A Rail Industry Perspective From the Heartland

TEGMA Conference

January 29, 2010

Watco Companies

A Customer First Company

- **Improve Customer Satisfaction**
  - ✓ *Right Service*
  - ✓ *Right Time*
  - ✓ *In the Right Condition*
  - ✓ *At the Right Price*
- **Improve Profitability**
  - ✓ *Revenue Growth Rate*
  - ✓ *EBITDA Growth*
  - ✓ *Return on Assets > WACC%*
  - ✓ *Free Cash Flows*
  - ✓ *Economic Value Add (EVA)*
- **Do Both Over the Long-Term**
  - ✓ *Building Relationships with:*
  - ✓ *Customers*
  - ✓ *Watco Team*
  - ✓ *Communities*
  - ✓ *Vendors*
  - ✓ *Investors*

Watco's Service Diversity

Services

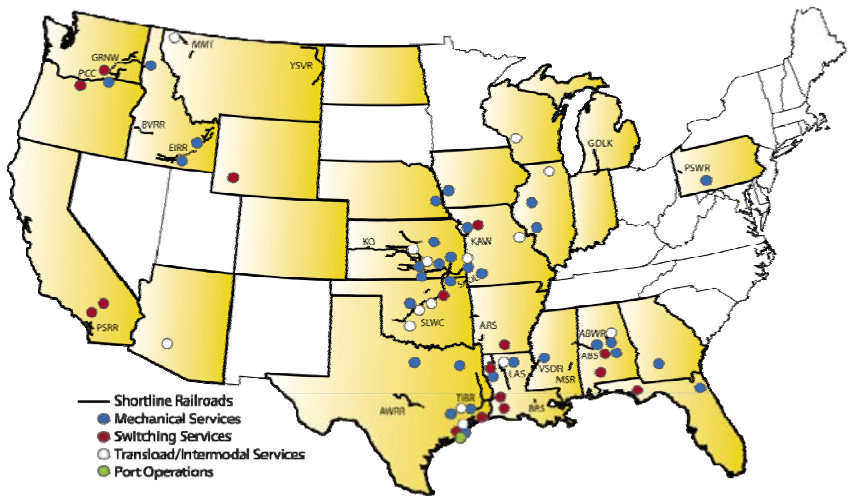
Transportation (50% revenue)	Mechanical (44% revenue)	Transload / Intermodal (6% revenue)
22 Short Line Railroad Operations – 45% - 322 Locomotives - 3,667 Track Miles - 2,503 Railcars 21 Switching Operations – 5%	14 Rail Car Repair Facilities – 41% 19 Mobile Car Repair Operations – 2% Fleet Management – 1%	12 Transload Operations – 4% 1 Intermodal Operations – 1% 7 Warehousing Operations – 1%

Watco's Customer Diversity

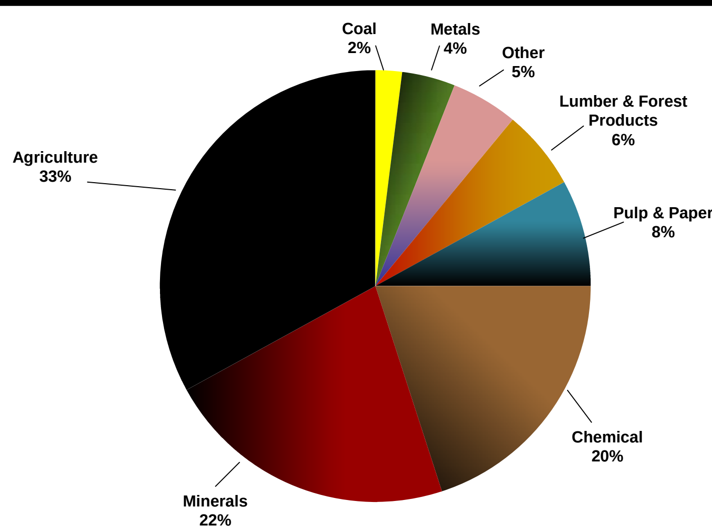
- **Proudly serving more than 1,000 Customers Daily**
- **Average Length of Customer Relationship**

Switching	22 years
Mechanical	20 years
Railroad	15 years
Transload/Intermodal	2 years

