

PROVIDENCE and WORCESTER RAILROAD COMPANY



2 0 0 8 A N N U A L R E P O R T

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2009.**

The Company's Proxy Statement, sample proxy card and 2008 Annual Report on Form 10-K are available at: www.edocumentview.com/pwx.

company profile

The Providence and Worcester Railroad Company is a regional freight railroad operating in Massachusetts, Rhode Island, Connecticut and New York. The Company interchanges freight traffic with CSX at Worcester, MA and at New Haven, CT; with Pan Am Railways (formerly Springfield Terminal Railway Company) at Gardner, MA; with the New England Central Railroad (formerly Central Vermont Railway), Canadian Pacific Railway and Canadian National at New London and Willimantic, CT; with the New York and Atlantic Railroad (formerly Long Island Railroad) at Fresh Pond Junction (Queens), NY; and with the Connecticut Southern Railroad at Hartford, CT. It operates four classification yards in Worcester, MA, Cumberland, RI, Plainfield and New Haven, CT. The Worcester, MA and Plainfield, CT locations also house equipment maintenance facilities.

The Company transports a wide variety of commodities for its approximately 165 customers, including automobiles, construction aggregates, iron and steel products, chemicals, lumber, scrap metals, plastic resins, cement, coal, ethanol, construction and demolition debris, processed foods and edible foodstuffs, such as frozen foods, corn syrup and animal and vegetable oils. In 2008, the Company transported approximately 34,000 carloads of freight.

By agreement with a private operator, the Company also operates an approved customs-bonded intermodal yard in Worcester, primarily for the movement of container traffic from the Far East destined for points in New England. Several major container ship lines utilize double stack train service through these terminals. The Company works closely with the terminal operator to develop and maintain strong relationships with steamship lines involved in international intermodal transportation. In 2008, the Company handled approximately 21,000 intermodal containers.

The Company also generates income through sales of properties, grants of easements and licenses, and leases of land and tracks.

mission statement

Providence and Worcester Railroad Company shall be the dominant railroad in southern New England, with safety as its first priority, by providing quality transportation services, maintaining its physical plant and equipment in excellent condition, and aggressively pursuing opportunities for growth, both internally and externally.

This annual report contains forward-looking statements regarding future events and the future performance of the Company that involve risks and uncertainties that could cause actual results to differ materially. Those risks and uncertainties include, but are not limited to, economic conditions, customer demand, increased competition in the relevant market, and others. We refer you to the documents that the Company files from time to time with the Securities and Exchange Commission, such as the Company's Form 10-K, Form 10-Q, Form 8-K reports and S-1 registration statement and prospectus, which contain additional important factors that could cause its results to differ from its current expectations and the forward-looking statements contained in this annual report.

financial highlights

(in thousands, except per share amounts)

Years Ended December 31,
2008 2007 2006

Statement of Operations Data:

Operating Revenues.....	\$29,736	\$26,164	\$28,451
Other Income	<u>1,050</u>	<u>890</u>	<u>1,373</u>
Total Revenues.....	30,786	27,054	29,824
Total Operating Expenses.....	<u>30,485</u>	<u>27,856</u>	<u>28,222</u>
Income (Loss) Before Income Taxes	301	(802)	1,602
Provision for Income Taxes (Benefit)	<u>135</u>	<u>(150)</u>	<u>560</u>
Net Income (Loss)	<u>\$ 166</u>	<u>\$ (652)</u>	<u>\$ 1,042</u>
Diluted Income (Loss) Per Share.	<u>\$.03</u>	<u>\$ (.14)</u>	<u>\$.23</u>
Weighted Average Shares – Diluted	<u>4,866</u>	<u>4,545</u>	<u>4,602</u>

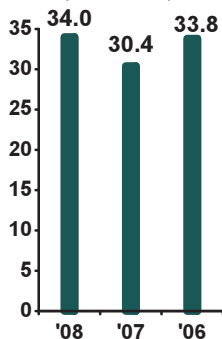
(in thousands)

December 31,
2008 2007 2006

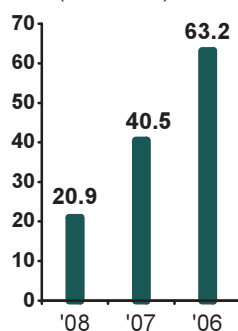
Balance Sheet Data:

Total assets.....	\$99,010	\$95,158	\$95,024
Shareholders' equity	74,797	69,675	70,624

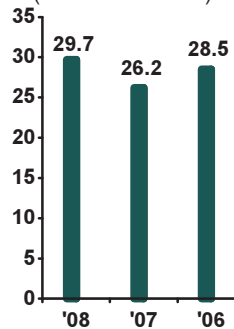
Conventional Carloads
(thousands)



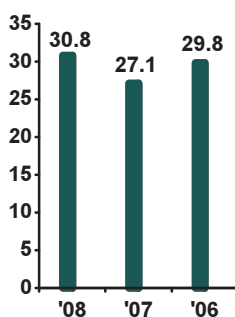
Intermodal Containers
(thousands)



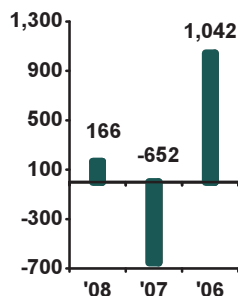
Operating Revenues
(millions of dollars)



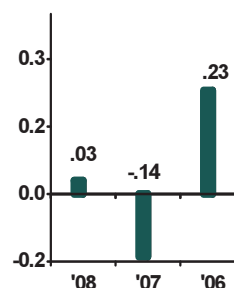
Total Revenues
(millions of dollars)



Net Income (Loss)
(thousands of dollars)



Diluted Income (Loss)
Per Share (dollars)



Dear Shareholders:

In 2008, the Company continued to make strides to position itself for the future. While the prior year (2007) brought many new positive developments, the Company's revenues were down compared to prior years, and the Company had outstanding borrowings of \$900,000 at year end. Despite lackluster results at the close of the first quarter of 2008, the Company had operating revenues of \$29,736,000 for the year, and fully retired its outstanding debt. It is particularly gratifying that the Company achieved these results while continuing to make key investments that facilitate the operation of a quality railroad.

As the Company looks ahead, we are cognizant that neither the railroad industry overall nor the Company, in particular, is immune to the challenging economic climate in which the United States and the rest of the world finds itself today. While October 2008 marked a dramatic turn of events in the financial markets, for some months beforehand certain sectors of our traffic (e.g., construction aggregates, food and agricultural products and forest and paper products) foretold of a downturn in our nation's economy. In the wake of last October's events, we have seen many established firms including banks (investment and traditional), manufacturers and distributors, large and small, trim their operations or, in more dire situations, fail completely. Significant reductions in consumer spending since the financial "meltdown" have only worsened the situation. While the duration of these conditions is unknown, the extent of the current economic crisis is much broader than any weathered since the Great Depression and its aftermath. Clearly, we live in interesting times. Notwithstanding these facts, the Company motto, "The Railroad That Can," continues to describe our efforts and outlook.

The nation's current economic woes are certainly not the only challenge the Company has faced over its thirty-six (36) years of independent operations. Since 1973, the Company has grown and expanded its operations despite dramatic changes in railroading in New England, including a shrinking manufacturing base replaced by a service-based economy (and more recently, a technology-based economy) responsible for making products that are, in many instances, less suitable for transportation by rail. These changes are primarily responsible for the profound change in the Company's customer base over the past two decades, with turnover of about three-quarters (3/4) of its customers occurring since 1990. The details tell the story of the dynamic marketplace in which the Company finds itself. Of the two hundred and four (204) customers served by the Company in 1991, only sixty-one (61) continue to utilize the Company's services, with the remainder having relocated from the area or shuttered their businesses completely. This state of affairs has not changed.

The Company's response to these market changes continues to emphasize making continual, incremental investments to prepare for new opportunities which the Company continues to identify as a means of sustaining and growing revenues. These new opportunities have taken the form of strategic alliances, handling new types of traffic and increasing efficiency for improved operations from the perspective of both the Company and its customers. For example, during 2008's first quarter, the Company handled three commodities, coal, ethanol and automobiles, that it did not handle during its first quarter (in any appreciable amounts) before 2007. The Company was able to add this traffic as a result of key investments made

over the previous several years. The Company was able to move a substantial volume of coal during 2008 – an all-time high to date for moving this commodity and contributing over \$3.5 Million in revenues – because of innovations by the Company, including providing an interchange “partner” with run-through motive power allowing for continued dedicated service to two power plants, First Light Power Resources in Holyoke, MA and Northeast Utilities in Bow, NH, and adopting a shipment strategy for First Light Power of weekday delivery of smaller volumes of coal that could be unloaded within 24 hours, to minimize the possibility of coal car contents freezing during winter months, an issue that prevented the Company from moving this traffic during prior winter seasons. The Company’s completion of undercuts of two remaining bridges along the Gardner Branch in August 2008 enhanced the Company’s clearance connections to four (4) of North America’s seven (7) Class I railroads.

In July 2007, the Company began handling ethanol for delivery to a processing plant in Providence. The Company’s rehabilitation of track within its South Providence yard located adjacent to the processing plant, to facilitate the storage of unit trains of up to eighty (80) cars of ethanol, was instrumental to securing this traffic. Currently, we are in the process of expanding the trackage within the South Providence yard to accept unit trains of up to one hundred (100) cars. This traffic yielded consistent revenues in 2008 and, in working to expand the number of producers shipping this traffic to the Providence processor by rail, the Company was able to capitalize upon its multiple Class I connections to attract business that had previously entered our service area by way of barge, rather than rail. Finally, the Company benefited from a significant increase in the number of carloads (1,043 for the period from February through December 2008 compared to 167 carloads during the entirety of 2007) of Subaru (and occasionally, Volkswagen) automobiles shipped to Quonset Point over the Northeast Corridor by way of the Freight Rail Improvement Project. This growth was also facilitated by the Company’s investment in 2008 in improvements to the yard where automobiles are delivered via rail. Though automobile sales are down nationwide, this commodity group was a good performer through 2008 for the Company, and we expect that to continue in 2009. Early this month, the Company handled outbound vehicles delivered from Germany to Davisville via oceangoing vessel and destined for the west coast of the United States for the first time.

The major shift in the route used to ship containerized traffic into southern New England, first noted in the second quarter of 2007, away from delivery to the Company via landbridge and negatively affecting the number of containers handled continued through 2008, with international containers being shipped to East Coast ports over all-water routes as opposed to by way of landbridge across the continental United States. This phenomenon occurred primarily as a result of Class I railroads pricing landbridge traffic (as well as other traffic) “to capacity,” which resulted in banner years for the Class I railroads which cover the longhaul routes from the western ports. We hope that present economic conditions will lead such railroads to reevaluate this practice by pricing landbridge and other traffic in a manner more consistent with the Company’s objectives and longterm growth strategy.

On January 10, 2008, the Company consummated a transaction with GATX Corporation, one of the largest railroad equipment lessors in the world, giving GATX rights to provide the

Company with substantially all of the Company's rail equipment provided market-competitive terms are furnished. Simultaneously, GATX purchased just under five percent (5%) or 239,523 shares of the Company's common stock and obtained the right to a seat on the Company's Board of Directors, currently held by Paul F. Titterton who was elected by shareholders in April 2008. As a part of the transaction, the Company obtained title to 137 open-top hoppers used in its coal service and leased 72 gondolas for use by scrap metal and aggregates customers.

The Company completed the removal of track along the remaining southernmost 0.8 mile portion of the East Providence Branch, on the alignment of a portion of Waterfront Drive in East Providence. The segment of Waterfront Drive completed in 2007 and connecting the Company's South Quay property to Warren Avenue and I-195 will be extended northward upon completion of a construction project for which the design is more than 75% complete, and construction bids are expected to be sought this spring. When fully completed, the northerly portion of Waterfront Drive will provide direct access to two parcels of Company land totalling more than eleven (11) acres located south of Dexter Road (north of I-195).

In August, the Company completed the installation of a "drop table," a lifting device used by railroads to change railcar wheels and locomotive traction motors. The drop table provides significant safety enhancements and cost savings to locomotive maintenance operations. The time and manpower savings on wheel changes on a locomotive are significant improvements upon the jacking method previously required which could take up to four days with as many as four men (compared to two hours with two men). The Company expects to furnish these services on a contracted basis to other railroads.

The Company's total revenues grew by approximately \$3.7 Million during 2008 against the backdrop of a declining economy and an increase in total diesel fuel costs in the amount of \$1.5 Million, a 58% increase in cost, year-over-year, despite approximately equal volumes. The Company's net income in 2008 was \$166,000, compared to a net loss of \$652,000 in 2007. Conventional freight traffic increased by 10.2% in 2008 and container traffic decreased by 48.3% for the year. Freight revenue on conventional traffic increased by 19.5% in 2008, while freight revenue on containers decreased by 43.9% for the year. This resulted in overall operating revenues for 2008 increasing by 13.7% over 2007.

Sincerely yours,



P. Scott Conti
President

March 27, 2009

Market for the Company's Common Stock and Related Security Holder Matters

Effective May 14, 2008, the Common Stock became listed on The NASDAQ Stock Market LLC (“NASDAQ”) under the trading symbol “PWX”. The following table sets forth, for the periods indicated, the high and low sale prices per share for the Common Stock as reported on the American Stock Exchange for the period preceding May 14, 2008 and on NASDAQ beginning on May 14, 2008 through the date hereof. Also included are dividends paid per share of Preferred Stock and Common Stock during these quarterly periods.

