# RAILINC 2008

# ANNUAL REPORT

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**RAILINC**

Railinc's mission is to create valued solutions for rail industry problems using our people, technology systems and information databases.

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# A MESSAGE FROM THE PRESIDENT

**R**AILINC IS MAKING GREAT STRIDES towards a new vision for its future. In this future, Railinc is an innovation leader for information systems, and second-to-none in delivering customer responsiveness, quality and value. While this is a grand vision, this past year we took the first essential and most difficult steps toward its fulfillment.

For Railinc, the last 12 months brought the most significant changes in the company's history. These changes laid the foundation for our company's long-term success. And, despite the economic challenges confronting our industry and our national economy, these changes have created a growing sense of momentum within the company and increased support for Railinc's role in serving its rail partners.

For example, for the first time, Railinc reorganized its business department in April of this year. We changed the roles and responsibilities of our staff and brought many new faces into our organization, including some at the leadership level. Our new team has embraced the challenge of learning new roles and new ways of doing business. As a result, we have deepened our bench strength and given people opportunities to learn and develop customer and product specific expertise.

Railinc's service delivery team is building bridges with our customers, and is focused on providing world-class customer support. Our product management structure is now focused on bringing greater financial discipline to the development and management of Railinc products and applications. We followed up in October by realigning the information technology side of our business to provide support to Railinc's new business structure.

Our management team recognized that change of this magnitude brings about unique opportunities to strengthen our operations and improve how we serve our customers. We acted quickly to take advantage of this newly unleashed momentum to do just that.

Many of you said that Railinc needs to become smarter about the railroad industry. We responded in kind, focusing on improving our rail industry business acumen. Almost all of our staff—95 percent—is now certified in "railroad fundamentals." This coursework is designed to teach the economic and operational challenges faced by our customers every day. Many of our team also spent time this year in rail yards and at customer sites learning more about your business and our industry.

Other people asked if we could improve our product development process to accommodate your evolving business needs. We implemented the Agile development



❖ *E. Allen West : Railinc President & CEO* ❖

approach across several projects and incorporated that methodology as a core to Railinc's software development program. This approach allows for continuous feedback during development, immediate adaptation to your changing business requirements and greater visibility into the progress of a project.

And many of our partners suggested that we find ways to improve our overall operations and support for the rail industry. So we took on initiatives that updated and improved our message switching; that improved our disaster recovery capabilities; that communicated changes in Railinc prices before you entered your budget planning season, and that established a new industry project evaluation process that now emphasizes returning value to the rail industry. We also focused intensely on controlling our costs and on finding new ways to be effective. In turn, the company has passed along those savings directly to its customers.

In addition, Railinc's 2008 project portfolio is expected to return tens of millions of dollars in value to the industry. These returns will be delivered by improving rail car and locomotive utilization, lowering track maintenance expenditures, streamlining rail car and locomotive repair work, and delivering enhancements to rail industry network execution and revenue management.

We could add to this very brief list of accomplishments. While we are proud of our efforts, we recognize that Railinc has much work ahead in order to become the leader and innovator that we believe we can become. We keep that foremost in our minds as we look to next year and beyond.

Looking ahead, Railinc will continue to focus on creating significant value for our rail industry customers. We see three distinct paths for meeting that objective: through ongoing emphasis on operational excellence, by exceeding expectations regarding support of industry products, and by creating new tools that deliver business intelligence for better decision-making.

First, Railinc is intensely focused on improving our operations to the direct benefit of our customers. We will be implementing a release management process to improve product service quality and gain a more productive use of Railinc resources. We will improve product support through our new problem resolution process which will help us more effectively and efficiently resolve customer problems. Our financial team is focused on improving our accounts receivables process and systems, including offering electronic billing and payment. Of course, we will continue to look for and pursue initiatives that promote financial discipline and improvements in customer support.

