's and excess reserve balances between banks on a daily basis, has been regularly slipping below the Fed's stated rate for a couple of months now.

Asked why the Fed didn't go ahead and the cut the rate to 0 percent, the Fed official said keeping the rate a little above zero would make the credit markets run more smoothly.

In explaining the reason behind the rate cut, the Fed said the U.S. economy, which has officially been in a recession for a year, was in danger of getting weaker, and that the risk of inflation had decreased "appreciably."

Earlier in December, the Labor Department reported that the Consumer Price Index, its key inflation measure, fell by a record 1.7 percent in November. In fact, some economists are growing more worried about deflation. One economist pointed out that there was a notable change between December's statement and the one it issued when it last cut rates in October that suggested to him the Fed is concerned about deflation, the phenomenon of drastically lower prices that can hurt the economy. In October, the Fed said it expected inflation would drop "to levels consistent with price stability." In December, those five words were not in the statement and the Fed just said it expects inflation to "moderate further."

Learn more at:
http://money.cnn.com/2008/12/16/news/economy/fed_decision/index.htm?postversion=2008121617

The Edge

Happy New Year!

It certainly appears to be a year that will require one to conduct a complete review of business challenges, opportunities and methods. To borrow from a letter I read in December from a Class I operating person, as Charles Dickens wrote in his novel, A Tale of Two Cities, "It was the best of time, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair…" Tough decisions will need to be made and more will need to be done with less, while continuing to work safely, and without cutting corners.

As you'll notice in this newsletter (and prior ones) there's a shift in phenomenon at the railroads. Traffic volumes are down and are expected to continue to be down for the foreseeable future. This poses an economic growth issue for the railroad industry. Despite the favorable Fitch rating and the more obvious long term benefits of rail transportation as the preferred land transport vehicle, investors will demand continuous economic returns and well placed growth initiatives. That creates a quandary for railroads as base business is highly influenced by economic conditions. Where then do the railroads make up the difference – or at least create a more positive influx of revenues? Look to accessorial charges for the answer. Such items as empty and loaded car storage, electronic billing, demurrage and detention, private mileage, misroutes, etc. will demand increased charges.

Although we anticipate that railroads will look under every rock for more revenue and cost saving opportunities, we don't necessarily see that as a bad thing. In many cases, under those rocks are business opportunities many of you have been trying to bring to fruition. **Now is your time.** In moving large quantities of bulk commodities over long distances it's, hard to beat the economics of rail.

We continue work on several large multi-year projects that we anticipate being "helped" by the current economic situation. We'd be happy to take a look at yours to see if the time is now for your project as well.

We look forward to earning your business!