	Common Stock Trading Prices		Dividends Paid	
	<u>High</u>	<u>Low</u>	<u>Preferred</u>	<u>Common</u>
<u>2007</u>				
First Quarter	\$19.50	\$16.70	\$5.00	\$.04
Second Quarter	21.61	17.46	-0-	.04
Third Quarter	19.55	14.35	-0-	.04
Fourth Quarter	20.74	16.50	-0-	.04
<u>2008</u>				
First Quarter	\$20.00	\$15.75	\$5.00	\$.04
Second Quarter	21.40	18.55	-0-	.04
Third Quarter	20.24	14.79	-0-	.04
Fourth Quarter	17.18	7.72	-0-	.04

As of February 27, 2009, there were approximately 667 holders of record of the Company’s Common Stock.

The declaration of cash dividends on both the Preferred Stock and the Common Stock is made at the discretion of the Board of Directors based on the Company’s earnings, financial condition, capital requirements and other relevant factors and restrictions.

corporate information

Directors and Officers

As of December 31, 2008

Robert H. Eder
Director and Chairman

P. Scott Conti
Director and President

Robert J. Easton
Treasurer

David F. Fitzgerald
Vice President

Frank K. Rogers
Vice President

Marie A. Angelini
Secretary and General Counsel

Richard W. Anderson
Director

Frank W. Barrett
Director

J. Joseph Garrahy
Director

James C. Garvey
Director

John J. Healy
Director

Charles M. McCollam, Jr.
Director

Craig M. Scott
Director

Paul F. Titterton
Director

Independent Auditors

Deloitte & Touche LLP
200 Berkeley Street
Boston, MA 02116

Transfer Agent

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, R.I. 02940-3078
Shareholder Inquires: (781) 575-2879
Website: www.computershare.com

Stock Listing

Common Stock
The NASDAQ Stock Market LLC: PWX

Stockholder Information

Additional information, including a copy of the Company's code of ethics, will be provided upon request by phoning (800) 447-2003, ext. 365 or sending e-mail to wlavely@pwrr.com

Annual Meeting

The annual meeting of stockholders will be held on April 29, 2009 at the Crowne Plaza, 10 Lincoln Square, Worcester, Massachusetts at 10:00 a.m.

Investor Relations Contact

Wendy Lavelly (508) 755-4000, ext. 365



A copy of the Company's code of ethics, entitled "Business Conduct Policy," is available on the Company's website at <http://www.pwrr.com>. A copy of the Company's Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended December 31, 2008, excluding certain exhibits thereto, and/or a copy of the Business Conduct Policy, may be obtained without charge by contacting:

Investor Relations
Attention: Wendy Lavelly
Providence and Worcester Railroad Company
75 Hammond Street
Worcester, MA 01610
(508) 755-4000 or (800) 447-2003, extension 365
wlavelly@pwrr.com

The NASDAQ Stock Market LLC: PWX

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-16704

PROVIDENCE AND WORCESTER RAILROAD COMPANY

(Exact name of registrant as specified in its charter)

Rhode Island

(State or other jurisdiction of
incorporation or organization)

75 Hammond Street, Worcester, Massachusetts

(Address of principal executive offices)

05-0344399

I.R.S. Employer Identification No.

01610

(Zip Code)

Registrant's telephone number, including area code

(508) 755-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Not Applicable

Name of each exchange
on which registered

Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common stock, \$.50 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ___ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ___ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes ___ No X

As of June 30, 2008, the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$52,329,402. (For this purpose, all directors of the Registrant are considered affiliates.)

As of March 6, 2009, the Registrant had 4,803,900 shares of Common Stock outstanding.

Documents Incorporated by Reference -

Portions of the Registrant's Proxy Statement for the 2009 Annual Meeting of Shareholders to be held on April 29, 2009, is incorporated by reference into Part III of this Form 10-K.

Exhibit Index - Page IV-1.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2009.**

The Company's Proxy Statement, sample proxy card and 2008 Annual Report on Form 10-K are available at: www.edocumentview.com/pwx.

PART I

Item 1. Business

Providence and Worcester Railroad Company (“P&W” or “the Company”) is a class II regional freight railroad operating in Massachusetts, Rhode Island, Connecticut and New York. The Company is the only interstate freight carrier serving the State of Rhode Island and possesses the exclusive and perpetual right to conduct freight operations over the Northeast Corridor between New Haven, Connecticut and the Massachusetts/Rhode Island border. Since commencing independent operations in 1973, the Company, through a series of acquisitions of connecting lines, has grown from 45 miles of track to its current system of approximately 516 miles. P&W services the largest international doublestack intermodal terminal facility in New England in Worcester, Massachusetts, a strategic location for regional transportation and distribution enterprises.

The Company transports a wide variety of commodities for its customers, including automobiles, construction aggregates, iron and steel products, chemicals, lumber, scrap metals, plastic resins, cement, coal, construction and demolition debris, and processed foods and edible foodstuffs, such as frozen foods, corn syrup and animal and vegetable oils. Its customers include Aventine Renewable Energy, Inc., Cargill, Inc., The Dow Chemical Company, Exxon Mobil Corporation, First Light Power Resources, Frito-Lay, Inc., International Paper Company, Northeast Utilities, Nucor Steel and Tilcon Connecticut, Inc. In 2008, P&W transported 33,953 carloads of freight and 20,938 intermodal containers. The Company also generates income through sales of properties, grants of easements and licenses and leases of land and tracks.

P&W’s connections to multiple Class I railroads, either directly or through connections with regional and short-line carriers, provide the Company with a competitive advantage by allowing it to offer creative pricing and routing alternatives to its customers. In addition, the Company’s commitment to maintaining its track and equipment to high standards enables P&W to provide fast, reliable and efficient service.

Industry Overview

General

Freight railroads are divided into three classes based on operating revenues: Class I, \$359.6 million or more; Class II, \$28.8 million to \$359.6 million; and Class III, less than \$28.8 million. As a result of mergers and consolidations, there are now only seven Class I railroads in the country. The Class I railroads handle 93% of the nation’s rail freight business.

The freight rail industry underwent revitalization after the passage of the Staggers Rail Act in 1980 which deregulated the pricing and types of services provided by railroads. As a result, railroads were able to achieve significant productivity gains and operating cost decreases while gaining pricing flexibility. Freight rail service became more competitive with other transportation modes with respect to both quality and price. The volume of freight moved by rail has risen dramatically since 1980 and profitability has improved significantly.

One result of revitalization of the industry has been the growth of regional (over 350 miles) and short-line railroads, which has been fueled by a trend among Class I railroads to divest certain branch lines in order to focus on their long-haul core systems. There are now more than 550 of these regional and short-line railroads. They operate in 47 of the 48 contiguous states comprising the continental United States, account for 29% of all rail track, employ 11% of all rail workers and generate about 9% of all rail revenue.

Generally, freight railroads handle two types of traffic: conventional carloads and intermodal containers used in the shipment of goods via more than one mode of transportation, *e.g.*, by ship, rail and truck. By using a hub-and-spoke approach to shipping, multiple containers can be moved by rail to and from an intermodal terminal and then either delivered to their final destinations by truck or transferred to ship for export. Over the past decade, commodity shippers have increasingly turned to intermodal transportation principally as an alternative to long-haul trucking. The development of new intermodal technology, which allows containers to be moved by rail doublestacked (*i.e.*, stacked one on top of the other) on specially designed railcars, together with increasing highway traffic congestion and the shortage of long-haul truck drivers have contributed to this trend. Beginning with the second quarter of 2007 and continuing through 2008, the number of containers arriving in southern New England by way of landbridge (across the continental United States) declined, as containers began being routed from Far

East ports directly to East Coast ports over all-water routes. The economic downturn has compounded the decline in container volumes.

Regional Developments

Over the past several years, a number of development projects within the Company's service area have been completed. Some have increased port capacity along the extensive coastline of southern New England and improved the intermodal transportation and distribution infrastructure in the region, while others have improved the Company's connections to Class I carriers servicing southern New England. This infrastructure presents the Company with multiple opportunities for increased business and routing options, and enhancing its customers' market access.

Quonset/Davisville

The State of Rhode Island and the federal government are continuing redevelopment efforts on a 1,000 acre portion of the former naval facility at Quonset/Davisville for an active port and industrial park that houses a number of rail-oriented industries and an auto port. Construction of a freight rail improvement project, providing additional track capacity and Phase 1 double-stack clearances on the Northeast Corridor between Quonset/Davisville and Boston Switch, the connection of the Corridor to the Company's mainline at Central Falls, RI, was completed in October 2006. Shipment of automobiles by rail commenced in the fall of 2007 with the Company handling 167 autoracks through 2007 and 1043 autoracks in 2008.

Port of Providence

Infrastructure improvements undertaken by the Port of Providence and the Company in 2003, including the installation of paving, lighting and "on dock" rail, have accommodated substantial growth in the Company's movement of imported coal to inland markets. Coal proved to be a significant source of revenue for the Company during 2008.

In October 2006, the Company initiated rehabilitation of a substantial portion of its South Providence yard to facilitate handling unit trains of ethanol. This commodity is being transported by rail throughout the country and is a component of the gasoline mix available at gasoline service stations throughout southern New England. Rehabilitation was completed and shipments of ethanol commenced during the third quarter of 2007. The Company intends to undertake rehabilitation of the remainder of the South Providence yard in 2009.

Middletown/Hartford Line

In cooperation with the state of Connecticut, the Company has been engaged in the restoration of the rail line extending from Middletown to Hartford, Connecticut. In April 2000, the State of Connecticut appropriated \$1.85 million to fund its portion of the project (approximately 70%). The portion of the line south of Rocky Hill is currently in service.

New London and Willimantic Interchanges

Through its New London interchange with the New England Central Railroad ("NEC"), P&W began interchanging traffic with the Canadian National Railway ("CN") and the Canadian Pacific Railway ("CP"). With the Company's reactivation of the Willimantic Interchange in late 2007, across a route with improved overhead clearances to NEC, the Willimantic Branch became the primary interchange route to NEC and further strengthened the Company's connections with CP via the Green Mountain gateway at Bellows Falls, Vermont and CN via St. Albans, Vermont.

Railroad Operations

The Company's rail freight system comprises approximately 516 miles of track. The Company interchanges freight traffic with CSX Transportation at Worcester, Massachusetts and at New Haven, Connecticut; with Pan Am Railways (formerly Springfield Terminal Railway Company) at Gardner, Massachusetts; with NEC at New London and Willimantic, Connecticut; with CN and CP via the NEC; and with New York and Atlantic Railroad at Fresh Pond Junction on Long Island. Through its connections, P&W links more than 80 communities on its lines. The Company

operates four classification yards (areas containing tracks used to group freight cars destined for a particular industry or interchange) located in Worcester, Massachusetts, Cumberland, Rhode Island and Plainfield and New Haven, Connecticut.

The Company is dependent upon the railroads with which it interchanges freight traffic to enable it to properly service its customers at competitive rates. Failure of any of these connecting railroads to provide adequate service at reasonable rates can result in a loss of freight customers and revenues.

By agreement with a private operator, the Company services an approved customs intermodal yard in Worcester. A customs intermodal yard is an area containing tracks used for the loading and unloading of containers. This yard is U.S. Customs bonded, and international traffic must be inspected and approved by U.S. Customs officials. The intermodal yard serves primarily as a terminal for movement of container traffic from the Far East, Southeast Asia and Europe destined for points in New England. Numerous container ship lines utilize double-stack train service through this terminal. P&W works closely with the terminal operator to develop and maintain strong relationships with steamship lines involved in international intermodal transportation.

Customers

The Company serves approximately 165 customers in Massachusetts, Rhode Island, Connecticut and New York. The Company's 10 largest customers account for more than half of its operating revenues. In 2008, one customer, which ships construction aggregates from three separate quarries on P&W's system to asphalt production plants in Connecticut and New York, accounted for 10% of the Company's operating revenues. No other customer accounted for 10% or more of its total operating revenues in 2008.

Markets

The Company transports a wide variety of commodities for its customers. In recent years, chemicals and plastics (including ethanol, beginning in 2007) and construction aggregates were the two largest commodity groups transported by the Company, constituting 36% and 13%, respectively, of conventional carload freight revenues in 2008. The following table summarizes the Company's conventional carload freight revenues by commodity group as a percentage of such revenues:

<u>Commodity</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Chemicals and plastics (including ethanol).....	36%	37%	33%
Construction aggregates	13	17	19
Coal	12	8	11
Metal products.....	10	9	7
Food and agricultural products	9	12	12
Forest and paper products	9	12	14
Other (including automobiles).....	11	5	4
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Sales and Marketing

P&W's sales and marketing staff of four people has substantial experience in pricing and marketing railroad services. The sales and marketing staff focuses on understanding and addressing the raw material requirements and transportation needs of its existing customers and businesses on its lines. The staff grows existing business by maintaining close working relationships with both customers and connecting carriers. The sales and marketing staff strives to generate new business for the Company through (i) targeting companies already on P&W's rail lines but not currently using rail services or not using them to their full capacity, (ii) working with state and local development officials, developers and real estate brokers to encourage the development of industry on the Company's rail lines, and (iii) identifying and targeting the non-rail transportation of goods into and out of the region in which the Company operates. Unlike many other regional and short-line railroads, the Company is able to offer its customers creative pricing and routing alternatives because of its multiple connections to other carriers.