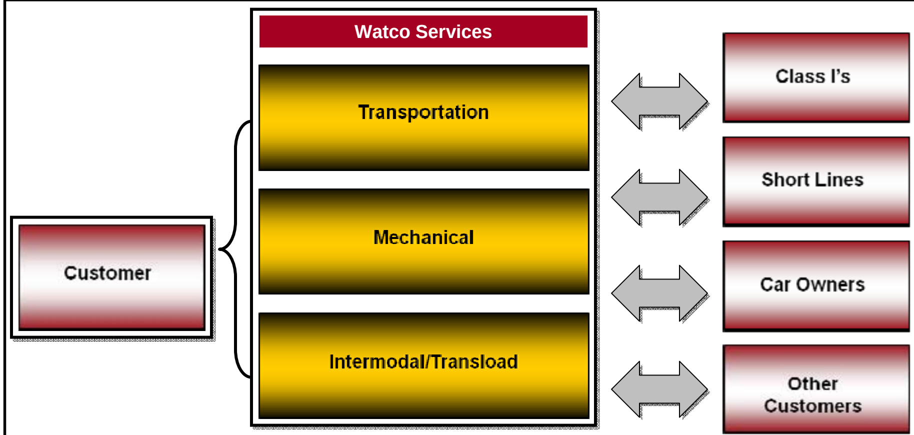
Watco's Geographic Diversity



Watco's Commodity Diversity

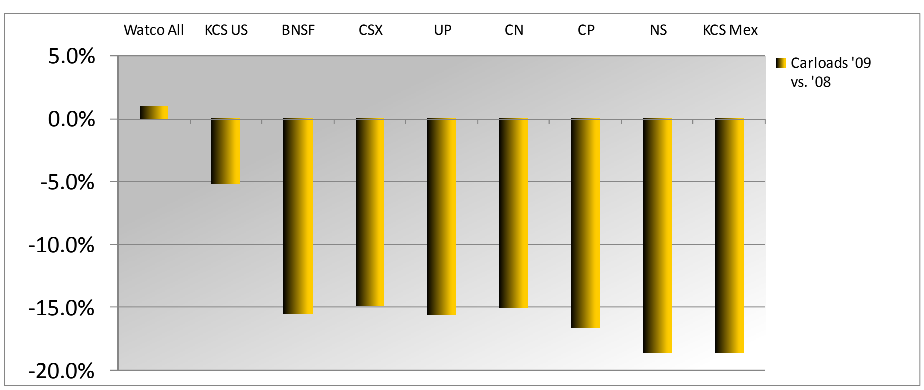


Watco's Business Model



Watco's goal is to improve profitability and Customer satisfaction over the long-term by providing services that satisfy Customer needs

Watco's Volume Growth



Watco's Operating Performance 2009

Revenue	**Improvement**
Consolidated	*↓ 6% YTD*
Railroad	*↑ 4%*
Carloads	*↑ 1%*
Mechanical	*↓ 15%*
Cars	*↑ 21%*
Switching	*↑ 15%*
WTIS	*↓ 35%*

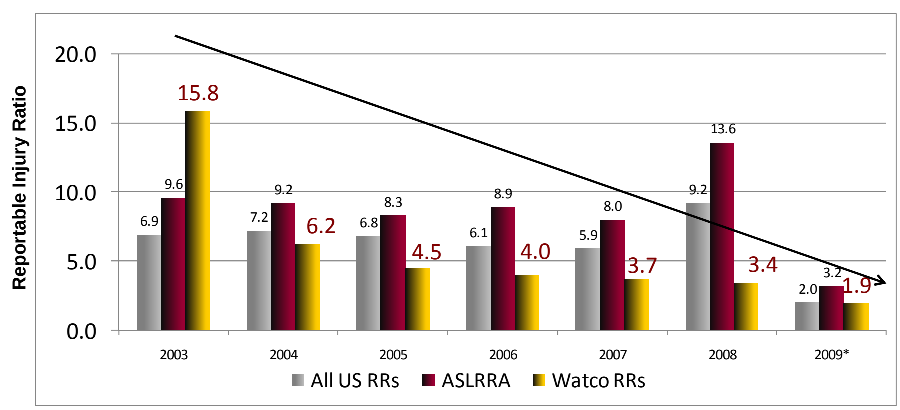
Solid Improvement in Service to Customers

	2009	**2008**	**Improvement**
On-Time Delivery	*93%*	*88%*	*6%*
Average Days On Line	*2.22*	*3.18*	*30%*
Shop Cycle Times	*48.6*	*59.2*	*18%*

Outstanding Improvement in Safety

	2009	2008	Improvement
Company RPI	*2.61*	*4.69*	*44%*
Railroad	*1.89*	*3.37*	*44%*
Mechanical	*3.98*	*6.98*	*43%*
Switching	*1.93*	*1.37*	*-41%*
WTIS	*6.93*	*4.40*	*-58%*

