A discussion with the Sand House Gang of the Transportation Center

David Rohal
RailAmerica and Florida East Coast Railway
August 12, 2008
Agenda

- Background on RailAmerica and FEC
- Stories
  - Florida East Coast Railway (FEC)
    - Derived demand drives business
  - Central Oregon & Pacific RR (CORP)
    - Politics are a part of it
  - Kyle Railroad (KYLE)
    - Management makes a difference
- Trends in American Railroading
  - Investment in railroads
  - Demand for commodities
  - Strong pricing environment
  - Fuel story
  - Railroading is “in”
Short Lines are an important part of the rail industry structure

<table>
<thead>
<tr>
<th>Category</th>
<th>#</th>
<th>Miles Operated *</th>
<th>Revenue (Billions)</th>
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<tr>
<td>Class 1</td>
<td>7</td>
<td>94,801</td>
<td>$50.3</td>
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<tr>
<td>Regional</td>
<td>33</td>
<td>16,713</td>
<td>$1.7</td>
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<tr>
<td>Short line</td>
<td>519</td>
<td>28,415</td>
<td>$2.0</td>
</tr>
</tbody>
</table>

* Excludes Trackage Rights

By revenue, the 42 railroads of RailAmerica/FEC make up nearly 25% of short line and regional railroad business.

Source: AAR

Background

RailAmerica and FEC
RailAmerica Corporate History

• September 1986 - RA formed with the purchase of the 83-mile Huron and Eastern Railway Co., Inc., short line railroad in Michigan.

• November 1992 - RA public offering declared effective and trading begins on NASDAQ; RA owns two short line railroads in Michigan – Huron and Eastern Railway Co., Inc., and Saginaw Valley Railway Company, Inc. with approximately 183 miles of rail line.

• September 1996 – Burlington Northern Santa Fe sells 131 miles of central Washington rail line to RA subsidiary, Cascade and Columbia River Railroad Company

• October 1996 – RA acquires the Otter Tail Valley Railroad, a 72-mile railroad based in Fergus Falls, Minnesota; RA completes $4.5 million common stock private placement.

• July 1999 – RAIL completes acquisition of RailLink Ltd., a 2,500 mile Canadian-based railroad system consisting of 11 short line railroads, for $70 million.

• September 1999 - RAIL acquires the 369-mile, Illinois-based Toledo, Peoria & Western railroad.

• February 2000 – RAIL acquires RailTex, Inc., a leading short line railroad company that owns 25 railroads operating over 4,100 miles in North America, Eastern Canada and Mexico, for approximately $325 million.

• December 2001 - Park Sierra Acquisition

• January 2002 – States Rail Acquisition

• May 2003 – Alabama & Gulf Coast Railway – Mobile Line Acquisition

• January 2004- Huron & Eastern Railway – Central Michigan Acquisition

• July 2004 – Chicago Fort Wayne Acquisition

• August 2004 – Disposition of Freight Australia

• October 2004 – Midlands Subdivision Acquisition
RailAmerica Corporate History

- September 2005 – Mid-Michigan Freemont Branch Acquisition
- September 2005 – Alcoa Acquisition of four Lines – PCN, BXN, RSS & MSTR
- February 2007 – RailAmerica was acquired by Merger transaction with a subsidiary of Fortress Investment Group

RailAmerica/FEC Corporate History

- RailAmerica
  - Publicly traded consolidator of short line railroads
  - Acquired by Fortress Investment Group in February 2007 for approximately $1.1 billion and taken private
- Florida East Coast Industries
  - Publicly traded holding company consisting of Florida East Coast Railway (rail transportation) and Flagler Development Group (real estate)
  - Acquired by Fortress Investment Group in July 2007 for approximately $3.5 billion and taken private
  - The real estate company and the railroad were separated on 12/31/2007
- Fortress Investment Group (FIG: NYSE)
  - Leading Global Asset Manager with approximately $33.2 billion under management (fee paying). Fortress manages private equity funds, hedge funds, and publicly traded alternative investment vehicles
RailAmerica groups its 41 north American railroads into five regions.