Safety

An important component of the Company's operating strategy is conducting safe railroad operations for the benefit and protection of employees, customers and the communities served by its rail lines. Since commencing active operations in 1973, the Company has committed significant resources to track maintenance to minimize the

risk of derailments and believes its rail system is in good condition. In addition, the Company has an employee training program utilizing classroom instruction and video programs on topics including NORAC Operating Rules, Safety Rules, Rail Security Awareness plans and Hazardous Materials Awareness, as well as manufacturer-provided training materials.

Safety of the Company's operations is of paramount importance for the benefit and protection of the Company's employees, customers and the communities served by its rail lines. The Company and its employees have continued to make improvements in preventing injuries while at the same time expanding operations and the work force.

Rail Traffic

Rail traffic is classified as on-line or overhead traffic. On-line traffic is traffic that originates or terminates with shippers located on a railroad's rights-of-way. Overhead traffic passes from one connecting carrier to another and neither originates nor terminates with shippers located on a railroad's rights-of-way. Presently, P&W is solely an on-line carrier but may provide overhead service in the future for certain rail traffic to and from Long Island.

Freight rail rates can be in various forms. Generally, customers are given a "through" rate, a single amount encompassing the rail transportation of a commodity from point of origin to point of destination, regardless of the number of carriers which handle the car. Rates are developed by the carriers based on the commodity, volume, distance and competitive market considerations. The entire freight bill is paid either to the originating carrier ("prepaid") or to the destination carrier ("collect") and divided among all carriers which handle the move. The basis for the division varies and can be based on factors (or revenue requirements) independently established by each carrier which comprise the through rate, or on a percentage basis established by division agreements among the carriers. A carrier such as P&W, which actually places the car at the customer's location and attends to the customer's daily switching requirements, typically receives a share of revenue greater than an amount based simply on mileage hauled.

Employees

As of December 31, 2008, the Company had 153 full-time employees, 118 of whom are represented by three railroad labor organizations that are national in scope. The Company's non-management employees have been represented by unions since the Company commenced independent operations in 1973.

The Company's initial agreement with the United Transportation Union covering the trainmen was unusual in the railroad industry since it provided the Company with discretion in determining crew sizes, eliminated craft distinctions and provided a guaranteed annual wage for a maximum number of hours worked. The Company's collective bargaining agreements have been in effect since February 1973 for trainmen, since May 1974 for clerical employees and dispatchers and since June 1974 for maintenance employees. These contracts do not expire but are subject to renegotiation after the agreed-upon moratoria. The Company signed eight year agreements with the United Transportation Union (trainmen) in October 2005, the Transportation Communications International Union (clerical) in August 2006 and the Brotherhood of Railroad Signalmen (maintenance) in July 2007. The Company considers its employee and labor relations to be good.

Competition

The Company is the only rail carrier serving businesses located on-line. The Company competes with other carriers, however, in the location of new rail-oriented businesses in the region. Certain rail competitors, including CSX Transportation and Norfolk Southern Corp., are larger and better capitalized than the Company. The Company also competes with other modes of transportation, particularly long-haul trucking companies for the transportation of commodities, and ocean-going vessels for the transportation of containers. Any improvement in the cost or quality of these alternate modes of transportation including, for example, legislation granting material increases in truck size or allowable weight, could increase competition and may materially adversely affect the Company's business and results of operations. As a means of competing, P&W strives to offer greater convenience and better service than competing rail carriers and at costs lower than some competing non-rail carriers. The Company also competes by participating in efforts to attract new industry to the areas which it serves.

The Company believes that its ability to grow depends, in part, upon its ability to acquire additional connecting rail lines. In making acquisitions, P&W competes with other short-line and regional rail operators, some of which are larger and have greater financial resources than the Company.

Governmental Regulation

The Company is subject to governmental regulation by the United States Surface Transportation Board (the “STB”), the Federal Railroad Administration (the “FRA”), the Transportation Security Administration (the “TSA”) and other federal, state and local regulatory authorities with respect to certain rates and railroad operations, as well as a variety of health, safety, labor, environmental and other matters, all of which could potentially affect the competitive position and profitability of the Company. Additionally, the Company is subject to STB regulation and may be required to obtain STB approval prior to its acquisition of any new railroad properties. Management of the Company believes that the regulatory freedoms granted by the Staggers Rail Act of 1980 (the “Staggers Rail Act”) have been beneficial to the Company by giving it flexibility to adjust prices and operations to respond to market forces and industry changes. However, various interests, and certain members of the United States Congress (which has jurisdiction over federal regulation of railroads), have from time to time expressed their intention to support legislation that would eliminate or reduce significant freedoms granted by the Staggers Rail Act.

Environmental Matters

The Company’s railroad operations and real estate ownership are subject to extensive federal, state and local environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. The Company handles, stores, transports and disposes of petroleum and other hazardous substances and wastes. The Company also transports hazardous substances for third parties and arranges for the disposal of hazardous wastes generated by the Company. The Company believes that it is in material compliance with applicable environmental laws and regulations.

Internet Address and SEC Reports

The Company maintains a website with the address www.pwrr.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (“SEC”). We also include on our website our corporate governance guidelines and the charters for each of the major committees of our board of directors. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the SEC.

Item 1A. Risk Factors

Fluctuations in Operating Revenues

Historically, the Company’s operating revenues have been tied to national and regional economic conditions, especially those impacting the manufacturing sector, while the Company’s expenses have been relatively inelastic. Increasingly, the Company’s business is impacted by global economic events. A downturn in general economic conditions could materially adversely affect the Company’s business and results of operations. In addition, shifts in the New England economy between manufacturing and service sectors could materially affect the Company’s performance. The Company’s operating revenues and expenses have also fluctuated due to unpredictable events, such as adverse weather conditions and customer plant closings. While generally the Company has been able to replace revenues lost due to plant closings through expansion of existing business or replacement with new customers, there can be no assurance that it could do so in the future. The occurrence of such unpredictable events in the future could cause further fluctuations in operating revenues and expenses and materially adversely affect the Company’s financial performance.

Availability of Acquisition and Growth Opportunities and Associated Risks

The Company believes that its ability to grow depends, in part, upon its ability to acquire additional connecting rail lines. There are a limited number of acquisition targets in the Company's market. In addition, in making acquisitions, the Company competes with other short-line and regional rail operators, some of which are larger and have greater financial resources than the Company. The growing competition for such acquisitions may cause an increase in acquisition prices and related costs, resulting in fewer attractive acquisition opportunities, which could materially adversely affect the Company's growth. No assurance can be given that the Company will be able to acquire suitable additional rail lines or that, if acquired, the Company would be able to successfully operate such additional rail lines.

Acquisitions of additional rail lines may be subject to regulatory review and approval by the STB. The Company is a Class II railroad and acquisitions made by Class II railroads are subject to a requirement that employees affected by an acquisition be paid up to one year's severance.

Competition

For customers located directly on line, which constitute the majority of the Company's freight business, the Company is the only rail carrier providing direct service. However, the Company competes with other freight railroads on the location of new businesses in the region. The Company also competes with other modes of transportation such as long-haul trucking companies and ocean-going vessels, including short-sea shipping. Any improvement in the cost, quality or availability of these alternate modes of transportation, for example, legislation granting increases in truck size or allowable weight, could increase this competition and materially affect the Company's business and results of operations. In addition, the revenues derived from the handling of intermodal containers could be materially adversely affected by the rerouting of containers from Far East ports directly to East Coast ports via an all-water route rather than by way of landbridge.

Customer Concentration

The Company's ten largest customers accounted for more than 50% of the Company's operating revenues for 2008 with one customer accounting for 10%. The Company's business could be materially adversely affected if any of these customers reduces shipments of commodities transported by the Company.

Although in the past the Company has been able to replace revenues lost due to a reduction in existing customers' rail service requirements, no assurance can be given that it could do so in the future.

Labor Issues

Substantially all of the Company's non-management employees are represented by national railroad labor organizations. The Company's inability to satisfactorily conclude negotiations with unions could materially adversely affect the Company's operations and financial performance. Similarly, any protracted work stoppages against the Company's connecting railroads could materially adversely affect the Company's business and results of operations. Historically, Congress has intervened in such events to avoid disruptions in interstate commerce, but there can be no assurance that it would do so in the future.

All railroad industry employees are covered by the Railroad Retirement Act and the Railroad Unemployment Insurance Act in lieu of Social Security and other federal and state unemployment insurance programs, and the Federal Employers Liability Act in lieu of state workers' compensation. Increases in the taxes payable pursuant to the Railroad Retirement Act and/or the Railroad Unemployment Insurance Act would increase the Company's costs of operations.

Relationships with Other Railroads

The railroad industry in the United States is dominated by a small number of large Class I carriers that have substantial market control and negotiating leverage. A majority of the Company's carloadings is interchanged with

a Class I carrier, CSX Transportation. A decision by CSX Transportation to discontinue serving routes or to disadvantageously price the transport of certain commodities could materially adversely affect the Company's business.

The Company's ability to provide rail service to its customers depends in large part upon its ability to maintain cooperative relationships with all its connecting carriers with respect to, among other matters, freight rates, car supply, interchange and trackage rights. A deterioration in the operating relationships with or service provided by those connecting carriers could materially adversely affect the Company's business.

Rail Infrastructure and Availability of Government Programs

Certain of the Company's growth opportunities are contingent upon anticipated improvements to P&W's existing rail infrastructure. No assurance can be given that the Company will be able to complete such projects as planned. Unforeseen delays or other problems which prevent completion of such improvements could materially adversely affect the Company's business and results of operations. In addition, the Company has worked with federal and state agencies to improve its rail infrastructure and has been effective in obtaining federal and state financial support for certain projects. There can be no assurance, however, that such federal and state programs or funds will be available in the future or that the Company will be eligible to participate in such programs. Failure to participate in federal and state programs or to receive federal or state funding for rail infrastructure improvements would cause the Company to incur the full cost of those infrastructure improvements undertaken and completed and significantly increase its costs of rail infrastructure improvement.

Potential for Increased Governmental Regulation and Mandated Upgrade to Property

The Company is subject to governmental regulation by the STB, the FRA, the TSA and other federal, state and local regulatory authorities with respect to certain rates and railroad operations, as well as a variety of health, safety, labor, environmental, security and other matters, all of which could potentially affect the competitive position and profitability of the Company. Management of the Company believes that the regulatory freedoms granted by the Staggers Rail Act have been beneficial to the Company by giving it flexibility to adjust prices and operations to respond to market forces and industry changes. However, various interests and certain members of the United States House of Representatives and Senate (which have jurisdiction over the federal regulation of railroads) have from time to time expressed their intention to support legislation that would eliminate or reduce significant freedoms granted by the Staggers Rail Act. If enacted, these proposals, or court or administrative rulings to the same effect under current law, could materially adversely affect the Company's business and results of operations.

Casualty Losses

The Company has obtained insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. The Company believes that its insurance coverage is adequate based on its experience. However, under catastrophic circumstances such as accidents involving passenger trains or spillage of hazardous materials, the Company's liability could exceed its insurance limits. The Company transports hazardous chemicals throughout its system and conducts operations on the Northeast Corridor on which there is heavy passenger traffic. Insurance is available from only a limited number of insurers, and there can be no assurance that insurance protection at the Company's current levels will continue to be available or, if available, will be obtainable on terms acceptable to the Company. Losses or other liabilities incurred by the Company which are not covered by insurance or which exceed the Company's insurance limits could materially adversely affect the Company's financial condition, liquidity and results of operation.

Environmental Matters

The Company's railroad operations and real estate ownership are subject to extensive federal, state and local environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. The Company transports hazardous materials and periodically uses hazardous material in its operations. While the Company believes it is in substantial compliance with all applicable environmental laws and regulations, any allegations or findings to the effect that the Company had violated such laws or regulations could materially adversely affect the Company's

business and results of operations. The Company operates on properties that have been used for rail operations for over a century. There can be no assurance that historic releases of hazardous waste or materials will not be discovered, requiring remediation of Company properties, and that the cost of such remediation would not be material.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Track

P&W's rail system extends over approximately 516 miles of track, of which it owns approximately 163 miles. The Company has the right to use the remaining 353 miles pursuant to perpetual easements and long-term trackage rights agreements. Under certain of these agreements, the Company pays fees based on usage.

Virtually all of the mainlines on which the Company operates are in FRA class 3 condition (allowing 40 m.p.h. speeds) or better. The Company intends to maintain the mainline tracks which it owns in such excellent condition.

Of the approximately 516 miles that comprise the Company's system, 306 miles, or 58.5%, are located in Connecticut, 95 miles, or 19%, are located in Massachusetts, 87 miles, or 17%, are located in Rhode Island and 28 miles, or 5.5%, are located in New York.

Rail Facilities

P&W owns land and a building with approximately 69,500 square feet of floor space in Worcester, Massachusetts. The building houses the Company's executive and administrative offices and some of the Company's storage space. Approximately 2,600 square feet are leased to outside tenants.

The Company owns and operates three principal classification yards located in Worcester, Massachusetts, Cumberland, Rhode Island and Plainfield, Connecticut and also operates a classification yard in New Haven, Connecticut. In addition, the Company has maintenance facilities in Putnam and Plainfield, Connecticut and in Worcester, Massachusetts. P&W believes that its executive and administrative office facilities, classification yards and maintenance facilities are adequate to support its current level of operations.