Watco's Safety Commitment



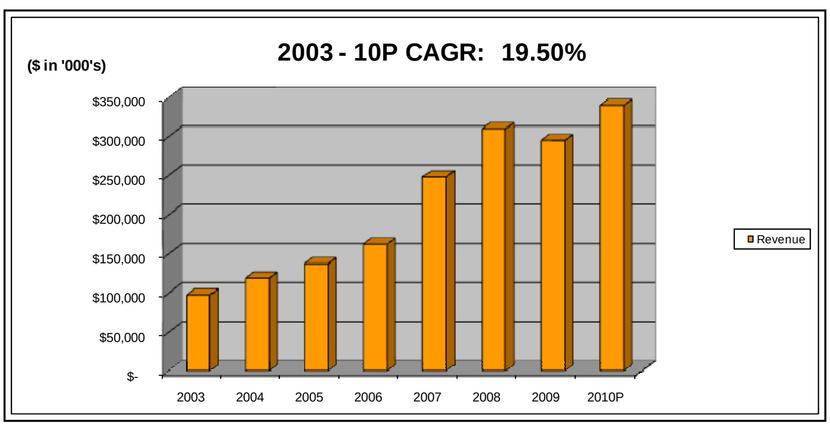
Initiated a commitment to safety improvement in 2003 – now operating significantly below industry averages

***2009 data as of 01-26-10, ASLRRA data as of October '09**

Watco's Profitability (EBITDAR) 2009

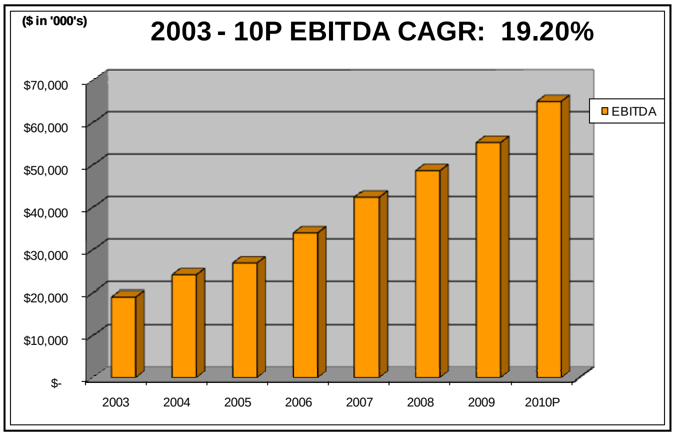
	2009	2008	Improvement
Consolidated	*18.5%*	*15.8%*	*17%*
Railroad	*39.8%*	*30.9%*	*29%*
Mechanical	*10.7%*	*15.3%*	*-30%*
Switching	*27.1%*	*19.5%*	*39%*
WTIS	*32.2%*	*17.5%*	*84%*

Watco's Revenue Growth



Note: Reflects annualized Revenue for partial year and projected acquisitions

Watco's EBITDA Growth



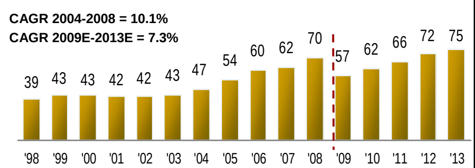
Note: Reflects annualized EBITDA for partial year and projected acquisitions

Rail Industry Overview

Favorable Long Term Trends Despite Softness in Current Economy

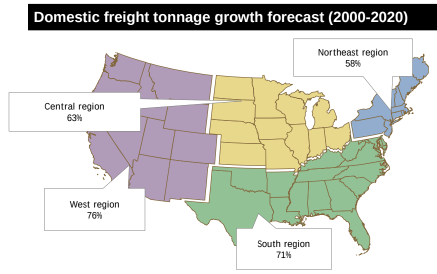
- **Pricing**
  - Pricing trends in 2009 remain favorable at ~5%
  - Key pricing issue will be 2010 negotiations – expect significant pressure from shippers
- **Long-term demand outlook**
  - D.O.T projects 92% increase in demand for freight by 2035
  - Higher oil prices and projected highway congestion support growth in rail

Railroad freight revenue trends ($bn)



Source: Equity research, Company filings, FactSet

Domestic freight tonnage growth forecast (2000-2020)



Source: Association of American Railroads "The Nations Freight Rail Challenge"; Department of Transportation, National Transportation Statistics

Mechanical Industry Overview

Favorable Industry Trends Over the Last 5 Years

Several industry dynamics have translated into increasing freight car repair and maintenance services over the last 5 years.

- Industry regulation is increasing, driving improvements in the safety profile of the freight car fleet.
- Most fleet trends point to increased usage for the existing freight car fleet.
- Outsourcing is expected to continue to increase.
- Private car ownership is expected to continue to rise.
- Repair and maintenance capacity has declined over the last 5 years

Favorable Industry Dynamics

Trend	→	Impact to Industry
Increase in Regulation	→	Car Owners have more required repairs.
Increased Average Age of Freight Car	→	Components deteriorate with age.
Increased Turns per Year	→	Components deteriorate with increased usage.
Increased Length of Haul	→	Components deteriorate with increased usage.
Increased Outsourcing	→	Market for third-party providers continues to grow.
Increased Private Car Ownership	→	More repairs since railroads do not bear the cost burden of repairs. More outsourcing since private car owners lack repair infrastructure.
Decrease in Number of Independent Repair Locations	→	Opportunity for growth for large national players.