Northeast Region

<table>
<thead>
<tr>
<th>Northeast (7)</th>
<th>Abbreviation</th>
<th>Name</th>
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<tbody>
<tr>
<td>CBNS</td>
<td>Cape Breton Central Nova Scotia Railway</td>
<td></td>
</tr>
<tr>
<td>CSOR</td>
<td>Connecticut Southern Railroad</td>
<td></td>
</tr>
<tr>
<td>GEXR</td>
<td>Goderich-Exeter Railway</td>
<td></td>
</tr>
<tr>
<td>MSTR</td>
<td>Massena Terminal Railroad</td>
<td></td>
</tr>
<tr>
<td>NECR</td>
<td>New England Central Railroad</td>
<td></td>
</tr>
<tr>
<td>OVRR</td>
<td>Ottawa Valley Railway</td>
<td></td>
</tr>
<tr>
<td>SORR</td>
<td>Southern Ontario Railway</td>
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### Southeast Region

<table>
<thead>
<tr>
<th>Southeast (8)</th>
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<tr>
<td><strong>Abbreviation</strong></td>
<td><strong>Name</strong></td>
</tr>
<tr>
<td>AGRR</td>
<td>Alabama &amp; Gulf Coast Railroad</td>
</tr>
<tr>
<td>CARR</td>
<td>Chesapeake &amp; Albermarle Railroad</td>
</tr>
<tr>
<td>CPDR</td>
<td>Carolina Piedmont Railroad</td>
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<tr>
<td>EARY</td>
<td>Eastern Alabama Railway</td>
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<tr>
<td>ISRR</td>
<td>Indiana Southern Railroad</td>
</tr>
<tr>
<td>NCVA</td>
<td>Consolidated Virginia Railroads</td>
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<tr>
<td>SCRF</td>
<td>South Carolina Central Railroad</td>
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<tr>
<td>VSRR</td>
<td>Virginia Southern Railroad</td>
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### Central Region

<table>
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<tr>
<td><strong>Abbreviation</strong></td>
<td><strong>Name</strong></td>
</tr>
<tr>
<td>BXR</td>
<td>Bauxite &amp; Northern Railway</td>
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<tr>
<td>DGNO</td>
<td>Dallas Garland &amp; Northeastern Railroad</td>
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<tr>
<td>KRR</td>
<td>Kiamichi Railroad</td>
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<tr>
<td>KYLE</td>
<td>Kyle Railroad Company</td>
</tr>
<tr>
<td>MNAR</td>
<td>Missouri &amp; Northern Arkansas Railroad</td>
</tr>
<tr>
<td>OTVR</td>
<td>Otter Tail Valley Railroad</td>
</tr>
<tr>
<td>PCNR</td>
<td>Point Comfort &amp; Northern Railway</td>
</tr>
<tr>
<td>RSSR</td>
<td>Rockdale, Sandow &amp; Southern Railroad</td>
</tr>
<tr>
<td>TNER</td>
<td>Texas Northeastern Railroad</td>
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## Midwest Region

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</tr>
<tr>
<td>GR</td>
<td>Grand Rapids Eastern Railroad</td>
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<tr>
<td>HESR</td>
<td>Huron Eastern Railway Saginaw Valley</td>
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<tr>
<td>IORY (OHIO)</td>
<td>Indiana &amp; Ohio Railway</td>
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<tr>
<td>CERA</td>
<td>Central Railroad of Indianapolis</td>
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<tr>
<td>CFER</td>
<td>Chicago, Ft. Wayne &amp; Eastern Railroad</td>
</tr>
<tr>
<td>CIND</td>
<td>Central Railroad of Indiana</td>
</tr>
<tr>
<td>MMRR</td>
<td>Mid-Michigan Railroad</td>
</tr>
<tr>
<td>MSR</td>
<td>Michigan Shore Railroad</td>
</tr>
<tr>
<td>TPWR</td>
<td>Toledo, Peoria &amp; Western Railway</td>
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## West Region

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<th>West (8)</th>
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<tr>
<td><strong>Abbreviation</strong></td>
<td><strong>Name</strong></td>
</tr>
<tr>
<td>ARZC</td>
<td>Arizona &amp; California Railroad</td>
</tr>
<tr>
<td>CFNR</td>
<td>California Northern Railroad</td>
</tr>
<tr>
<td>CORP</td>
<td>Central Oregon &amp; Pacific Railroad, Inc.</td>
</tr>
<tr>
<td>CSCD</td>
<td>Cascade &amp; Columbia River Railroad</td>
</tr>
<tr>
<td>PSAP</td>
<td>Puget Sound &amp; Pacific Railroad</td>
</tr>
<tr>
<td>SDIV (SDIV)</td>
<td>San Diego Valley Railroad</td>
</tr>
<tr>
<td>SJVR</td>
<td>San Joaquin Valley Railroad</td>
</tr>
<tr>
<td>VCRR</td>
<td>Ventura County Railroad Co. Inc.</td>
</tr>
</tbody>
</table>
Top Ten RailAmerica Commodity Groups 2007

![Pie chart showing top ten commodity groups as a percent of revenue.]