Other Properties

The Company owns or has the right to use a total of approximately 130 acres of real estate located along the principal railroad lines from downtown Providence through Pawtucket, Rhode Island. Of this acreage, P&W owns approximately eight acres in Pawtucket and has a perpetual easement for railroad purposes over the remaining 122 acres.

The Company has invested nearly \$12 million in the development of the South Quay in East Providence, Rhode Island which has resulted in the creation of approximately 33 acres of waterfront land. The Company also owns 12 acres of land adjacent to the South Quay, as well as 11 acres off Dexter Road, East Providence, all of which are being held for future development.

P&W actively manages its real estate assets in order to maximize revenues. The income from property management is derived from sales and leasing of properties and tracks and grants of easements to government agencies, utility companies and other parties for the installation of overhead or underground cables, pipelines and transmission wires as well as recreational uses such as bike paths.

Rolling Stock

The following schedule sets forth the rolling stock owned by the Company as of December 31, 2008:

<u>Description</u>	<u>Number</u>
Locomotive	30
Gondola	5
Open-Top Hopper	137
Flat Car	5
Ballast Car	30
Passenger Equipment.....	7
Caboose	2
Total	<u>216</u>

The 30 diesel electric locomotives, which include nine pre-owned 3,900 horsepower GE B39-8 locomotives acquired in 2002 and 2003 and four pre-owned GE B40-8 locomotives acquired in 2004 and 2005, are used on a daily basis, are maintained to a high standard, comply with all FRA and Association of American Railroads rules and regulations and are adequate for the needs of the Company's freight operations. The gondolas, open-top hoppers, flat cars and ballast cars are considered modern rail cars and are used in track maintenance and, very occasionally, by certain P&W customers. Other rail freight customers use their own freight cars or obtain such equipment from other sources. The ballast cars are used in track maintenance. From time to time, the Company has leased ballast cars to other railroads. The passenger equipment and caboose are not utilized in P&W's rail freight operations but are used on an occasional basis for Company functions, excursions and charter trips.

In January 2008, simultaneous with the purchase by GATX Corporation of 239,523 shares of common stock of the Company for the purchase price of \$5,509,029 (\$23.00/share), the Company and GATX entered into various agreements including an Exclusive Railcar Supply Agreement (the "ERSA") for a term of five (5) years to renew automatically for successive one-year periods unless earlier terminated by either party. Under the ERSA, provided that market-competitive terms are furnished, GATX became the exclusive supplier of substantially all of P&W's railcar needs, while various other agreements between the parties provided for the Company's acquisition of 137 open-top hopper cars, its lease of 72 mill gondolas, and its lease of 200 automobile-carrying railcars (autoracks).

Equipment

P&W has a state-of-the-art digital touch control dispatching system at its Worcester operations center permitting two-way radio contact with every train crew and maintenance vehicle on its lines and a computer-based manual block dispatching system with safety overrides to enhance dispatching and safety. The system also enables each train crew to maintain radio contact with other crew members. The Company maintains a computer facility in Worcester with back-up computer facilities in Worcester and Putnam, Connecticut to assure the Company's ability to operate in the event of disruption of service in Worcester. The Company also has state-of-the-art automatic train defect detectors at strategic locations which inspect passing trains and audibly communicate the results to train crews and dispatchers in order to protect against equipment failure en route.

The Company maintains a modern fleet of track maintenance equipment and aggressively pursues available opportunities to work with federal and state agencies for the rehabilitation of bridges, grade crossings and track. The Company's locomotives are equipped with the cab signal technology necessary for operations on the Northeast Corridor and are equipped with automatic civil speed enforcement systems which were required by the introduction of high speed passenger service on the Northeast Corridor.

In July 2008, the Company installed a fifty-ton drop table unit to facilitate the efficient exchange of wheels on locomotives and railcars by lowering the wheels beneath the level of the Engine House floor and across to an adjacent track where exchange with a second wheel set is made.

Item 3. Legal Proceedings

On January 29, 2002, the Company received a "Notice of Potential Liability" from the United States Environmental Protection Agency ("EPA") regarding an existing Superfund Site (the "Site") that includes the J.M. Mills Landfill in Cumberland, Rhode Island. EPA sends these "Notice" letters to potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). EPA

identified the Company as a PRP based on its status as an owner and/or operator because its railroad property traverses the Site. Via these Notice letters, EPA makes a demand for payment of past costs (identified in the letter as \$762,000) and future costs associated with the response actions taken to address the contamination at the Site, and requests PRPs to indicate their willingness to participate and resolve their potential liability at the Site. The Company has responded to EPA by stating that it does not believe it has any liability for this Site, but that it is interested in cooperating with EPA to address issues concerning liability at the Site. At this point, two other parties have already committed via a consent order with EPA to pay for the Remedial Investigation/Feasibility Study ("RI/FS") phase of the clean-up at the Site, which will take approximately two or more years to complete. After that, EPA will likely seek to negotiate the cost of the Remedial Design and implementation of the remedy at the Site with the PRPs it has identified via these Notice Letters (which presently includes over sixty parties, and is likely to increase after EPA completes its investigation of the identity of PRPs). On December 15, 2003, the EPA issued a second "Notice of Potential Liability" letter to the Company regarding the Site. EPA again identified the Company as a PRP, this time because EPA "believes that [the Company] accepted hazardous substance for transport to disposal or treatment facilities and selected the site for disposal." The Company responded again to EPA stating that it is interested in cooperating with EPA but that it does not believe it has engaged in any activities that caused contamination at the Site. The Company believes that none of its activities caused contamination at the Site, and will contest this claim by EPA and therefore no liability has been accrued for this matter.

In connection with the EPA claim described above, the two parties who have committed to conduct the RI/FS at the Site filed a complaint in the U.S. District Court of Rhode Island against the Company, in an action entitled CCL Custom Manufacturing, Inc. v. Arkwright Incorporated, et al (consolidated with Unilever Bestfoods v. American Steel & Aluminum Corp. et al), C.A. No. 01-496/L, on December 18, 2002. The Company was one of about sixty parties named by Plaintiffs in this suit, to recover response costs incurred in investigating and responding to the releases of hazardous substances at the Site. Plaintiffs alleged that the Company is liable under 42 U.S.C. § 961(a)(3) of CERCLA as an "arranger" or "generator" of waste that ended up at the Site. The Company entered into a Generator Cooperation Agreement with other defendants to allocate costs in responding to this suit, and to share technical costs and information in evaluating the Plaintiffs' claims. Although the Company does not believe it generated any waste that ended up at the Site, or that its activities caused contamination at the Site, the Company paid \$45,000 to settle this suit in March 2006.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Part II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters and Issuer Purchases of Equity Securities

The Common Stock is quoted on the Nasdaq Stock Market, LLC ("NASDAQ") under the trading symbol "PWX". The following table sets forth, for the periods indicated, the high and low sale prices per share for the Common Stock as reported on the NASDAQ. Also included are dividends paid per share of Preferred Stock and Common Stock during these quarterly periods.

	<u>Common Stock</u> <u>Trading Prices</u>		<u>Dividends Paid</u>	
	<u>High</u>	<u>Low</u>	<u>Preferred</u>	<u>Common</u>
<u>2007</u>				
First Quarter	\$ 19.50	\$ 16.70	\$ 5.00	\$.04
Second Quarter	21.61	17.46	—0—	.04
Third Quarter	19.55	14.35	—0—	.04
Fourth Quarter	20.74	16.50	—0—	.04
 <u>2008</u>				
First Quarter	\$ 20.00	\$ 15.75	\$ 5.00	\$.04
Second Quarter	21.40	18.55	—0—	.04
Third Quarter	20.24	14.79	—0—	.04
Fourth Quarter	17.18	7.72	—0—	.04

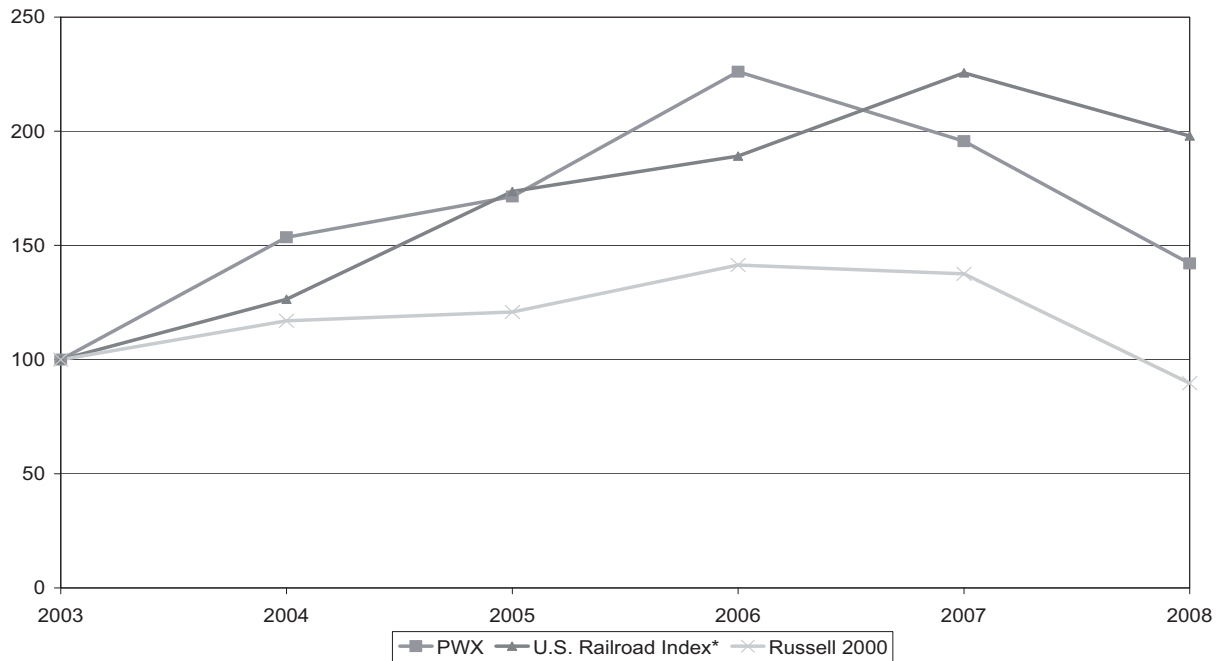
As of February 28, 2009, there were approximately 667 holders of record of the Company's common stock.

The declaration of cash dividends on both the preferred and the common stock is made at the discretion of the Board of Directors based on the Company's earnings, financial condition, capital requirements and other relevant factors and restrictions.

PERFORMANCE GRAPH

Prepared by Burnham Securities Inc. for Providence and Worcester Railroad Company.

5-Year Return
Providence and Worcester Railroad Company,
U.S. Railroad Index and Russell 2000® Index



*Compiled by Burnham Securities Inc.

Index Components: Burlington Northern Santa Fe Corp. (NYSE:BNF), CSX Corp. (NYSE:CSX), Genesee & Wyoming Inc. (NYSE:GWR), Kansas City Southern (NYSE:KSU), Norfolk Southern Corp. (NYSE:NSC), Pioneer Railcorp (OTCPK:PRRR), Providence and Worcester Railroad Co. (NASDAQ:PWX), Union Pacific Corp. (NYSE:UNP). RailAmerica, Inc., acquired and taken private on February 14, 2007, has been removed from the index.

Fiscal Years Ended December 31

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
PWX	100.0	153.5	171.4	226.1	195.7	142.1
U.S. Railroad Index	100.0	126.4	173.6	189.1	225.5	197.9
Russell 2000®	100.0	117.0	120.9	141.4	137.6	89.7

The Russell 2000® Index measures the performance of small capitalization US companies by measuring the performance of the 2,000 smallest securities in the Russell 3000® Index. The U.S. Railroad Index is compiled by Burnham Securities Inc. and includes 8 railroad-operating companies.

The Board of Directors recognizes that the market price of stock is influenced by many factors, only one of which is issuer performance. The Company's stock price may also be influenced by market perception, economic conditions and government regulation. The stock price performance shown in the graph is not necessarily an indicator of future price performance.

Item 6. Selected Financial Data

The selected financial data set forth below has been derived from the Company's audited financial statements. The data should be read in conjunction with the Company's audited financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other information included elsewhere in this annual report on Form 10-K.

	Years Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share amounts)				
Income Statement Data:					
Operating revenues.....	\$29,736	\$26,164	\$28,451	\$26,734	\$24,943
Other income.....	1,050	890	1,373	1,208	1,547
Total Revenues	30,786	27,054	29,824	27,942	26,490
Operating expenses	30,485	27,856	28,222	26,114	24,854
Income (loss) before income taxes	301	(802)	1,602	1,828	1,636
Provision for income taxes (benefit).....	135	(150)	560	615	631
Net income (loss)	166	(652)	1,042	1,213	1,005
Preferred stock dividend.....	3	3	3	3	3
Net income (loss) available to common shareholders	\$ 163	\$ (655)	\$ 1,039	\$ 1,210	\$ 1,002
Basic and diluted income (loss) per common share	\$.03	\$ (.14)	\$.23	\$.27	\$.22
Weighted average shares—basic	4,790	4,545	4,523	4,496	4,470
Weighted average shares—diluted	4,866	4,545	4,602	4,574	4,548
Cash dividends per share of Common Stock ...	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16

	December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Balance Sheet Data:					
Total assets.....	\$99,010	\$95,158	\$95,024	\$93,484	\$91,582
Shareholders' equity.....	74,797	69,675	70,624	69,845	69,027

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in connection with the Company's audited financial statements and notes thereto included elsewhere in this annual report.

The statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MDA") which are not historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions, however, that actual results could differ materially from those indicated in the MDA.

Critical Accounting Policies

The Securities and Exchange Commission ("SEC") defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company's significant accounting policies are described in Note 1 of the Notes to Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the Company's policy for the evaluation of long-lived asset impairment meets the SEC definition of critical.

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When factors indicate that assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted future cash flows over the remaining lives of the assets in determining whether the carrying amounts of the assets are recoverable. If an impairment exists, the impairment is measured by comparing the carrying value to the fair value.

Overview

The Company is a regional freight railroad operating in Massachusetts, Rhode Island, Connecticut and New York.

The Company generates operating revenues primarily from the movement of freight in both conventional freight cars and in intermodal containers on flat cars over its rail lines. Freight revenues are recorded at the time delivery is made to the customer or the connecting carrier. Modest freight-related operating revenues are derived from demurrage, switching, weighing, special train and other transportation services. Other operating revenues are derived from services rendered to freight customers and other outside parties by the Company's Maintenance of Way, Communications & Signals, and Maintenance of Equipment Departments. Operating revenues also include amortization of deferred grant income.

The Company's operating expenses consist of salaries and wages and related payroll taxes and employee benefits, depreciation, insurance and casualty claim expense, diesel fuel, car hire, property taxes, materials and supplies, purchased services, track usage fees and other expenses. Many of the Company's operating expenses are of a relatively fixed nature and do not increase or decrease proportionately with increases or decreases in operating revenues unless the Company's management were to take specific actions to restructure the Company's operations.

When comparing the Company's results of operations from one year to another, the following factors should be taken into consideration. First, the Company has historically experienced fluctuations in operating revenues and expenses due to unpredictable events such as one-time freight moves and customer plant expansions and shutdowns. Second, the Company's freight volumes are susceptible to increases and decreases due to changes in international, national and regional economic conditions. Third, the volume of capitalized track or recollectible projects performed by the Company's Maintenance of Way and Communications & Signals Departments can vary significantly from year to year, thereby impacting total operating expenses. Fourth, diesel fuel comprises a significant portion of the Company's operating costs. As fuel prices increase the Company attempts to recover these costs through surcharges and increased fees; however, the Company's profitability can be impacted by changes in fuel prices.

The Company also generates income through sales of properties, grants of easements and licenses, and leases of land and tracks. Income or loss from sale, condemnation and disposal of property and equipment and grants of easements is recorded at the time the transaction is consummated and collectibility is assured. This income varies significantly from year to year.

One of the Company's customers which ships construction aggregates from three separate quarries on the Company's rail system to asphalt production plants in Connecticut and New York, accounted for 10.0%, 13.8% and 14.8% of its operating revenues in 2008, 2007 and 2006, respectively. The Company does not believe that this customer will cease to be a rail shipper or will substantially decrease its freight volume in the foreseeable future. In the event that this customer should cease or substantially reduce its rail freight operations, management believes that the Company could restructure its operations to reduce operating costs by an amount sufficient to largely offset the decrease in operating revenues.

Results of Operations

The following table sets forth the Company's operating revenues by category in dollars and as a percentage of operating revenues:

	Years Ended December 31,					
	2008		2007		2006	
	(in thousands, except percentages)					
Freight Revenues:						
Conventional carloads.....	\$27,113	91.2%	\$22,682	86.7%	\$23,443	82.4%
Containers.....	1,341	4.5	2,389	9.1	3,572	12.5
Other freight-related.....	837	2.8	774	3.0	876	3.1
Other operating revenues.....	445	1.5	319	1.2	560	2.0
Total.....	\$29,736	100.0%	\$26,164	100.0%	\$28,451	100.0%

The following table sets forth conventional carload freight revenues by commodity group in dollars and as a percentage of such revenues:

	Years Ended December 31,					
	2008		2007		2006	
	(in thousands, except percentages)					
Chemicals and plastics (including ethanol).....	\$ 9,761	36.0%	\$ 8,387	37.0%	\$ 7,759	33.1%
Construction aggregates.....	3,389	12.5	3,840	16.9	4,359	18.6
Coal.....	3,281	12.1	1,818	8.0	1,651	7.0
Metal products.....	2,793	10.3	2,132	9.4	2,488	10.6
Food and agricultural products.....	2,522	9.3	2,777	12.2	2,749	11.7
Forest and paper products.....	2,467	9.1	2,756	12.2	3,181	13.6
Other (including automobiles).....	2,900	10.7	972	4.3	1,256	5.4
Total.....	\$27,113	100.0%	\$22,682	100.0%	\$23,443	100.0%

The following table sets forth a comparison of the Company's operating expenses expressed in dollars and as a percentage of operating revenues:

	Years Ended December 31,					
	2008		2007		2006	
	(in thousands, except percentages)					
Salaries, wages, payroll taxes and employee benefits.....	\$15,631	52.6%	\$15,204	58.1%	\$14,945	52.5%
Casualties and insurance	867	2.9	919	3.5	956	3.4
Depreciation	2,941	9.9	2,884	11.0	2,829	9.9
Diesel fuel.....	3,986	13.4	2,524	9.6	2,495	8.8
Car hire, net.....	928	3.1	818	3.1	1,096	3.9
Purchased services, including legal and professional fees	2,304	7.7	2,037	7.8	1,947	6.8
Repairs and maintenance of equipment.....	1,993	6.7	1,711	6.5	1,943	6.8
Track and signal materials.....	1,716	5.8	2,135	8.2	2,949	10.4
Track usage fees	633	2.1	615	2.4	829	2.9
Other materials and supplies.....	1,265	4.3	1,222	4.7	1,239	4.4
Other	1,894	6.4	1,833	7.0	1,891	6.6
Total	34,158	114.9	31,902	121.9	33,119	116.4
Less capitalized and recovered costs	3,673	12.4	4,046	15.4	4,897	17.2
Total	\$30,485	102.5%	\$27,856	106.5%	\$28,222	99.2%

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Operating Revenues

Operating Revenues increased \$3.6 million, or 13.7%, to \$29.8 million in 2008 from \$26.2 million in 2007. This increase is the net result of a \$4.4 million (19.5%) increase in conventional freight revenues, a \$63,000 (8.1%) increase in other freight-related revenues and a \$126,000 (39.5%) increase in other operating revenues partially offset by a \$1.0 million (44.8%) decrease in container freight revenues.

The increase in conventional freight revenues is attributable to a 10.2% increase in traffic volume and an 8.4% increase in the average revenue received per carloading. The Company's conventional carloadings increased by 3,156 to 33,953 in 2008 from 30,797 in 2007. Shipments of ethanol, coal, automobiles and steel ingots accounted for substantially all of the increase in traffic volume. Ethanol and automobiles are commodities which the Company began hauling during the third quarter of 2007. These increases were somewhat offset by decreases in shipments of construction aggregates, chemicals (other than ethanol), building materials and certain other commodities during the year. These decreases appear to result from the current economic downturn in the United States economy. The increase in the average revenue received per conventional carloading is attributable to a shift in the mix of freight hauled toward higher-rated commodities, as well as some rate increases, including diesel fuel surcharges.

The decrease in container freight revenues is the result of a 48.3% decline in traffic volume somewhat offset by an 8.6% increase in the average revenue received per container. Container traffic volume decreased by 19,567 containers to 20,938 in 2008 from 40,505 in 2007. During the second quarter of 2007 the Company began to experience a steady decrease in the volume of its container traffic which continued throughout 2008. Among other factors, rate increases imposed by western rail carriers in the United States resulted in steamship lines using "all water" routings to the East Coast for an increasingly larger portion of container traffic, thereby significantly reducing the volume of such traffic shipped cross-country by rail. In addition, the current economic downturn has added to the decline in container traffic volume. The Company is unable to predict if and when container traffic may significantly increase.

The increase in the average revenue received per container is attributable to contractual rate adjustments based upon railroad industry cost indices as well as a change in the mix of containers handled.

The increase in other freight-related revenues is primarily due to an increase in secondary switching services provided to freight customers. This is directly related to the increase in conventional traffic volume during the year.

The increase in other operating revenues reflects greater maintenance department billings for services rendered to freight customers and outside parties.

Other Income

Other income increased by \$160,000 to \$1.1 million in 2008 from \$890,000 in 2007. The most significant change was an increase in gains realized from the sale of property, equipment and easements, which revenues can vary significantly from year to year.

Operating Expenses

Operating expenses increased by \$2.6 million, or 9.4%, to \$30.5 million in 2008 from \$27.9 million in 2007. Higher expenditures for diesel fuel accounted for \$1.5 million of this increase. This is primarily the result of significantly higher prices for petroleum products which were in effect for most of the year. The price of diesel fuel decreased during the fourth quarter of 2008 and such lower prices have continued into 2009.

Provision for Income Taxes (Benefit)

The provision for income taxes for 2008 is \$135,000, or 45%, of pre-tax income compared to 19% in 2007. The rate in 2008 reflects normal nondeductible expenses compared to a relatively small pre-tax income. The 2007 effective rate reflects the utilization of track maintenance credits that were freed up by the operating loss.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating Revenues

Operating Revenues decreased \$2.3 million, or 8.0%, to \$26.2 million in 2007 from \$28.5 million in 2006. This decrease resulted from a \$1.2 million (33.1%) decrease in container freight revenues, a \$761,000 (3.2%) decrease in conventional freight revenues, a \$102,000 (11.6%) decrease in other freight-related revenues and a \$241,000 (43.0%) decrease in other operating revenues.

The decrease in container freight revenues is attributable to a 35.9% decline in traffic volume partially offset by a 4.3% increase in the average revenue received per container. Intermodal containers handled decreased by 22,678 to 40,505 in 2007 from 63,183 in 2006. Among other factors, rate increases imposed by western rail carriers in the United States resulted in steamship lines using "all water" routings to the East Coast for a larger portion of container traffic, thereby significantly reducing the volume of such traffic shipped cross-country by rail. This trend began during the second quarter of the year and the Company is unable to predict if and when this trend will be reversed. The increase in the average revenue received per container is primarily due to contractual rate adjustments based upon railroad industry cost indices.

The decrease in conventional freight revenues is the result of an 8.8% reduction in traffic volume partially offset by a 6.1% increase in the average revenue received per carloading. The Company's conventional carloadings decreased by 2,983 to 30,797 in 2007 from 33,780 in 2006. The largest single reduction in conventional traffic volume was construction aggregates which declined by more than a half million dollars. Declines in other commodities were largely offset by increases in coal, ethanol and automobiles. Shipments of these latter two commodities commenced during the second half of the year and the Company anticipates that they will contribute to future traffic growth. The increase in the average revenue received per conventional carloading results from a shift in the mix of traffic away from construction aggregates, a lower rated commodity, as well as modest rate increases, including diesel fuel surcharges.

The decrease in other freight-related revenues is attributable to reduced billings for demurrage charges which is related to the decrease in conventional traffic volume.

The decrease in other operating revenues results from a reduction in maintenance department billings. Revenues of this nature typically vary from year to year depending upon the needs of freight customers and other outside parties.

Other Income

Other income decreased by \$483,000 to \$890,000 in 2007 from \$1.4 million in 2006. This decrease is due to a reduction in gains from the sale of property, equipment and easements, which revenue can vary significantly from year to year.

Operating Expenses

Operating expenses decreased \$366,000, or 1.3%, to \$27.9 million in 2007 from \$28.2 million. The Company's operating expenses are of a fixed nature to a very high degree and, therefore, do not fluctuate proportionally with increases or decreases in operating revenues. The decrease in track and signal materials expense of \$814,000 was offset by a \$1.0 million decrease in reimbursements received from the states for non-capitalized crossing signals and other public improvements.

Provision for Income Taxes (Benefit)

The Company's federal income tax benefit for 2007 was reduced by \$113,000 of railroad track maintenance credits which were utilized in 2005 and 2006. These credits were "freed up" by carrying back a portion of the net operating loss incurred in 2007 to those years.

Liquidity and Capital Resources

On January 10, 2008, the Company entered into an agreement with GATX Corporation ("GATX") whereby GATX acquired 239,523 newly-issued shares of the Company's common stock (4.99%) for approximately \$5.5 million which was and is being utilized for capital improvements to enhance the Company's operations. The Company and GATX also entered into an Exclusive Railcar Supply Agreement whereby GATX has the exclusive right to supply the Company with railcars for certain rail traffic on market-competitive terms. In addition, the Company exchanged 72 of its mill gondolas for 137 open-top hoppers owned by GATX. The Company is leasing the 72 mill gondolas from GATX under operating leases for a period of up to 7 years at minimum annual rentals of \$248,000. This amount is not significantly different from the rentals previously paid to GATX for the open-top hoppers which have been used by the Company to transport coal.

The Company generated \$832,000, \$3.3 million and \$3.8 million of cash from operations in 2008, 2007 and 2006, respectively. The Company's total cash and cash equivalents increased by \$695,000 in 2008 and decreased by \$1.1 million in 2007 and \$810,000 in 2006. The principal utilization of cash during the three-year period was for expenditures for property and equipment acquisitions and improvements and payment of dividends.

During 2008, 2007 and 2006 the Company generated \$583,000, \$288,000 and \$863,000, respectively, from the sale of properties not considered essential for railroad operations and from the granting of easements and licenses. The Company holds various properties which could be made available for sale, lease or grants of easements and licenses. Revenues from sales of properties, easements and licenses can vary significantly from year to year.

