

AN OMNI-PRESENCE

For **OmniTRAX Inc.**, a real estate pedigree has helped pave the way to short-line success in North America

BY JEFF STAGL, MANAGING EDITOR

Looking out out the window of his office at OmniTRAX Inc.'s Denver headquarters, Robert Parker can see the Cherry Creek Mall across the street. It's quite the appropriate view. After more than six years of standing pat with 11 short lines, OmniTRAX again has become a major small-road shopper.

During the past year, the privately held company has purchased three short lines and started four new small roads in the United States after acquiring or leasing branch lines from Class Is.

"We're back in the game," says Parker, the company's chief operating officer.

OmniTRAX previously sat on the sidelines because Class Is weren't selling or leasing large chunks of trackage; meanwhile, asking prices for existing properties were too steep, Parker and Managing Director Mike Ogborn say.

But during the past year, proposed deals and prices have been attractive, and the company has been submitting bids for a number of properties.

"Now, we're looking for reasons to make a deal instead of reasons not to," says Parker.

OmniTRAX's deal-making proclivity hasn't gone unnoticed.

"They're aggressively bidding on anything they can get their hands on," says a short-line industry observer, who asked not to be identified.

BEYOND BUSY SHOPPERS

But OmniTRAX plans to do more than build up its roster of 18 short lines. Owned by Denver real estate management firm The Broe Cos., the company also aims to boost sales and marketing efforts to convince Class Is to contract

more industrial switching, locomotive maintenance and intermodal terminal operator services provided by subsidiaries OmniTRAX Switching Services L.L.C., OmniTRAX Locomotive Services L.L.C. and Quality Terminal Services L.L.C.

In addition, OmniTRAX officials are attempting to persuade Russia and other western European countries to ship freight to the Port of Churchill in Manitoba, Canada, which is owned and operated by subsidiary Hudson Bay Port Co. And they're trying to leverage Broe's real estate expertise to help OmniTRAX land tenants for the recently developed, rail-served Great Western Industrial Park in Windsor, Colo., and set a strategy for developing other parks.

"We have a renewed focus on growing our businesses, both transportation and real estate," says Ogborn.

During a two-day visit to the Mile High City, OmniTRAX's senior managers shared their growth blueprint with *Progressive Railroading*, and provided tours of nearby short line and customer facilities to demonstrate how they're



OmniTRAX Inc.

putting their plans into action.

Growth objective No. 1: Winning bids for Class I lines or existing short-line properties because rail holdings will continue to be OmniTRAX's key assets.

"We want to keep growing, but grow smartly, and acquire properties that make sense," says Parker, who earlier this year assumed day-to-day management of the company's railroads after former OmniTRAX President Dwight Johnson became the parent firm's president of strategic capital.

ABOVE-AVERAGE INTELLIGENCE

The sensible approach came into play in spring, when senior managers decided to bid on three of North American RailNet Inc.'s four short lines — the 559-mile Nebraska, Kansas & Colorado RailNet Inc., 297-mile Georgia & Florida RailNet Inc., and 113-mile Illinois RailNet Inc. — because the railroads would help diversify OmniTRAX's customer base.

In May, the company won a contract to purchase the short lines minus Cana-

dian road Alberta RailNet Inc., which was acquired by Savage CANAC Corp. OmniTRAX now operates the short lines as the Nebraska, Kansas Colorado & Georgia & Florida; and Illinois railroads.

"Alberta RailNet does a lot of grain business and we already have that with the Hudson Bay Railway," says Parker.



But another recent transaction that would have added a major aluminum producer to OmniTRAX's customer base didn't pan out. The company lost a bid to RailAmerica Inc. for Alcoa Inc.'s four short lines. Although RailAmerica's \$77.5 million purchase price was higher than OmniTRAX was willing to pay, losing out

on a chance to acquire four railroads was a letdown, says Parker.

"You never feel as good as when you win one of these properties," he says.

Since joining OmniTRAX in 2003 as executive vice president-rail, Parker has tried to instill a winning attitude he helped forge at his former employer.

"We're a real estate firm that's into railroading, not a railroad that's into real estate."

— Robert Parker, Chief Operating Officer

While serving as a RailAmerica senior VP for eight years, Parker helped identify short lines that the holding company successfully acquired.

Another former RailAmerica executive, OmniTRAX EVP of Marketing and Strategic Planning Al Sauer, is helping Parker and other senior managers place

more properties in the win column. Last year, Sauer joined OmniTRAX after serving RailAmerica for eight years, most recently as SVP of marketing and sales.