Next, Railinc has seven major industry sponsored projects slated for 2009, and several internal projects that are expected to provide additional value to the freight railroad industry. Among them, Umler/EMIS represents the most far reaching technology change that the industry has experienced in many years. The project is on-track and on-time, hitting all its major milestones. However, it will take an industry-wide effort to ensure its successful implementation.

> Railinc is making great strides towards a new vision for its future. In this future, Railinc is an innovation leader for information systems, and second-to-none in delivering customer responsiveness, quality and value.

Other projects are slated to deliver value to the industry as well. These include enhancements to the Embargo system identified during the floods of 2008; improving car hire liability assignments, lowering costs for interline automotive co-loading and enabling expansion; and supporting the reduction of empty rail car miles by modernizing the capability to efficiently move surplus empty cars to the home railroad.

Lastly, Railinc is pursuing value creation efforts that focus on delivering business intelligence for better decision-making. Typically, Railinc projects and applications have

delivered productivity gains by helping railroads reduce administrative costs, improve maintenance, reduce unnecessary movements or improve service quality. We recognize that significant opportunities remain in providing railroads with business intelligence to help them make better decisions.

As we move into our tenth year, it's easy to understand why the changes this year were so important for Railinc. While our industry is more dynamic and more valuable today than ever before, the broader economic situation would not have permitted changes of this magnitude at any other time. We believe that we are now in position to play a more critical role in helping each rail industry participant improve its operations, serve its customers and achieve the success it desires.

We would be remiss if we did not acknowledge you—our customers and partners—for your contributions to our work in the past year. We depend on you for our livelihood. Thank you for your advice, candid feedback and ongoing support. We appreciate the roles your companies play in our North American economy and the roles you play within your own company. It is a privilege for us to serve you.

We have much yet to accomplish at Railinc and our plates are very full. However, I am confident we are up to the challenge. We will continue to do our best to create value for the industry and make every effort to communicate effectively with you along the way. We look forward to working with you in the days ahead.

Sincerely,

*E. Allen West*

**E. ALLEN WEST**
*President*

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# RAILINC PROJECTS RETURN MILLIONS IN VALUE TO RAIL INDUSTRY

**R**ailinc's 2008 project portfolio is expected to return tens of millions of dollars in value to the rail industry. Most projects will help our customers make decisions with higher quality information or improve productivity by modernizing long-standing rail processes. Other projects focused on maintaining and upgrading system infrastructure to make sure that systems and applications are ready and accessible when needed. Here is a brief review of Railinc's 2008 projects:

**REAL-TIME ASSET TRACKING** // Tracking devices hold promise for improving the detection of equipment health problems over current inspection and data capture processes. For equipment carrying hazardous materials, such devices may prove especially valuable in reducing the possibility of dangerous situations caused by equipment failure. This proof-of-concept project successfully developed an asset-tracking reference architecture and piloted hazmat telemetry tracking with several industry partners.

**EQUIPMENT HEALTH MANAGEMENT SYSTEM DATA SUMMARY** // The vision of EHMS is to provide useful data to rail carriers and car owners to gain maximum value from their equipment assets. This project focused on providing non-alert level equipment health information. This level of information can accelerate the pace of recognizing the financial benefits of preventive maintenance.

**CHICAGO TRANSPORTATION COORDINATION OFFICE GEO TOOL** // The Chicago gateway is the busiest rail interchange terminal in North America—and managing such high volume of traffic is no easy task. This pilot project provided CTCO traffic engineers with a geographic view of train locations and train specific information en route to the Chicago area. This information can help managers make better decisions that improve traffic flow, and more efficiently utilize available resources.

**LOCOMOTIVE REPAIR BILLING** // Locomotive Repair Billing (LRB) provides a centralized system to report repairs, invoice for work or reconcile and collect payment for work done on locomotives. Patterned after the Car Repair Billing system, the LRB simplifies and standardizes the repair billing process, reducing administrative costs and back office tasks.

**CAR HIRE DATA EXCHANGE THROUGH RCH** // Railroads exchange information to clarify payables and receivables, ensuring that each carrier gets paid when its equipment is used in moving interline freight. It is a critical administrative and back office task. This project simplified and standardized this process by enabling the exchange of car hire funds using the Railroad Clearinghouse application, which is already used by the Interline Settlement System.