The Company has a revolving line of credit of \$5.0 million with its principal bank, which line expires on May 31, 2009. Borrowings under this line of credit are unsecured, due on demand and bear interest at either the bank's prime rate or one and one-half percent over either the one or three month London Interbank Offered Rates. The Company pays no commitment fee on this line and has no compensating balance requirements. The Company repaid the \$900,000 of borrowings outstanding as of December 31, 2007 in January 2008 and had no advances against this line during the year.

Substantially all of the mainline track owned by the Company meets FRA Class 3 standards (permitting freight train speeds of 40 miles per hour), and the Company intends to continue to maintain this track at this level. The Company expended \$2.6 million, \$3.5 million and \$3.4 million for additions and improvements to its track structure

in 2008, 2007 and 2006, respectively. Deferred grant income of \$172,000 in 2008, \$520,000 in 2007 and \$121,000 in 2006 financed a portion of these additions and improvements. Improvements to the Company's track structure are made, for the most part, by the Company's Maintenance of Way Department personnel.

In 2008, the Company paid dividends in the amount of \$5.00 per share, aggregating \$3,000, on its outstanding noncumulative preferred stock and \$0.16 per share, aggregating \$767,000, on its outstanding common stock. Continued payment of such dividends is contingent upon the Company's continuing to have the necessary financial resources available.

The Company is a defendant in certain lawsuits relating to casualty losses, many of which are covered by insurance subject to a deductible. The Company believes that adequate provision has been made in the financial statements for any expected liabilities which may result from disposition of such lawsuits.

On January 29, 2002, the Company received a "Notice of Potential Liability" from the United States Environmental Protection Agency ("EPA") regarding an existing Superfund Site (the "Site") that includes the J.M. Mills Landfill in Cumberland, Rhode Island. EPA sends these "Notice" letters to potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). EPA identified the Company as a PRP based on its status as an owner and/or operator because its railroad property traverses the Site. Via these Notice letters, EPA makes a demand for payment of past costs (identified in the letter as \$762,000) and future costs associated with the response actions taken to address the contamination at the Site, and requests PRPs to indicate their willingness to participate and resolve their potential liability at the Site. The Company has responded to EPA by stating that it does not believe it has any liability for this Site, but that it is interested in cooperating with EPA to address issues concerning liability at the Site. At this point, two other parties have already committed via a consent order with EPA to pay for the Remedial Investigation/Feasibility Study ("RI/FS") phase of the clean-up at the Site, which will take approximately two or more years to complete. After that, EPA will likely seek to negotiate the cost of the Remedial Design and implementation of the remedy at the Site with the PRPs it has identified via these Notice Letters (which presently includes over sixty parties, and is likely to increase after EPA completes its investigation of the identity of PRPs). On December 15, 2003, the EPA issued a second "Notice of Potential Liability" letter to the Company regarding the Site. EPA again identified the Company as a PRP, this time because EPA "believes that [the Company] accepted hazardous substance for transport to disposal or treatment facilities and selected the site for disposal." The Company responded again to EPA stating that it is interested in cooperating with EPA but that it does not believe it has engaged in any activities that caused contamination at the Site. The Company believes that none of its activities caused contamination at the Site, and will contest this claim by EPA and therefore no liability has been accrued for this matter.

In connection with the EPA claim described above, the two parties who have committed to conduct the RI/FS at the Site filed a complaint in the U.S. District Court of Rhode Island against the Company, in an action entitled CCL Custom Manufacturing, Inc. v. Arkwright Incorporated, et al (consolidated with Unilever Bestfoods v. American Steel & Aluminum Corp. et al), C.A. No. 01-496/L, on December 18, 2002. The Company was one of about sixty parties named by Plaintiffs in this suit, to recover response costs incurred in investigating and responding to the releases of hazardous substances at the Site. Plaintiffs alleged that the Company is liable under 42 U.S.C. § 961(a)(3) of CERCLA as an "arranger" or "generator" of waste that ended up at the Site. The Company entered into a Generator Cooperation Agreement with other defendants to allocate costs in responding to this suit, and to share technical costs and information in evaluating the Plaintiffs' claims. Although the Company does not believe it generated any waste that ended up at this Site, or that its activities caused contamination at the Site, the Company paid \$45,000 to settle this suit in March 2006.

Pursuant to permits issued by the United States Department of the Army Corps of Engineers and the Rhode Island Coastal Resources Management Council, the Company created 33 acres of waterfront land in East Providence, Rhode Island ("South Quay"). The permits for the property, which have been extended to December 2009 and May 2009, respectively, also allow for construction of a dock along the west face of the South Quay. The property, which has a carrying value of \$12.0 million, is adjacent to a 12 acre site also owned by the Company.

The property is located one-half mile from I-195. In 2006, the Rhode Island Department of Transportation ("RIDOT") awarded a contract to construct Waterfront Drive, which provides direct vehicular access from the interstate highway system to the South Quay, which project was completed in 2007. The planned extension by RIDOT of Waterfront Drive northward toward an industrial area in which the Company owns two additional waterfront parcels comprising 11 acres, creating direct access to such property, is in the design stage.

The City of East Providence has created a waterfront redevelopment area with a zoning overlay that would encourage development of offices, hotels, restaurants, shops, marinas, apartments and other “clean” employment. The Company has been cooperating with the City of East Providence in these efforts.

Selected Quarterly Financial Data

Historically, the Company has experienced lower operating revenues in the first quarter of the year. The following table sets forth selected financial data for each quarter of 2008 and 2007. The information for each of these quarters is unaudited but includes all normal recurring adjustments that the Company considers necessary for a fair presentation. These results, however, are not necessarily indicative of results for any future period.

Year Ended December 31, 2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share amounts)				
Operating revenues	\$ 5,996	\$ 8,094	\$ 8,136	\$ 7,510
Other income	119	188	617	126
Total revenues.....	6,115	8,282	8,753	7,636
Operating expenses	7,487	7,802	7,964	7,232
Income (loss) before income taxes (benefit).....	(1,372)	480	789	404
Provision for income taxes (benefit)	(450)	160	255	170
Net income (loss).....	\$ (922)	\$ 320	\$ 534	\$ 234
Basic and diluted income (loss) per common share	\$ (.19)	\$.07	\$.11	\$.04

Year Ended December 31, 2007				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share amounts)				
Operating revenues	\$ 5,185	\$ 6,972	\$ 7,296	\$ 6,711
Other income	115	478	159	138
Total revenues.....	5,300	7,450	7,455	6,849
Operating expenses	7,101	6,893	7,174	6,688
Income (loss) before income taxes (benefit).....	(1,801)	557	281	161
Provision for income taxes (benefit)	(640)	210	100	180
Net income (loss).....	\$ (1,161)	\$ 347	\$ 181	\$ (19)
Basic and diluted income (loss) per common share	\$ (.26)	\$.08	\$.04	\$.00

Inflation

In recent years, inflation has not had a significant impact on the Company’s operations.

Seasonality

Historically, the Company’s operating revenues are lowest for the first quarter due to the absence of construction aggregates shipments during this period and winter weather conditions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Cash and Cash Equivalents

As of December 31, 2008, the Company is exposed to market risks which primarily include changes in U.S. interest rates and purchases of diesel fuel.

The Company invests cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, the Company's revolving line of credit agreement provides for borrowings which bear interest at variable rates based on either the bank's prime rate or one and one-half percent over either the one or three month London Interbank Offered Rates. The Company had no borrowings outstanding pursuant to the revolving line of credit agreement at December 31, 2008. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial position, results of operations, and cash flows should not be material.

The Company purchases in excess of one million gallons of diesel fuel each year to operate its locomotives. The Company does not hedge its diesel fuel purchases but has been able to mitigate the impact of increased diesel fuel prices through the imposition of diesel fuel surcharges on the freight rates charged to customers.

Item 8. Financial Statements and Supplementary Data

PROVIDENCE AND WORCESTER RAILROAD COMPANY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Providence and Worcester Railroad Company
Worcester, Massachusetts

We have audited the accompanying balance sheets of Providence and Worcester Railroad Company (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Providence and Worcester Railroad Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
March 25, 2009

PROVIDENCE AND WORCESTER RAILROAD COMPANY
BALANCE SHEETS
(Dollars in Thousands Except Per Share Amounts)

	December 31,	
	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 876	\$ 181
Accounts receivable, net of allowance for doubtful accounts of \$130 in 2008 and \$150 in 2007	3,526	2,726
Materials and supplies.....	1,103	914
Prepaid expenses and other current assets	442	90
Deferred income taxes	318	325
Total Current Assets	6,265	4,236
Property and Equipment, net.....	80,787	78,964
Land Held for Development.....	11,958	11,958
Total Assets.....	\$99,010	\$95,158
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Borrowings under line of credit.....	\$ —	\$ 900
Accounts payable	2,418	2,809
Accrued expenses.....	1,460	1,511
Total Current Liabilities	3,878	5,220
Deferred Income Taxes	12,123	11,969
Deferred Grant Income.....	8,212	8,294
Commitments and Contingent Liabilities		
Shareholders' Equity:		
Preferred stock, 10% noncumulative, \$50 par value; authorized, issued and outstanding 640 shares in 2008 and 2007	32	32
Common stock, \$.50 par value; authorized 15,000,000 shares; issued and outstanding 4,801,340 shares in 2008 and 4,552,557 shares in 2007.....	2,401	2,276
Additional paid-in capital	36,705	31,104
Retained earnings	35,659	36,263
Total Shareholders' Equity	74,797	69,675
Total Liabilities and Shareholders' Equity.....	\$99,010	\$95,158

The accompanying notes are an integral part of the financial statements.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 STATEMENTS OF OPERATIONS
 (Dollars in Thousands Except Per Share Amounts)

	Years Ended December 31,		
	2008	2007	2006
Revenues:			
Operating Revenues	\$29,736	\$26,164	\$28,451
Other Income	1,050	890	1,373
Total Revenues.....	30,786	27,054	29,824
Expenses:			
Operating:			
Maintenance of way and structures	3,934	3,746	3,971
Maintenance of equipment.....	4,105	3,539	3,692
Transportation	10,284	8,598	8,555
General and administrative	5,064	5,205	4,544
Depreciation	2,941	2,884	2,829
Taxes, other than income taxes	2,349	2,223	2,299
Car hire, net	928	818	1,095
Employee retirement plans	247	228	408
Track usage fees	633	615	829
Total Operating Expenses	30,485	27,856	28,222
Income (Loss) before Income Taxes	301	(802)	1,602
Provision for Income Taxes (Benefit)	135	(150)	560
Net Income (Loss)	166	(652)	1,042
Preferred Stock Dividends.....	3	3	3
Net Income (Loss) Available to Common Shareholders.....	\$ 163	\$ (655)	\$ 1,039
Basic and Diluted Income (Loss) Per Common Share	\$.03	\$ (.14)	\$.23

The accompanying notes are an integral part of the financial statements.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 STATEMENTS OF SHAREHOLDERS' EQUITY
 (Dollars in Thousands Except Per Share Amounts)

	Years Ended December 31, 2008, 2007 and 2006				
	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2006	\$ 32	\$ 2,254	\$ 30,230	\$ 37,329	\$ 69,845
Issuance of 13,011 common shares to fund the Company's 2007 profit sharing plan contribution.....		6	205		211
Issuance of 13,489 common shares for stock options exercised, employee stock purchases, and other		7	158		165
Conversion of 5 shares of preferred stock into 500 shares of common stock	—	—			—
Share-based compensation – options granted			87		87
Dividends paid:					
Preferred stock, \$5.00 per share				(3)	(3)
Common stock, \$.16 per share				(723)	(723)
Net income for the year				1,042	1,042
Balance, December 31, 2006	32	2,267	30,680	37,645	70,624
Issuance of 9,581 common shares to fund the Company's 2007 profit sharing plan contribution.....		5	173		178
Issuance of 8,920 common shares for stock options exercised, employee stock purchases, and other		4	131		135
Share based compensation – options granted			120		120
Dividends paid:					
Preferred stock, \$5.00 per share				(3)	(3)
Common stock, \$.16 per share				(727)	(727)
Net loss for the year				(652)	(652)
Balance, December 31, 2007	32	2,276	31,104	36,263	69,675
Issuance of 239,523 common shares to GATX Corporation		120	5,389		5,509
Issuance of 9,260 common shares for stock options exercised, employee stock purchases, and other		5	122		127
Share based compensation – options granted			90		90
Dividends paid:					
Preferred stock, \$5.00 per share				(3)	(3)
Common stock, \$.16 per share				(767)	(767)
Net Income for the year				166	166
Balance, December 31, 2008	\$ 32	\$ 2,401	\$ 36,705	\$ 35,659	\$ 74,797

The accompanying notes are an integral part of the financial statements.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 STATEMENTS OF CASH FLOWS
 (Dollars in Thousands)

	Years Ended December 31,		
	2008	2007	2006
Cash Flows from Operating Activities:			
Net income (loss)	\$ 166	\$ (652)	\$ 1,042
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation.....	2,941	2,884	2,829
Amortization of deferred grant income.....	(254)	(247)	(240)
Profit-sharing plan contribution to be funded with common stock.....	—	—	178
Gains from sale, condemnation and disposal of property, equipment and easements, net	(523)	(288)	(766)
Deferred income taxes.....	161	(60)	503
Share-based compensation	127	165	115
Increase (decrease) in cash and cash equivalents from:			
Accounts receivable	(966)	684	(127)
Materials and supplies.....	(189)	569	171
Prepaid expenses and other.....	(352)	58	4
Accounts payable and accrued expenses	(279)	206	77
Net cash flows from operating activities	832	3,319	3,786
Cash Flows from Investing Activities:			
Purchase of property and equipment	(4,987)	(5,293)	(5,077)
Proceeds from sale and condemnation of property, equipment and easements	583	288	863
Net cash flows used in investing activities	(4,404)	(5,005)	(4,214)
Cash Flows from Financing Activities:			
Net borrowings (payments) under line of credit.....	(900)	900	—
Dividends paid.....	(770)	(730)	(726)
Issuance of common shares to GATX Corporation	5,509	—	—
Issuance of common shares for stock options exercised and employee stock purchases	90	90	137
Proceeds from deferred grant income.....	338	354	207
Net cash flows from (used in) financing activities.....	4,267	614	(382)
Increase (Decrease) in Cash and Cash Equivalents	695	(1,072)	(810)
Cash and Cash Equivalents, Beginning of Year.....	181	1,253	2,063
Cash and Cash Equivalents, End of Year	\$ 876	\$ 181	\$ 1,253
Supplemental Disclosures:			
Cash paid during year for interest	\$ —	\$ 47	\$ —
Cash paid (received) during year for income taxes, net.....	\$ (73)	\$ —	\$ 136

The accompanying notes are an integral part of the financial statements.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Dollars in Thousands Except Per Share Amounts)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Providence and Worcester Railroad Company (the "Company") is an interstate freight carrier conducting railroad operations in Massachusetts, Rhode Island, Connecticut and New York. Through its connecting carriers, it services customers located throughout North America.