"With their experience in marketing and operations, Parker and Sauer have helped us identify acquisition targets, which has been a real boon to the company," says Ogborn, who's served OmniTRAX for 15 years.

Last year, Parker, Sauer and other executives pegged CSX Transportation's Fulco branch line near Atlanta as an acquisition target. OmniTRAX secured a deal to lease 55 track miles from CSXT and establish the Fulton County Railway to operate the line.

Under lease terms, OmniTRAX and CSXT officials agreed to jointly develop the Fulton County Industrial Park as an integrated logistics center and attract industrial development. Without parent company Broe, OmniTRAX wouldn't be able to provide real estate management services, says Parker.

"We can find land, deal with zoning issues, develop property and provide transportation — we can do the whole deal," he says. "We're a real estate firm that's into railroading, not a railroad that's into real estate."

LANDING A DEAL

Broe Cos. became the former in 1986, when the company purchased its first short line, the Great Western Railway of Colorado in Loveland. The short line had moved traffic solely for its sugar-refining

owner, but was moving no carloads at the time because the refinery had gone out of business. However, the railroad owned hundreds of acres and Broe officials believed the area 50 miles north of Denver was prime real estate.

"Other purchasers would have only looked at the railroad and not the real

covering of the facility's rail unloading area, which the Great Western Railway will use to inbound and unload 2,500 carloads of sand, soda ash and salinite annually in all types of weather. Owens-Illinois will truck finished bottles from the plant — which will produce 1 billion bottles each year — to Fort Collins.



"This is the first time we developed an industrial park from scratch — what other short line could do this?"

— Al Sauer, EVP of Marketing/Strategic Planning

estate," says Ogborn. "We built up the short line to 80 miles and developed the industrial park by taking the short-line approach — paying attention to customers and doing local marketing."

Now, the area is home to the 700-acre Great Western Industrial Park, which earlier this year welcomed its first tenant, an Owens-Illinois Inc. bottling plant. In August, the plant began producing beer bottles for an Anheuser-Busch Cos. plant in Fort Collins, Colo.

In September, before entering the plant to see a furnace melt raw materials into hundreds of bottles a minute, Parker, Sauer, Executive VP of Rail Operations Darcy Brede and VP of Engineering Chris Dodge touted the long, newly built siding and large metal

After spending an hour inside the plant, which produces as much noise as it does bottles, the executives removed their earplugs, boarded a sport utility vehicle and drove across the street to check progress on construction of a facility for the 10-lot park's soon-to-be second tenant.

In mid-2006, Front Range Energy L.L.C. will finish constructing a plant designed to process about 40 million gallons of ethanol annually.

"It will be a destination-point plant, which companies usually build in the middle of a corn field in Nebraska, where grain originates," says Sauer. "We will move in corn by rail and trucks will move ethanol from the plant."

Access to rail, Interstate 25, and U.S.



Photos: OmniTRAX Inc.



To boost business at Manitoba's Port of Churchill (at left and inset), OmniTRAX formed an "Arctic Bridge" with Russian ports in Murmansk and St. Petersburg. The idea: export fertilizers and steel to Canada, and grain and ag machinery to Russia.

highways 34 and 85 — as well as a more personalized customer service touch compared with Class Is — served as major selling points in convincing Owens-Illinois and Front Range Energy officials to build facilities in the park, execs say.

“This is the first time our company has developed an industrial park from scratch — what other short line could do this?” asks Sauer. “We’re competing with the Class Is, who want to do the industrial development themselves and get firms to build plants on their lines.”

TESTING THE LIMITS

Great Western is a litmus test to determine if OmniTRAX should develop similar rail-served parks near lines operated by other subsidiary short lines.

“There’s an active interest in ethanol plants because the recent energy bill backs the technology, and ethanol plants are a good customer for a short line,” says Sauer. “We need to take advantage of the marketplace and grow business with the Class Is, and listen to customers and present opportunities that fit Class Is’ strategies.”

Some of those opportunities presented themselves earlier this year at the Great Western Railway, which interchanges with BNSF Railway Co. and Union Pacific Railroad.

In May, the short line finished building a siding for Allweather Wood in Loveland. Per an agreement, the pressure-treated wood product shipper guaranteed a number of inbound lumber carloads and the railroad paid for the project.