**CIRCULAR OT-5** // Private freight car owners must apply for and receive authorization by a rail carrier prior to placing a car in service on a railroad. The redesigned Circular OT-5 system provides a user-friendly, centralized process for submitting and approving OT-5 applications. It also includes pre-authorization, which allows submitters to gain preliminary authorization for an OT-5 application.

**HAZMAT STCC RE-WRITE** // Reliable information about hazardous material shipments is critical for security personnel and first responders. This project created a web-based user interface for the Hazardous Materials Shipping Descriptions and Emergency Response Database. It includes the abilities to securely search, add and expire hazardous commodity and emergency response information. This work contributes to ongoing railroad safety and increases the productivity of personnel using the system.

**FINDUS.RAIL** // FindUs.Rail is a web-based, centralized database that allows users to find critical contacts throughout the rail industry. The centralized directory is intended to reduce the hours being spent by multiple departments at railroads, private car owners, and leasing companies to maintain the same contact information.

**STREAMLINE TANK CAR EQUALIZATION PROCESSING** // Tank Car Mileage Equalization is a system of accounting that tracks loaded and empty private tank car miles. This project automated the highly manual monthly and annual process, enabled electronic distribution of reports and improved storage of past reports.

**EMBARGO EDI 5050 UPGRADE** // This upgrade to the AAR Embargo and Permit application supports changes to waybills and associated EDI messages for railroad embargo management. These improvements ensure service reliability and help railroads realize the benefits associated with better asset utilization.

**FORWARD AND STORE 5050 UPGRADE** // The Forward and Store system facilitates the timely notification of forwarded traffic to carriers participating in an interline rail movement. This project upgrades the system to meet improved rail EDI guidelines. This will enable continuation of the benefits from electronic exchange of various types of rail operating data.

**RAILINC MESSAGE SWITCH** // The new Railinc Message Switch (RMS) is designed to efficiently use technology resources to transmit messages and simplify the troubleshooting of messaging problems. The RMS features a self-service tool that lets customers quickly retrieve information about message routing configurations and usage patterns, research messages sent and received through the Railinc network and look up information about trading partners, as needed. ❖
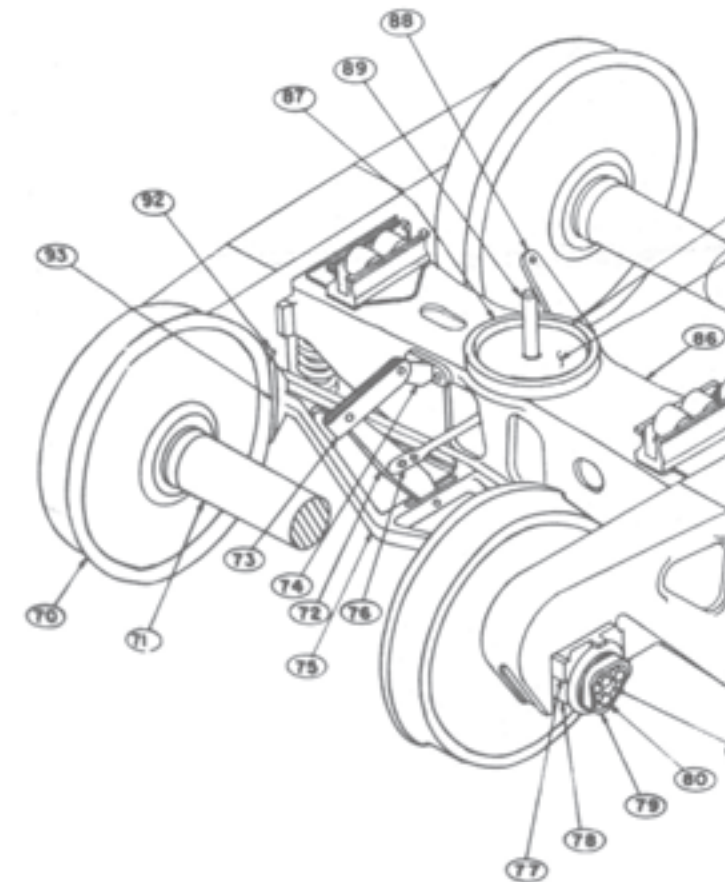
# 2008 COMPANY HIGHLIGHTS