RailAmerica Traffic by Interchange Carrier 2007

![Pie chart showing rail traffic by interchange carrier.]

Local RA Traffic: 5.0%
CPR: 5.4%
CSXT: 10.1%
CN: 13.3%
BNSF: 11.6%
NS: 5.3%
UP: 20.0%
Other Railroads: 12.3%

Total: 100.0%
Florida East Coast Railway
Overview

- Class II carrier
- Headquartered in Jacksonville
- 665 employees
  - 206 management, 459 union
- Sister company of RailAmerica
FEC History

• Built by Henry Flagler in late 1800’s
  – Needed rail to get people to his South Florida hotels

• Not a product of mergers or spin-offs

• Extension to Key West in 1912 through 1935
  – “The railroad that crossed the ocean”
  – “The 8th wonder of the world”

• Went into receivership from 1932 to 1958
  – St. Joe Paper/Dupont Trust took majority ownership

FEC History

• Well known strike from 1963 through mid 70’s
  – Non-union railroad afterwards

• Created real estate company in the 80’s

• St. Joe fully spun off in 2000

• Acquired by Fortress in 2007
FEC Stats

• 351 mile corridor, Jacksonville to Miami
  – 790 track miles
• Class 4 rail structure
  – Track speed is 60 MPH over 2/3 of mainline
• 22 powered sidings on mainline
  – Plus 12 miles of double track built in 2006
• 100% concrete crossties on mainline
• > 95% ATC on mainline
  – Digicon dispatching system

FEC Stats

• 79 Locomotives
  – 11 GP 38’s
  – 42 GP 40’s
  – 22 SD 40-2’s
  – 4 SD 70M-2’s (4 more on order)

• 75 Bridges
  – 4 draw bridges

• Fully 286K capable
FEC Stats

• Fleet of + / - 1400 hoppers for aggregate service

• Conventional and well IM cars

• + / - 1200 trailers, containers and flatbeds for IM service

• 691 grade crossings
  – Highest percentage per mile of track in US
  – All public mainline crossings have lights, bells and gates

FEC Stats

• 3 unions representing 9 crafts

• Interchange with CSXT and NS in Jacksonville

• Sole rail provider to all South Florida ports
  – Port of Palm Beach
  – Port Everglades
  – Port of Miami

• Access to >6 million South Florida population

• ISS Settlement Carrier
FEC Facilities

- 4 IM Terminals
  - Jacksonville, Ft. Pierce, Ft. Lauderdale and Miami

- 12 Transload/Warehousing locations
  - Includes an NS TBT in Miami
  - Focus on Cocoa/Orlando, Ft. Pierce and South Florida markets

FEC Facilities

- 3 Locomotive Shops
  - 2 fueling and light repair in Jacksonville and Miami
  - Heavy repair in New Smyrna Beach
    - Overhead cranes
    - Rebuilds
    - Load testing
    - Scheduled maintenance
FEC Operations

- 100% scheduled operation, including locals
- 22 through trains daily
  - 11 intermodal trains
  - 1 aggregate unit train
  - Other aggregate and manifest trains
- Average system train speed > 33 mph
  - IM trains +/− 38 mph

FECR Traffic Base by Commodity
Major Customers - Carload

- Rinker Materials/Cemex
- Titan America/Tarmac
- Tropicana
- Miller
- Ford
- Chrysler
- Honda

Major Customers - Intermodal

- United Parcel Service
- Crowley Maritime
- US Gypsum
- Tropical Shipping
- Wal-Mart
- APL/Pacer Stack Train
- US Xpress/Arnold Transportation
FEC Items of Interest

- FEC Firsts
  - 2 man crews
  - Extended crew districts
  - EOT devices
  - UTU agreement on remote controlled operations

Bowden Yard
FECR Mainline Double-Track
St. Augustine

WYE Bridge - Hialeah
The Six Core Values of RA/FEC

- Integrity
  We speak and act with truth and honesty.
- Respect
  We treat others as we wish to be treated.
- Fact-Based
  We make recommendations and decisions based upon objective evidence.
- Heads I the Game
  We continuously seek to improve, and we remain focused on our challenges.
- Hands On
  We actively strive for results in our areas of responsibility, and we help one another for the success of the team. We are all expected to contribute to performance improvement.
- Demanding Partner
  Our standards are high. We expect from others what we expect from ourselves, and we collaborate to achieve the best results for all.
We want excellence in five fundamental areas