After walking between the five tracks at the Great Western’s locomotive maintenance facility — not many short lines own such facilities, says Parker — OmniTRAX execs boarded the SUV and drove past the Allweather Wood siding. They were pleased to see stacks of lumber along the track.

“Instead of 600 carloads, we’ll do 1,200 carloads there a year,” says Sauer. “And we got more business next door from 84 Lumber.”

OmniTRAX execs also are trying to generate business opportunities several thousand miles away at the Churchill port, which the company purchased from the government of Ottawa in 1997 for \$10 after acquiring a Churchill-to-The Pas rail line. OmniTRAX, and the

Canadian federal and Manitoba provincial governments later formed the Churchill Gateway Development Corp. to market the port.

In January, Churchill Gateway and OmniTRAX officials completed a 10-day Russian trade mission to identify joint import and export freight opportunities between the Churchill facility and Russian ports in Murmansk and St. Petersburg.

The three ports agreed to form an “Arctic Bridge” offering a shorter ocean-shipping distance between North America and Russia compared with existing routes. OmniTRAX developed an Arctic Bridge Web site and marketing campaign to promote business between the ports. For example, Russian firms could export fertilizers and steel to Canada through the Churchill port, and import Canadian grain and agricultural machinery through the Russian ports. The 810-mile Hudson Bay Railway could move freight from originating points or to terminating locations.

OmniTRAX might forge similar relationships with other ports in the Mediterranean and western Europe, says Sauer.

“We’ve developed a level of interest in Russia now and will continue to push it along,” he says. “It’s something new and will take time.”

Parker doesn’t expect it to take anywhere near as long for OmniTRAX to attract more business to its switching, locomotive maintenance and intermodal services subsidiaries

SUM OF ITS PARTS

Currently, OmniTRAX Switching Services operates switching centers in Texas, Michigan and British Columbia, providing services for such shippers as Dow Chemical Co. and Equistar Chemicals Inc.; OmniTRAX Locomotive Services operates a rehabilitation center in Loveland, and four mobile maintenance facilities in Texas and one in Illinois; and Quality Terminal Services operates four BNSF intermodal terminals, as well as two for CSXT and two for UP.

As Class Is re-bid intermodal terminal operator contracts, OmniTRAX expects to land a few more, Parker says.

“We’ll have more opportunities because intermodal is a growing part of Class Is’ business,” he says.

Earlier this year, Quality Terminal

Services began operating CSXT’s automotive facilities in Jessup, Md., and Orlando, Fla. — the service provider’s first auto-ramp business. OmniTRAX is promoting the subsidiary’s automotive terminal operational capabilities to other Class Is.

“Automotive facilities are a logical offshoot business for us,” says Parker.

So is mobile locomotive maintenance. OmniTRAX Locomotive Services provides mobile maintenance services to BNSF at facilities in Alliance, Amarillo, Houston and Temple, Texas. Through early fall, the subsidiary had 255 locomotives under contract.

Because Class Is continue to acquire power to keep up with robust traffic demand, OmniTRAX Locomotive Services should be able to line up additional contracts with BNSF, as well as other Class Is, says Parker.

“Mobile maintenance is a real growth area for us,” he says.

TAKING CARE OF BUSINESS

In addition to trying to land more business for its subsidiaries, OmniTRAX is attempting to maintain assets for the businesses it already owns — especially the 18 short lines.

“You have to invest in the properties that you have,” says Parker.

Earlier this year, OmniTRAX developed a five-year plan for its 225-unit locomotive fleet under which the company will install hot-start systems in a number of units during winter to improve fuel economy, schedule maintenance to avoid breakdowns and acquire additional 2,000- to 3,000-horsepower locomotives to meet power needs. The five-year plan is tailored for each short line.

“The plan gives the local guy an idea of what’s earmarked for their property,” says engineering VP Dodge. “The problem for now is there’s not a lot of mid-range horsepower units on the market because there’s lots of demand for power.”

OmniTRAX also has put in place a five-year infrastructure improvement plan. Senior managers expect to apply for a multi-million-dollar Railroad Rehabilitation and Improvement Financing (RRIF) loan from the Federal Railroad

Administration to help fund system-wide trackwork as well as refinance



OmniTRAX's 700-acre, rail-served industrial park in Windsor, Colo., is a litmus test to determine if the company should develop other parks. So far, OmniTRAX has attracted a beer-bottle maker and an ethanol plant to the 10-lot development.

debt. OmniTRAX plans to replace rail (especially on curves), and install ties and ballast on a number of lines to upgrade the track to accommodate 286,000-pound rail cars.