One customer accounted for 10.0%, 13.8% and 14.8% of the Company's operating revenues in 2008, 2007 and 2006, respectively, and this customer accounted for .3% and 8.2% of total accounts receivable at December 31, 2008 and 2007, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of classification in the balance sheets and statements of cash flows. Cash equivalents are stated at cost, which approximates fair market value.

Materials and Supplies

Materials and supplies, which consist of items for the improvement and maintenance of track structure and equipment, are stated at cost, determined on a first-in, first-out basis, and are charged to expense or added to the cost of property and equipment when used.

Property and Equipment

Property and equipment, including land held for development, is stated at historical cost (including self-construction costs). Acquired railroad property is recorded at the purchased cost. Major renewals or betterments are capitalized while routine maintenance and repairs, which do not improve or extend asset lives, are charged to expense when incurred. Gains or losses on sales or other dispositions are credited or charged to income. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Track structure	20 to 67 years
Buildings and other structures	33 to 45 years
Equipment, including rolling stock	4 to 25 years

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When factors indicate that assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted future cash flows over the remaining lives of the assets in determining whether the carrying amounts of the assets are recoverable. If an impairment exists it is measured by comparing the carrying value to the fair value. No impairments were recognized in the three years presented.

Deferred Grant Income

The Company has availed itself of various federal and state programs administered by the states of Connecticut, Massachusetts and Rhode Island for reimbursement of expenditures for capital improvements. In order to receive reimbursement, the Company must submit requests for the projects, including cost estimates. The Company receives from 70% to 100% of the costs of such projects, which have included bridges, track structure and public improvements. To the extent that such grant proceeds are used to fund capital improvements to bridges and track structure, they are recorded as deferred grant income and amortized into operating revenues on a straight-line basis over the estimated useful lives of the related improvements (\$254 in 2008, \$247 in 2007 and \$240 in 2006).

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 NOTES TO FINANCIAL STATEMENTS (Continued)
 (Dollars in Thousands Except Per Share Amounts)

Grant proceeds utilized to finance public improvements, such as grade crossings and signals, are recorded as a direct offset to the cost of the improvements, which are not capitalized.

Revenue Recognition

Freight revenues are recorded at the time delivery is made to the customer or the connecting carrier.

Other freight-related revenues and other operating revenues are recorded at the time the services are rendered to the customer.

Gain or loss from sale, condemnation and disposal of property and equipment and easements is recorded at the time the transaction is consummated and collectibility is assured.

Income Taxes

The Company provides reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. Prior to 2007, these reserves were recorded when management determined that it was probable that a loss would be incurred related to these matters and the amount of the loss was reasonably determinable. In 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. As a result, reserves recorded subsequent to adoption are based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is "more likely than not" to be realized following resolution of any potential contingencies related to the tax benefit, assuming that the matter in question will be raised by the tax authorities. Potential interest and penalties associated with such uncertain tax positions is recorded as a component of income tax expense.

Deferred income taxes are recorded based on the differences between the financial statement and tax basis of assets and liabilities. Such deferred income taxes are also adjusted to reflect changes in the U.S. tax laws when enacted and changes in state tax rates. Valuation allowances are recorded against deferred tax assets that are not expected to be realized.

Income (Loss) per Common Share

Basic income (loss) per common share is computed using the weighted average number of common shares outstanding during each year. Diluted income (loss) per common share reflects the effect of the Company's outstanding convertible preferred stock (using the if-converted method) and options (using the treasury stock method), except where such items would be antidilutive.

A reconciliation of weighted average shares used for the basic computation and that used for the diluted computation is as follows:

	Years Ended December 31,		
	2008	2007	2006
Weighted average shares for basic	4,790,005	4,545,160	4,522,763
Dilutive effect of convertible preferred stock and options	76,114	—	79,603
Weighted average shares for diluted	4,866,119	4,545,460	4,602,366

Options to purchase 7,410, 43,634 and 3,731 shares of common stock were outstanding during 2008, 2007 and 2006, respectively, but were not included in the computation of diluted (loss) earnings per common share because their effect would be antidilutive. Shares of preferred stock convertible into 64,000 shares of common stock were outstanding during 2007 but were not included in the computation of the diluted loss per common share because of their antidilutive effect.

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Liabilities for casualty claims, legal judgments and other loss contingencies are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The Company does not accrue estimated legal fees for appeals of legal judgments since we do not believe that such costs meet the definition of a liability and thus are accruable only at such time as legal services have been provided.

Comprehensive Income

Comprehensive Income equals net income for 2008, 2007 and 2006.

Segment Reporting

The Company organizes itself as one segment reporting to the chief operating decision maker. Products and services consist primarily of interstate freight rail services. These include the movement of freight in both conventional freight cars and in intermodal containers on flat cars over the Company's rail lines, as well as freight-related services such as switching, weighing and special trains and other services rendered to freight customers and other outside parties by the Company's Maintenance of Way, Communications & Signals and Maintenance of Equipment Departments.

2. Share-Based Compensation

The Company has a non-qualified stock option plan ("SOP") covering all management personnel who have a minimum of one year of service with the Company and who are not holders of a majority of either its outstanding common stock or its outstanding preferred stock. In addition, the Company's outside directors are eligible to participate in the SOP. The Company's stockholders have authorized 5% of the shares of common stock outstanding (240,067 shares at December 31, 2008) for issuance under the SOP. Options granted under the SOP, which are fully vested when granted, are exercisable over a ten year period at the closing market price for the Company's common stock on the last business day of the year prior to the date the options are granted. The Company issues new common stock to satisfy stock options exercised.

The Company recognizes compensation expense for new stock option grants at fair value on the grant date and recognizes this expense over the requisite service period for awards expected to vest. Stock-based employee compensation expense, net of income taxes, in the amounts of \$58, \$77 and \$56, have been charged against income in 2008, 2007 and 2006, respectively, for stock options granted. The Company's policy is to estimate the fair market value of each option granted on the date of grant, the first business day in January of each year, using the Black-Scholes option pricing model, and record the compensation expense on a straight-line basis over the year in which the grant was made.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 NOTES TO FINANCIAL STATEMENTS (Continued)
 (Dollars in Thousands Except Per Share Amounts)

Key assumptions used to apply the Black-Scholes option pricing model are set forth below:

	2008	2007	2006
Average risk-free interest rate	3.7%	4.68%	4.32%
Expected life of option grants	6.0 years	7.0 years	7.0 years
Expected volatility of underlying stock	75%	87%	88%
Expected dividend payment rate, as a percentage of the share price on the date of grant	.96%	.82%	1.07%
Weighted average grant date fair value	\$ 10.55	\$ 14.39	\$ 10.70

The following table summarizes the stock option activity under the Company's plan for 2008:

	Number Of Options	Exercise Price	Weighted Average Fair Value
Outstanding and exercisable at December 31, 2007	43,634	12.62	
Granted.....	8,380	16.72	\$ 10.55
Exercised.....	(2,009)	8.69	
Expired.....	(3,387)	18.18	
Outstanding and exercisable at December 31, 2008	46,618	\$ 13.13	

The total intrinsic value of options exercised for the years ended December 31, 2008, 2007 and 2006 totaled approximately \$14, \$14 and \$76 respectively, and cash proceeds from the exercise of stock options totaled approximately \$17, \$21 and \$67 for the years ended December 31, 2008, 2007 and 2006, respectively. The income tax benefits realized from the exercise of stock options was not material for the periods presented.

The aggregate intrinsic value of the stock options outstanding, based on the closing stock price of the Company's common stock as of December 31, 2007 and 2006, totaled approximately \$174 and \$342, respectively. The aggregate intrinsic value as of December 31, 2008 was a negative \$53.

Common Stock Awards

The Company has awarded certain of its employees common stock under stock award plans. During the years ended December 31, 2008, 2007 and 2006, the Company awarded 1,970, 2,575 and 1775 shares, respectively. The compensation expense recorded for these awards was \$37, \$45 and \$28 for 2008, 2007 and 2006, respectively.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 NOTES TO FINANCIAL STATEMENTS (Continued)
 (Dollars in Thousands Except Per Share Amounts)

3. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2008	2007
Land and improvements, excluding land held for development.....	\$11,952	\$11,587
Track structure.....	81,515	78,840
Buildings and other structures	8,462	8,612
Equipment	24,503	26,780
	126,432	125,819
Less accumulated depreciation	45,645	46,855
Total property and equipment, net.....	\$80,787	\$78,964

4. Land Held for Development

Pursuant to permits issued by the United States Department of the Army Corps of Engineers and the Rhode Island Coastal Resources Management Council, the Company created 33 acres of waterfront land in East Providence, Rhode Island ("South Quay"). The permits for the property, which have been extended to December 2009 and May 2009, respectively, also allow for construction of a dock along the west face of the South Quay. The property, which has a carrying value of \$11,958, is adjacent to a 12 acre site also owned by the Company.

The property is located one half-mile from I-195. In 2006, the Rhode Island Department of Transportation awarded a contract for roadway improvements to provide direct vehicular access from the interstate highway system to the South Quay, which project was completed in 2007. The planned extension by RIDOT of Waterfront Drive northward toward an industrial area in which the Company owns two additional waterfront parcels comprising 11 acres, creating direct access to such property, is in the design stage.

The City of East Providence has created a waterfront redevelopment area with a zoning overlay that would encourage development of offices, hotels, restaurants, shops, marinas, apartments and other "clean" employment. The Company has been cooperating with the City of East Providence in these efforts.

5. Revolving Line of Credit

The Company has a revolving line of credit with its principal bank in the amount of \$5,000 expiring May 31, 2009. Borrowings under this line of credit are unsecured, due on demand and bear interest at either the bank's prime rate or one and one half percent over either the one or three month London Interbank Offered Rates. The Company pays no commitment fee on this line and has no compensating balance requirements. During the second quarter of 2007, the Company borrowed \$1,200 under this line and repaid \$300 during the fourth quarter leaving an outstanding balance of \$900 at December 31, 2007. This balance was repaid in full in January 2008. Interest expense of \$52 was incurred during 2007 and is included in general and administrative expense.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 NOTES TO FINANCIAL STATEMENTS (Continued)
 (Dollars in Thousands Except Per Share Amounts)

6. Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2008	2007
Salaries and wages	\$ 486	\$ 540
Payroll taxes	142	134
Simplified employee pension plan contributions	232	209
Legal and professional fees	178	138
Casualty loss claims	280	308
Other	142	182
	\$ 1,460	\$ 1,511

7. Other Income

Other income consists of the following:

	Years Ended December 31,		
	2008	2007	2006
Gains from sale, condemnation and disposal of property, equipment and easements, net	\$ 523	\$ 288	\$ 766
Rentals and license fees under various operating leases	494	577	547
Interest	33	25	60
	\$ 1,050	\$ 890	\$ 1,373

8. Income Taxes (Benefit)

The provision for income taxes (benefit) consists of the following:

	Years Ended December 31,		
	2008	2007	2006
Current:			
Federal	\$ (44)	\$ (90)	\$ 51
State	18	—	6
	(26)	(90)	57
Deferred, Federal and State	161	(60)	503
	\$ 135	\$ (150)	\$ 560

PROVIDENCE AND WORCESTER RAILROAD COMPANY
NOTES TO FINANCIAL STATEMENTS (Continued)
(Dollars in Thousands Except Per Share Amounts)

The following summarizes the estimated tax effect of temporary differences that are included in the net deferred income tax provision:

	Years Ended December 31,		
	2008	2007	2006
Depreciation	\$ 423	\$ 495	\$ 508
Deferred grant income	29	(96)	42
Net operating loss carry forward	(278)	(362)	—
Contribution carry forward	12	(75)	—
Accrued casualty and other claims	9	1	21
Accrued compensated time off and related payroll taxes	(10)	12	(39)
Share based compensation	(32)	(42)	(31)
Allowance for doubtful accounts	8	7	2
	\$ 161	\$ (60)	\$ 503

In 2005 through 2008 the Company generated Railroad Track Maintenance Credits in the cumulative amount of \$4,491. These credits may be utilized, subject to certain limitations, to offset the Company's current federal income tax liability. Any credits not utilized in the year earned may be carried forward to offset future income tax liabilities for a period of 20 years. None of these credits have been utilized to date and, therefore, such unused credits constitute deferred income tax assets. Such assets, however, have been fully reserved since their future realization is not assured.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's net deferred income tax liability as of December 31, 2008 and 2007 are as follows:

	December 31,	
	2008	2007
Deferred income tax liabilities - Differences between book and tax basis of property and equipment	\$15,846	\$15,423
Deferred income tax assets:		
Deferred grant income	2,915	2,944
Net operating loss carry forward	640	362
Contribution carry forward	63	75
Accrued casualty and other claims	100	109
Accrued compensated time off and related payroll taxes	172	162
Share based compensation	105	73
Allowance for doubtful accounts and other	46	54
	4,041	3,779
Net deferred income tax liability	\$11,805	\$11,644

At December 31, 2008, the Company had federal net operating loss carryforwards of \$1,983, which begin to expire in 2025.