- Safety – Return every employee home at the end of the day in the same physical condition as when they went to work.
- Service – Deliver consistent and dependable service.
- Economics – Provide a competitive price and manage expenses to improve the value of the owner’s investment.
- People – The most important asset of the enterprise, valued and acknowledged for achievements. Strive to improve.
- Fun – Work hard and enjoy what you do each and every day.
Combined Business Overview
A Strong Diversified Portfolio of Railroads and Revenue Sources

- The portfolio consists of 42 individual freight rail companies located in 26 states and three Canadian provinces.
  - Sizes range from 13 miles in total length to 604 miles.

Well Diversified Revenue Mix (2007 Carloads by Commodity)

FEC intermodal business has grown modestly each year.
FEC aggregate loadings follow Florida housing starts and have dropped by 50% from 2006 peak.

Fuel Price Per Gallon Trend
Current Stories

KYLE
## Monthly P&L reviews focus on results

### Central Region

Month Ending 06/30/08

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<tr>
<td>Revenue</td>
<td>738,024</td>
<td>818,148</td>
<td>-10.0%</td>
<td>3,965,472</td>
<td>4,697,788</td>
<td>-16.0%</td>
<td>790,234</td>
<td>1,057,166</td>
<td>-24.8%</td>
<td>-21.7%</td>
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<td>Payroll</td>
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<td></td>
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<tr>
<td>Monthly</td>
<td>32,916</td>
<td>33,176</td>
<td>-0.8%</td>
<td>808,169</td>
<td>831,942</td>
<td>-3.2%</td>
<td>33,176</td>
<td>35,024</td>
<td>-5.4%</td>
<td>-7.2%</td>
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<tr>
<td>Year-to-Date</td>
<td>101,576</td>
<td>104,485</td>
<td>-2.8%</td>
<td>1,913,901</td>
<td>2,020,221</td>
<td>-5.3%</td>
<td>113,648</td>
<td>126,584</td>
<td>-10.6%</td>
<td>-11.7%</td>
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<tr>
<td>Franchise Commissions</td>
<td>20,368</td>
<td>20,403</td>
<td>-0.2%</td>
<td>88,624</td>
<td>105,847</td>
<td>-16.4%</td>
<td>20,403</td>
<td>24,509</td>
<td>-16.8%</td>
<td>-16.7%</td>
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<td>Rent</td>
<td>5,339</td>
<td>6,134</td>
<td>-12.9%</td>
<td>36,224</td>
<td>46,691</td>
<td>-22.6%</td>
<td>6,134</td>
<td>7,134</td>
<td>-14.0%</td>
<td>-15.9%</td>
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<td>Supplies</td>
<td>1,143</td>
<td>1,549</td>
<td>-26.4%</td>
<td>3,625</td>
<td>12,755</td>
<td>-71.0%</td>
<td>1,549</td>
<td>2,008</td>
<td>-22.5%</td>
<td>-31.9%</td>
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<tr>
<td>Utilities</td>
<td>1,071</td>
<td>912</td>
<td>17.8%</td>
<td>3,350</td>
<td>2,517</td>
<td>33.4%</td>
<td>912</td>
<td>974</td>
<td>6.4%</td>
<td>31.5%</td>
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<td>Travel</td>
<td>599</td>
<td>676</td>
<td>-11.6%</td>
<td>3,350</td>
<td>3,850</td>
<td>-13.0%</td>
<td>676</td>
<td>912</td>
<td>-27.9%</td>
<td>-31.8%</td>
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<tr>
<td>Other</td>
<td>371</td>
<td>421</td>
<td>-11.8%</td>
<td>1,024</td>
<td>765</td>
<td>34.0%</td>
<td>421</td>
<td>524</td>
<td>-19.3%</td>
<td>-15.5%</td>
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<tr>
<td>Total Cost of Goods Sold</td>
<td>49,916</td>
<td>52,118</td>
<td>-4.6%</td>
<td>402,017</td>
<td>442,778</td>
<td>-9.1%</td>
<td>52,118</td>
<td>61,395</td>
<td>-17.6%</td>
<td>-20.3%</td>
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<tr>
<td>Gross Profit</td>
<td>71,871</td>
<td>71,784</td>
<td>0.1%</td>
<td>2,563,455</td>
<td>2,254,010</td>
<td>13.9%</td>
<td>67,872</td>
<td>83,631</td>
<td>-20.3%</td>
<td>-23.7%</td>
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<tr>
<td>Operating Expenses</td>
<td>101,576</td>
<td>104,485</td>
<td>-2.8%</td>
<td>2,789,624</td>
<td>2,991,733</td>
<td>-7.1%</td>
<td>113,648</td>
<td>126,584</td>
<td>-10.6%</td>
<td>-11.7%</td>
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<td>Interest Expense</td>
<td>1,319</td>
<td>2,370</td>
<td>-43.9%</td>
<td>6,977</td>
<td>10,602</td>
<td>-34.7%</td>
<td>2,370</td>
<td>3,208</td>
<td>-26.4%</td>
<td>-20.7%</td>
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<tr>
<td>Income Before Interest and Taxes</td>
<td>25,364</td>
<td>22,241</td>
<td>13.9%</td>
<td>1,817,030</td>
<td>1,688,593</td>
<td>7.4%</td>
<td>54,626</td>
<td>67,040</td>
<td>-19.9%</td>
<td>-22.4%</td>
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<td>Income Tax</td>
<td>1,442</td>
<td>1,350</td>
<td>6.9%</td>
<td>6,977</td>
<td>10,602</td>
<td>-34.7%</td>
<td>1,350</td>
<td>2,012</td>
<td>-33.0%</td>
<td>-20.7%</td>
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<tr>
<td>Net Income</td>
<td>23,922</td>
<td>20,891</td>
<td>14.6%</td>
<td>1,751,053</td>
<td>1,582,591</td>
<td>7.4%</td>
<td>53,276</td>
<td>45,028</td>
<td>18.4%</td>
<td>-18.3%</td>
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</table>