## UMLER/EMIS ON TRACK, HEADING TOWARD IMPLEMENTATION

**T**HE UMLER EQUIPMENT MANAGEMENT INFORmation System (Umler/EMIS) project represents one of the most significant, far reaching technology changes in rail industry. The system is deeply embedded in rail industry operations and provides a wealth of information to rail carriers, equipment owners, and repair shops. For example, Umler data is critical to waybills, seamless interchange, automated routing, dimensional shipment clearance and car distribution, among other processes. The system contains more than 2.4 million records and is updated approximately 600,000 times each month.

The Umler/EMIS project is on track and on target for implementation beginning in July 2009. For the rail industry to realize the promise of the "new" Umler system, rail carriers and equipment owners will need to adapt to the changes in the system and align with the implementation plan. This includes making sure that existing transaction processing functions conform to new data formats, modifying interfaces to Railinc's centralized Umler system, and adapting business processes that rely on Umler data. The EMIS Technical Advisory Group has already distributed much information and documentation in pursuit of these endeavors.

With the guidance of the Association of American Railroad's Electronic Commerce Working Committee (ECWC), Railinc will take a leadership role in Umler/ EMIS communication and training. Training will ensure that customers are comfortable using the new Umler interface and can efficiently accomplish common and critical tasks. Training activities will employ highly effective web-based training technologies, including self-administered demonstration modules, webinars and "sandbox" tutorials to familiarize Umler users before launch of the system. Additional support will be provided through easy-to-access user guides and help menus. Railinc customer and product support teams will also be trained to assist customers using the new system.

For more information about the new Umler system, including training opportunities, please visit www.railinc.com/umler.

## RAILINC BUILDS RAIL EXPERTISE, FOCUSES ON RAILROAD FUNDAMENTALS

**W**ITH A KNOWLEDGEABLE AND WELLtrained staff, Railinc believes that it can create industry solutions that deliver a quick return on investment and tangible, long-term benefits for its customers. That's why the company has worked hard this year to build its rail industry business acumen. Railinc delivered on two key training strategies: bringing in the experts and taking staff to rail yards and customer sites.

Working with well-known transportation and logistics economist Noël Perry, Railinc developed a core training course called "Railroad Fundamentals" for all Railinc personnel. This course covers rail history and how it has influenced the operations of rail carriers today, the economics of the rail industry and the challenges railroads face in moving freight from one location to another. Coursework also included a review of Railinc applications and their role in conducting industry operations. Perry delivered three training sessions over the year. Ninety-five percent of Railinc staff has successfully completed the course. The Railroad Fundamentals class also has been adapted as an online learning course for new Railinc employees.

Railinc employees also got out of the office and traveled to rail yards and customer locations to get a hands-on perspective of the rail industry. During these visits, managers toured maintenance facilities, visited control towers and observed rail operations as they occurred in real time. Discussions with yardmasters, maintenance and other personnel provided additional insight into the daily tasks and challenges rail carriers face in moving freight from one place to another.

Railinc also piloted the development of online training modules for its most critical applications. The first module, Introduction to the Interline Settlement System, gives learners multiple levels of detail from overviews to detailed operational information to meet their specific training needs. This strategy ensures that specific application knowledge does not reside solely within a few individuals within the company. It also creates a more flexible work force as different people can service specific application or customer-related needs. Railinc plans to develop additional online training modules for critical applications in the future.