Transload Industry Overview

Watco is leading the way in Rail Transloading

Transload and Warehouse Markets

1. **Market is very fragmented and yet to be fully defined or developed since inception in the early 1980's.**
2. **Markets have evolved with many rail companies providing 3 PL services**
3. **More than $ 800 million in rail freight to transloads and warehouses on an annual basis.**
4. **Strong markets for Bulk products including Crude oil, Frac Sand, and Plastics**
5. **Transloading by rail is a growing market: One Class I estimates 1 of every 4 Industrial Products carloads will be handled through a transload by 2013.**

Source: Class I presentations

Watco Advantage

- ✓ Ability to design, build and operate multi commodity transloads to fit the needs of many customers
  - Majority of competitors are small, "mom and pop" operators (1 facility) with very little capital and no sales force
  - Class I's looking to utilize higher capacity facilities on lines, creating opportunities for Watco to capture more of the market
- ✓ Watco owns and operates facilities in a wide array of commodities: Liquid Bulk, Dry Bulk, Non Ferrous materials, Steel, and all building products
  - Watco is the only Shortline Regional company to own and operate a large transload network in the US
- ✓ Many customers are increasingly consolidating inventories with one warehouse or transload – positioning Watco to continue to ***Increase Market Share by solving problems.***
- ✓ Industry is well positioned for additional acquisitions

Watco is well positioned to continue to expand its Transload Services with all Major Class I's and Customers looking to save time & money

EOG Crude by Rail

The "Big 5" Issues from a DC Perspective

- Effect of Positive Train Control
  - Working to insure Short Line Exemptions are satisfactory
- Hours of Service Changes
  - 435 Short Lines have petitioned for waiver/exemption
- New Regulatory Changes
  - Bottleneck, Terminal Access & Paper Barrier issues
- Anti-trust Legislation
  - Potential for long term legal battles instead of focusing on growth
- Short Line Tax Credit Extension
  - Good Bi-Partisan support – working hard to extend

The Challenge of S. 2889

- Modifies the policies underlying the statute
- Changes that benefit Customers:
  - Greater emphasis on protection of captive shippers
  - Fair and expeditious regulatory decisions and reasonable regulatory processes
- Changes that benefit Railroads:
  - Railroads must earn adequate revenue to maintain “and expand” rail infrastructure, equipment, etc.
- Explicit requirement to “balance” these sometimes conflicting statutory policies

STB Actions Required under S. 2889

- STB must conclude a study or regulatory changes on:
- Replacement Costs: Within 2 years, review the feasibility of using replacement costs in proceedings where they may be relevant
- Rail Practices: including switching, surcharges, demurrage, accessorial charges with no deadline for completion
- Rail Car Interchange: Within 2 years, review rail car interchange practices, including AAR car service, interchange, and operating rules
- Class Exemptions: Within 2 years, review all class exemptions and establish process for periodic review
- Uniform Rail Costing System: Within 3 years, update, revise or replace

STB Studies Required under S. 2889

- STB must conclude a study or regulatory changes on:

- Bottleneck/Competitive Switching Rates: Within 1 year establish a simplified & expedited process to determine reasonable rates
- Terminal Access: Within 1 year establish a simplified & expedited process to determine whether compensation to host RR is reasonable
- Paper Barrier: Process to review existing & future Paper Barriers must be established, along with potential ways to buy out Paper Barriers
- Arbitration: Within 1 year develop arbitration rules for disputes over rates, practices and common carrier service expectations with relief capped at $250,000 over 2 years

Next Steps & Process for STB Re-Authorization Bill

- Possible melding of antitrust and reform bill
- Other minor revisions, if any
- Consideration and vote by the full Senate
- Introduction of the same or an alternative bill in the House of Representatives (HR)
- Consideration and vote on HR bill by the Transportation and Infrastructure Committee
- Vote by the full HR
- Conference among the Senate and HR to resolve any differences between the bills; vote on amended bill by full Senate and HR
- Approval of the final bill by the President

Railroad Industry 2010 Priorities

1. Put the needs of our Customers First
   – Always remember everything begins & ends with our Customers
2. Responsible & Balanced Regulatory & Policy Changes
   – STB Re-Authorization
   – Renewal of Short Line Tax Credit
   – Assistance with paying for the PTC un-funded mandate
3. Grow Car Load volume that leads to value for both Customers and Railroads
4. Continued investment in rail infrastructure to insure Railroad's ability to serve our Customers is satisfactory for Today and positioned for success into the future

Question & Answers

- ***Questions & Answers***