"About 40 percent of our U.S. system is 286k-ready and we want to get to 80 percent," says Dodge. "Not all of our lines will need to be at 286k."

While driving around the Great Western Railway's yard and pointing out crews replacing wood ties, VP of Operations-Western Region Carl Hollowell said 60 of the short line's 80 track miles are 286k-ready. The railroad is in the second year of a major two-year tie replacement program under which Great Western will replace about 7,000 wood ties by year end, says Hollowell.

If the short line needs additional trackwork, Hollowell will make the call. Each short-line manager handles day-to-day duties and is responsible for profit and loss.

"I like having P&L responsibility because I can make a decision and pull the trigger on it," says Hollowell.

FAST ON THE DRAW

Senior managers' ability to be quick on their feet is a main reason OmniTRAX has remained a private company. There's little — if any — chance the company will go public, senior managers say.

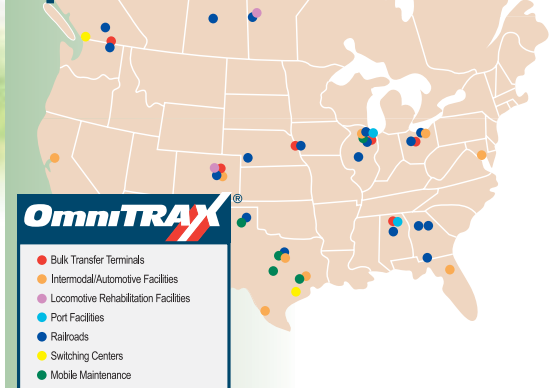
"We can make quick decisions on opportunities," says Ogborn. "We're well capitalized and focused on pursuing growth."

For Parker, the challenges facing OmniTRAX's expansion plans differ daily, given the company's diverse businesses. But there's a common hurdle facing the firm's railroads: finding ways to convince shippers that short lines are an attractive business partner that can offer Class I-like industrial development and value-added services.

Based on the company's sound management, attractive assets, real estate acumen and aggressive business goals, OmniTRAX has a good chance to do just that, Parker believes.

"We're not the mom-and-pop operations of the past," he says. "Short lines are a vital, mature and growing business now." **PR**

North American Operations



RAILROADS

- Alabama & Tennessee River Railway, Gadsden, Ala.
- Alliance Terminal Railway, Alliance, Texas
- Carlton Trail Railway, Prince Albert, Saskatchewan
- Chicago Rail Link, Chicago
- Fulton County Railway, Atlanta
- Georgia & Florida Railway, Albany, Ga.
- Georgia Woodlands Railroad, Washington, Ga.
- Great Western Railway of Colorado, Loveland, Colo.
- Great Western Railway of Iowa, Council Bluffs, Iowa
- Hudson Bay Railway, The Pas, Manitoba
- Illinois Railway, Ottawa, Ill.
- Kettle Falls International Railway, Kettle Falls, Wash.
- Manufacturers' Junction Railway, Cicero, Ill.
- Nebraska, Kansas & Colorado Railway, Grant, Neb.
- Newburgh & South Shore Railroad, Cleveland
- Northern Ohio & Western Railway, Tiffin, Ohio
- Okanagan Valley Railway, Vernon, British Columbia
- Panhandle Northern Railroad, Borger, Texas

SWITCHING CENTERS

- OmniTRAX Switching Services: Bay City and Deer Park, Texas, and Midland, Mich.
- TransCanada Switching Co.: Delta, British Columbia

BULK TRANSFER TERMINALS

- Cascade, British Columbia; Chicago; Churchill, Manitoba; Council Bluffs, Iowa; Guntersville, Ala.; Loveland, Colo.; and Tiffin, Ohio

LOCOMOTIVE REHABILITATION FACILITIES

- Loveland, Colo.

INTERMODAL/AUTOMOTIVE FACILITIES

- Quality Terminal Services: Alliance, Houston and Laredo, Texas; Chicago and Cicero, Ill.; Cleveland; Denver; Oakland, Calif.; and Orlando, Fla.

PORT FACILITIES

- Port of Churchill, Churchill, Manitoba
- Illinois International Port, Chicago
- Kinder Morgan, Guntersville, Ala.

MOBILE MAINTENANCE FACILITIES

- Alliance, Amarillo, Houston and Temple, Texas; and Joliet, Ill.

Source: OmniTRAX Inc.