## RAILINC GEO-TOOL IS ONE AGILE MASH-UP

**T**HE CHICAGO TRANSPORTATION COORDINAtion Office (CTCO) faces one of the toughest challenges in all of transportation—managing rail traffic in and out of the busy Chicago Terminal. According to *Progressive Railroading*, the CTCO handles an average of 500 freight trains and 700 passenger trains a day and is in a city where six of the seven Class I railroads converge. Before this pilot project, Railinc was already providing traffic planners with daily information about inbound rail traffic. While this application was useful, it was inadequate for the task at hand. It did not provide enough information about rail traffic flow—where trains were at specific points in time, to help them make good traffic management decisions.

Railinc saw this as an opportunity to demonstrate the Agile software development process and develop its first "mash-up." The Agile process emphasizes close collaboration with users, encouraging face-to-face communication and early, frequent customer involvement. It also allows for frequent, staged releases of a product as it is developed. A mash-up is a web application that combines data from more than one source into a single integrated tool. This is typically a fast and easy integration that frequently involves access to open application programming interfaces (APIs).

So here's what happened. Railinc worked with Chicago planners to discuss their situation and identify their information needs. This resulted in a geographic user interface that let them follow the movement of trains toward Chicago. Using Railinc messages and Mapquest and National Weather Service APIs, Railinc was able to "mash-up" these unique data sources into a single, integrated and visually pleasing tool.

Now trains could be tracked by station in real time. In a simple, easy-to-use interface, planners can see stations on the map, check the local weather conditions at those locations, drill down to identify trains by owner and type, and download into a spreadsheet, if needed. This information can help planners in making better informed decisions that could improve traffic flow, and more efficiently utilize available resources.

Railinc will utilize the Agile development process for a majority of projects in 2009.

## RAILINC LAUNCHES UMLER EQUIPMENT INDEX

**R**AIL CARRIERS, CAR OWNERS & INVESTORS have knowledge of their own fleets, but have little visibility into the industry-wide rail fleet. This year Railinc launched the Umler Equipment Index, a quarterly analysis of the total make-up of the North American rail equipment fleet. The Umler Equipment Index presents the total rail equipment fleet size and composition of the fleet by segments and equipment type, including cars, locomotives and end-of-train devices. It presents readers 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 that 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 index can be found at www.railinc.com. ❖

# RAILINC BY THE NUMBERS

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|---|---|
| **5.4** | The average number of Embargoes opened at the instruction of railroads on a daily basis during 2008, compared with 2.17 in 2007. |
| **95** | The percentage of Railinc staff trained in the economics and fundamentals of railroading. |
| **600,000** | The number of Umler updates made on a monthly basis. |
| **6,341,879** | The number of revenue waybills settled annually through Railinc's Railroad Clearinghouse. |
| **9,000,000** | The number of daily messages Railinc migrated, along with all its customers, to its new message switch. |
| **12,084,772** | The number of transactions processed annually through Railinc's Car Repair Billing system. |
| **$1.121 billion** | The dollar amount of transactions processed annually through Railinc's Car Repair Billing system. |
| **$8.096 billion** | The gross dollar amount settled annually through Railinc's Railroad Clearinghouse (without netting). |