### Kyle June Statistics

#### June

- **Yearly Total**: 3,096,890
- **Average**: 266,407
- **Month**: 243,200
- **Year-to-Date**: 1,275,000
- **Year-end**: 1,777,000

#### Kyle June Sales

- **New Car Sales**: 122 units
- **Used Car Sales**: 35 units
- **Total Sales**: 157 units

#### Kyle June Financials

- **Revenue**: $1,150,000
- **Expenses**: $850,000
- **Profit**: $300,000

#### Kyle June Statistics by Category

- **Sales**
  - New Car Sales: 122
  - Used Car Sales: 35
  - Total Sales: 157

- **Finance**
  - New Car Finance: 86
  - Used Car Finance: 24
  - Total Finance: 110

- **Fleet**
  - New Car Fleet: 10
  - Used Car Fleet: 5
  - Total Fleet: 15

#### Kyle June Key Performance Indicators

- **Average Sales Price**: $7,418
- **Average Finance Rate**: 6.9%
Operating Free Cash Flow

What’s Driving Improved Performance?
Institutional Controls and Effective Cash Management

• Retooled management team & streamlined operating structure (GM’s & RVP’s)
• Centralized sales and marketing and tighter management controls regarding pricing, purchasing, capital spending
• Installed and staffed Regional VP concept with focus on operations and safety
• Opened up and raised transparency of decision making…fact based decisions
• Senior management frequently out on the properties and engaged
  – Class I issues
  – Focus on poor performing properties and problems
  – Rationalization of non-productive assets
  – Budget process…take it to the field
  – Introduced performance metrics and drilled on them monthly
• Institution of controls and effective cash management
  – Capital budgeting process
  – Approval authorities squeezed down
• Focus on revenue producing real estate (licenses and crossings)
Fortress’ Private Equity Investment Strategy

- Target asset-based businesses across the U.S. and Western Europe
- Use a long term investment horizon
- 55 Investments
- Focus on cash flowing businesses:
  - Attractive cash flow yields
  - Scalable businesses in large, capital intensive sectors
  - Attractive industry fundamentals
  - Create value by improving operations and capital structure; leveraging platform for growth

Fortress Investment Thesis and Approach

Thesis:
1) Favorable Macro Environment
2) Partner with good management teams

Approach:
1) People to manage assets
2) Cost of capital advantage
3) Institutionalize investment process
   \[ \text{Growth in cash flow and dividends} \]
Rail Renaissance

- Rails have been getting a lot of attention
  - Economic growth and constrained highway capacity have resulted in strong earnings power
  - Significant increases in fuel price

- Warren Buffet has taken notice
  - Berkshire Hathaway 12/31/07 Form 13F
    - $5.1 billion Burlington Northern Santa Fe (BNSF)
    - $559.4 million Union Pacific (UP)
    - $97.5 million Norfolk Southern (NS)

- Railroading is “IN”
New Paint Scheme