## THE 2008 RAILINC CUSTOMER MIX

CLASS 1 RAILROADS 54%

GOVERNMENT 1%

SHIPPERS 3%

ALL OTHER RAILROADS 7%

OTHER THIRD PARTIES 13%

RAIL EQUIPMENT OWNERS 22%
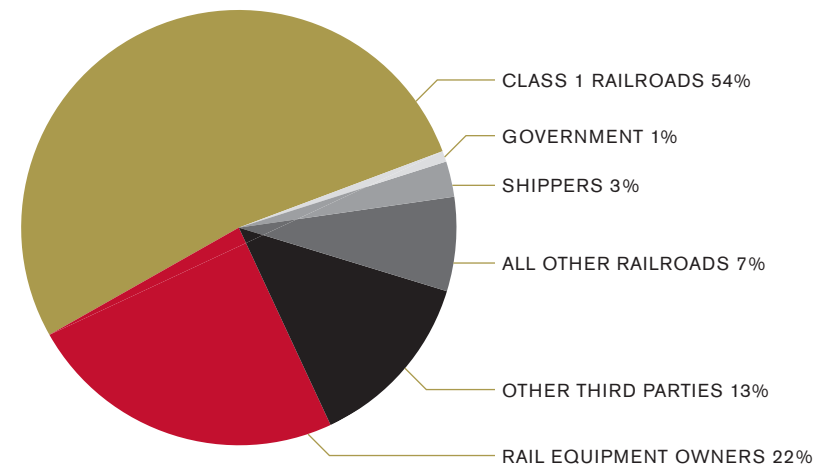
*Railinc serves many types of rail industry participants by providing IT and information services. These services help customers increase productivity, achieve operational efficiencies and make better decisions.*

# UMLER/EMIS, EFFICIENCY GAINS & SYSTEM ENHANCEMENTS HEADLINE '09 PROJECTS

Last year Railinc created its product management structure to align with three essential functions within the rail industry: the management of rail equipment (asset services); the movement of freight (shipment lifecycle); and, messaging and communication among the railroads (core systems). Accordingly, the company pursues industry projects that enhance these functions and return value to the industry. With that in mind, Railinc will pursue the following industry projects during 2009.

## ASSET SERVICES

**UMLER/EMIS //** The Umler Equipment Management Information System (Umler/EMIS) will complete the final phase of a multi-year project to re-engineer Railinc's 40-year-old Umler system. Phases I and II of the project introduced web-based support for a variety of car management functions. Phase III will complete the re-engineering process. The new Umler system will offer such features as equipment characteristics management, equipment status, restencil support and component group capabilities, among others. Migration from the legacy Umler system will begin in July 2009.

**EHMS DISPOSITION STATUS AND SYSTEM ENHANCEMENTS //** Car repair communication continues to be a challenge for the rail industry. While some cars needing noncritical repairs get reloaded and redirected, other cars are repaired twice for the same problem because maintenance alerts were not closed. This project will improve and automate car repair reporting processes and update the Equipment Health Management System to accommodate new detector technologies.

**LCS PROJECT //** The Liability Continuity System (LCS) manages interchange reporting for car accounting purposes. Several situations have been identified where existing LCS logic yields confusing or incorrect car hire decisions. This project will focus on improving LCS system logic and processes, such as considering shop time to be in the car owner's account, andclearly marking haulage beginnings and endings.

**SPECIAL CAR ORDER 90 //** The Special Car Order 90 (SCO90) process enables an efficient return of empty freight cars, resulting in fewer missed loading opportunities and fewer empty miles. In its current form, this process is manually intensive, cumbersome and slow in delivery to the end user. This project will make the SCO90 process more efficient and user-friendly, and deliver data generated during the reporting process directly into the railroads' systems or data warehouse for analysis.

**REAL-TIME ASSET DEVICE MONITOR //** Detecting equipment health problems is critical for safety and smoothly running rail operations, especially for equipment carrying hazardous materials. This project builds on the success of last year's Real-Time Asset Tracking proof-of-concept efforts. It will measure and assess the validity of data captured by third party tracking devices for use by equipment maintenance teams.

## SHIPMENT LIFECYCLE

**EMBARGO SYSTEM ENHANCEMENTS //** Embargoes are notices issued by the railroads to control traffic movement, especially during natural disasters. The Midwest floods in June 2008 identified shortcomings in the existing Embargo and Permit application. This project will improve the exchange of information during embargoes, including the ability to issue embargoes covering large geographic areas such as states or regions, use industry reference files in the embargo evaluation process, and improve the geo-mapping tool, among other features.

**CO-LOADING & ISS 5050 EDI UPGRADE //** Co-Loading is a unique service requested by some auto industry customers. It allows products from two or more customers to be loaded in a railcar between an origin and destination. For example, one tri-level auto rack car could serve three auto manufacturers by carrying vehicles from each. This project facilitates co-loading, which helps railroads improve railcar velocity, increase fleet capacity and improved load factor optimization, among other benefits. ✤

# MISSION

Railinc's mission is to create valued solutions for rail industry problems using our people, technology systems and information databases.

# VISION

Railinc's vision is to become the information systems innovation leader in the rail industry, and second-to-none in delivering customer responsiveness, quality and value.

# VALUES

Values drive our actions. They identify the behaviors and ideals we believe are important to the success of our company. Railinc embraces five primary values:

**EXCELLENCE** // We strive to deliver our best every day, aligning our words and actions, and remaining fair, honest and respectful on all occasions.

**PASSION** // We care deeply about our work because it is essential to the success of our nation, industry and customers.

**SERVICE** // We will find ongoing success by meeting the needs of our customers in the rail industry.

**EMPOWERMENT** // We each have the authority to act, create and respond to the changing conditions of our work and the requirements of our customers.

**ACCOUNTABILITY** // Each of us is responsible for our own actions, for satisfying our customers and for improving the performance of our company.

# PRINCIPLES

Principles drive our thoughts. They identify the approach we take as a company to doing our work. Railinc follows these four principles:

**INNOVATION** // We foster creative problem solving to create value and help our customers achieve their business goals.

**TEAMWORK** // We work together to get the job done, with every individual making meaningful contributions to our business.

**RELIABILITY** // Our customers, coworkers and business partners can always count on Railinc.

**COST CONTROL** // We always operate with a mindful eye to our costs and our customers' bottom line.

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Looking ahead, Railinc will continue to focus on creating significant value for our rail industry customers.

## RAILINC BOARD OF DIRECTORS

Railinc's Board of Directors is comprised of thoughtful and experienced rail industry leaders. Each offers guidance and insight into core areas important to Railinc and the rail industry. The Railinc Board of Directors is comprised of the following executives:

**ALLEN BORAK,**
*Vice President, Business Information
& Technology Services
// Canadian Pacific Railway*

**SCOTT ARVIDSON**
*Senior Vice President & Chief Information Officer
// Kansas City Southern*

**JIM BRIGHT**
*Vice President, Information Technology
// Canadian National Railway Company*

**ED HAMBERGER**
*President and Chief Executive Officer
// Association of American Railroads*

**FRANK LONEGRO**
*President, CSX Technology
// CSX Transportation*

**JO-ANN OLSOVSKY**
*Vice President, Technology Services
& Chief Information Officer
// BNSF Railway Company*

**LYNDEN TENNISON**
*Senior Vice President & Chief Information Officer
// Union Pacific Corp.*

**TOM WERNER**
*Vice President of Information Technology
// Norfolk Southern Corp.*

**ALLEN WEST**
*President & Chief Executive Officer
// Railinc Corp.*

Railinc is grateful to Jeff Campbell, BNSF Railway Company, and Fred Grigsby, Canadian National Railway Company, for their service to the Railinc Board of Directors. Both executives left the Railinc Board during 2008.

## RAILINC LEADERSHIP TEAM

**ALLEN WEST**
*President & Chief Executive Officer*

**TODD BOLON**
*Vice President & Chief Information Officer*

**KAREN FOLINO**
*Assistant Vice President,
Service Delivery & Product Management*

**GARRY GRANDLIENARD**
*Assistant Vice President, Technical Services*

**YATES PARKER**
*Assistant Vice President, Finance*

**ROB SIMORA**
*Assistant Vice President, Product Development*

**DAVID KAUFMAN**
*Senior Director, Rail Industry Relations*

**TREADWELL DAVISON**
*Director, Strategic Planning*

**REBECCA HESS**
*Director, Human Resources*

**PATRICK O'NEIL**
*Director, Corporate Communications*

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## COMPANY OVERVIEW

Railinc is the railroad industry's innovative and reliable resource for IT and information services. We support business processes and provide business intelligence that help railroads and rail equipment owners increase productivity, achieve operational efficiencies and keep their assets moving. Railinc is the industry's largest and most accurate source for real-time interline rail data. ✤

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