PROVIDENCE AND WORCESTER RAILROAD COMPANY
 NOTES TO FINANCIAL STATEMENTS (Continued)
 (Dollars in Thousands Except Per Share Amounts)

A reconciliation of the U.S. federal statutory rate to the effective tax rate is as follows:

	Years Ended December 31,		
	2008	2007	2006
Federal statutory rate	34%	(34%)	34%
Railroad track maintenance credits	—	14	(2)
Non deductible expenses, state income taxes, and other	4	1	3
Other.....	7	—	—
Effective tax rate.....	45%	(19%)	35%

The Company is subject to U.S. federal income tax as well as income tax in the Commonwealth of Massachusetts. All U.S. federal income and Massachusetts income tax matters have been concluded through 2006.

9. Commitments and Contingent Liabilities

The Company is a defendant in certain lawsuits relating to casualty losses, many of which are covered by insurance subject to a deductible. The Company believes that adequate provision has been made in the financial statements for any expected liabilities which may result from disposition of such lawsuits.

On January 29, 2002, the Company received a “Notice of Potential Liability” from the United States Environmental Protection Agency (“EPA”) regarding an existing Superfund Site that includes the J.M. Mills Landfill in Cumberland, Rhode Island. EPA sends these “Notice” letters to potentially responsible parties (“PRPs”) under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”). EPA identified the Company as a PRP based on its status as an owner and/or operator because its railroad property traverses the Site. Via these Notice letters, EPA makes a demand for payment of past costs (identified in the letter as \$762) and future costs associated with the response actions taken to address the contamination at the Site, and requests PRPs to indicate their willingness to participate and resolve their potential liability at the Site. The Company has responded to EPA by stating that it does not believe it has any liability for this Site, but that it is interested in cooperating with EPA to address issues concerning liability at the Site. At this point, two other parties have already committed via a consent order with EPA to pay for the Remedial Investigation/Feasibility Study (“RI/FS”) phase of the clean-up at the Site, which will take approximately two or more years to complete. After that, EPA will likely seek to negotiate the cost of the Remedial Design and implementation of the remedy at the Site with the PRPs it has identified via these Notice letters (which presently includes over sixty parties, and is likely to increase after EPA completes its investigation of the identity of PRPs). On December 15, 2003, the EPA issued a second “Notice of Potential Liability” letter to the Company regarding the Site. EPA again identified the Company as a PRP, this time because EPA “believes that [the Company] accepted hazardous substance for transport to disposal or treatment facilities and selected the site for disposal.” The Company responded again to EPA stating that it is interested in cooperating with EPA but that it does not believe it has engaged in any activities that caused contamination at the Site. The Company believes that none of its activities caused contamination at the Site, and will contest this claim by EPA and, therefore, no liability has been accrued for this matter.

In connection with the EPA claim described above, the two parties who have committed to conduct the RI/FS at the Site filed a complaint in the U.S. District Court of Rhode Island against the Company, in an action entitled CCL Custom Manufacturing, Inc. v. Arkwright Incorporated, et al (consolidated with Unilever Bestfoods v. American Steel & Aluminum Corp. et al), C.A. No. 01-496/L, on December 18, 2002. The Company was one of about sixty parties named by Plaintiffs, in this suit, to recover response costs incurred in investigating and responding to the releases of hazardous substances at the Site. Plaintiffs alleged that the Company is liable under 42 U.S.C. § 961(a)(3) of CERCLA as an “arranger” or “generator” of waste that ended up at the Site. The Company entered into a Generator Cooperation Agreement with other defendants to allocate costs in responding to this suit, and to share technical costs and information in evaluating the Plaintiffs’ claims. Although the Company does not believe it generated any waste that ended

PROVIDENCE AND WORCESTER RAILROAD COMPANY
NOTES TO FINANCIAL STATEMENTS (Continued)
(Dollars in Thousands Except Per Share Amounts)

up at this Site, or that its activities caused contamination at the Site, the Company paid \$45 to settle this suit in March 2006.

10. Employee Benefit Plans

Defined Contribution Retirement Plans

The Company has a deferred profit-sharing plan ("Plan") which covers all of its employees who are members of its collective bargaining units. Contributions to the Plan are required in years in which the Company has income from "railroad operations" as defined in the Plan. Contributions are to be equal to at least 10% but not more than 15% of the greater of income before income taxes or income from railroad operations subject to a maximum contribution of \$3.5 per eligible employee. Contributions to the Plan may be made in cash or in shares of the Company's common stock valued at the closing market price for the Company's stock on the last business day of the year prior to the date the options are granted. Contributions accrued under this Plan amounted to \$178 in 2006. No contribution was made for 2008 or 2007 since the Company did not generate income from railroad operations during those years. The Company made its 2006 contribution in newly-issued shares of its common stock.

The Company also has a Simplified Employee Pension plan ("SEP") which covers substantially all employees who are not members of one of its collective bargaining units. Contributions to the SEP are discretionary and are determined annually as a percentage of each covered employee's compensation up to the maximum amount allowable by law. Contributions accrued under the SEP amounted to \$232 in 2008, \$208 in 2007 and \$212 in 2006 which, in each year, was less than the maximum amount allowable by law.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("ESPP") under which eligible employees may purchase registered shares of common stock at 85% of the market price for such shares. An aggregate of 200,000 shares of common stock are authorized for issuance under the ESPP which was established in 1997. Any shares purchased under the ESPP are subject to a two year lock-up. ESPP purchases amounted to 5,281 shares in 2008, 4,492 shares in 2007 and 4,376 shares in 2006.

11. GATX Corporation

On January 10, 2008, the Company entered into an agreement with GATX Corporation ("GATX") whereby GATX acquired 239,523 (approximately 4.99%) newly-issued shares of the Company's common stock for approximately \$5.5 million to be utilized for capital improvements to enhance the Company's railroad lines. The parties also entered into an Exclusive Railcar Supply Agreement whereby GATX has the exclusive right to supply the Company with railcars for certain rail traffic on market-competitive terms. In addition, the Company exchanged 72 of its mill gondolas for 137 open-top hoppers owned by GATX, which exchange was accounted for as a purchase. The Company agreed to lease the 72 mill gondolas from GATX under operating leases for a period of up to 7 years at a minimum annual rental of \$248 through January 2015. Rental expense of \$241 was incurred under this lease in 2008 leaving a maximum total commitment of \$1,493 as of December 31, 2008.

12. Preferred Stock

The Company's \$50 par value preferred stock is convertible at any time at the option of the holder of the preferred stock into 100 shares of common stock. The noncumulative stock dividend is fixed by the Company's Charter at an annual rate of \$5.00 per share, out of funds legally available for the payment of dividends.

The holders of preferred stock and holders of common stock are entitled to one vote per share, voting as separate classes, upon matters voted on by shareholders. The holders of common stock elect one third of the Board of Directors; the voters of preferred stock elect the remainder of the Board.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. (T) Controls and Procedures

Management's Report Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")). Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this annual report, the Company's disclosure controls and procedures were effective.

Management's Report Regarding the Effectiveness of Internal Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate as a result of changes in conditions, or that the degree of compliance with the applicable polices and procedures may deteriorate.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the Company's internal control over financial reporting as of the end of the period covered by this annual report based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Such evaluation included reviewing the documentation of the Company's internal controls, evaluating the design effectiveness of the internal controls and testing their operating effectiveness.

Based on such evaluation, the Company's management has concluded that as of the end of the period covered by this annual report, the Company's internal control over financial reporting was effective.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to the directors of the Company, see Pages 2 through 7 and 9 through 12 of the Company's definitive proxy statement for the 2009 annual meeting of its shareholders, which pages are incorporated herein by reference.

The following are the executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of First Election to Office</u>
Robert H. Eder	76	Chairman	1980
P. Scott Conti	51	President	2005
David F. Fitzgerald	58	Vice President	2005
Frank K. Rogers	47	Vice President	2005
Robert J. Easton	65	Treasurer	1988
Marie A. Angelini	50	Secretary	2007

Any officer elected or appointed by the Company's Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Mr. Conti served as Vice President from March 1999 until his election as President in 2005. Upon joining the Company in 1988, he served as Engineering Manager through December 1997, and then as Chief Engineer from 1998 until March 1999. Mr. Fitzgerald joined the Company in 1973 and served as Superintendent of Transportation prior to his promotion to Vice President in 2005. Mr. Rogers joined the Company in 1994 and served as Director of Marketing prior to his promotion to Vice President in 2005. Ms. Angelini joined the Company in 2005 and served as Assistant General Counsel prior to her promotion to General Counsel and election as Secretary in 2007.

The Company has adopted a written code of ethics that applies to all of its employees including its Chief Executive Officer and its Chief Financial Officer. A copy of the Company's code of ethics, entitled "Business Conduct Policy," is available on the Company's website at <http://www.pwrr.com>, and/or may be obtained without charge by contacting:

Investor Relations
Attention: Wendy Lavelly
Providence and Worcester Railroad Company
75 Hammond Street
Worcester, Massachusetts 01610
(800) 447-2003
Internet Address: <http://www.pwrr.com>; wlavely@pwrr.com

Item 11. Executive Compensation

See pages 7 and 9 through 16 of the Company's definitive proxy statement for the 2009 annual meeting of its shareholders, which pages are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See pages 8 and 9 of the Company's definitive proxy statement for the 2009 annual meeting of its shareholders, which pages are incorporated herein by reference.

The following table sets forth information as of the end of the Company's most recently completed fiscal year with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

<u>Plan Category</u>	<u>Number of Securities To be Issued Upon Exercise of Outstanding Options Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options Warrants and Rights</u>	<u>Number of Securities Remaining Available For Future Issuance</u>
Equity compensation plans approved by security holders.....	46,618	\$13.13	291,435
Equity compensation plans not approved by security holders.....	N/A	N/A	182,010
Total	46,618	\$13.13	473,445

Item 13. Certain Relationships and Related Transactions and Director Independence

See pages 2 and 17 of the Company's definitive proxy statement for the 2009 annual meeting of its shareholders which pages are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

See pages 17 and 18 of the Company's definitive proxy statement for the 2009 annual meeting of its shareholders which pages are incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) (1) All financial statements:
An index of financial statements is included in Item 8, page II-12 of this annual report.
- (2) Financial Statement schedule:
Schedule II Valuation and Qualifying Accounts..... Page IV-3
- All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the financial statements or the notes thereto.
- (3) Listing of Exhibits.
- (10A) Material Contracts (incorporated by reference to Exhibit 10 to the registration statement of the Registrant on Form 10, to the Non-Qualified Stock Option Plan and Employee Stock Purchase Plan of the Registrant on Forms S-8 and to the registration statements of the Registrant on Form S-1).
- (23) Consent of Independent Registered Public Accounting Firm.
- (31) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32) Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Not applicable.
- (c) Exhibits (annexed).

Financial Statement Schedule. See item (a) (2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVIDENCE AND WORCESTER RAILROAD COMPANY

/s/ Robert H. Eder

By Robert H. Eder
Chief Executive Officer

Dated: March 25, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Robert H. Eder _____ Robert H. Eder	Chief Executive Officer and Chairman (Principal Executive Officer)	March 25, 2009
/s/ P. Scott Conti _____ P. Scott Conti	President and Director (Chief Operating Officer)	March 25, 2009
/s/ Robert J. Easton _____ Robert J. Easton	Treasurer (Principal financial officer and principal accounting officer)	March 25, 2009
/s/ Richard W. Anderson _____ Richard W. Anderson	Director	March 25, 2009
/s/ Frank W. Barrett _____ Frank W. Barrett	Director	March 25, 2009
/s/ J. Joseph Garrahy _____ J. Joseph Garrahy	Director	March 25, 2009
/s/ John J. Healy _____ John J. Healy	Director	March 25, 2009

PROVIDENCE AND WORCESTER RAILROAD COMPANY

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(IN THOUSAND DOLLARS)

<u>Column A</u>	<u>Column B</u>	<u>Column C Additions</u>		<u>Column D</u>	<u>Column E</u>
Description	Balance At Beginning of period	(1) Charged to costs and expenses	(2) Charged to other accounts describe	Deductions	Balance at end of period
Allowance for doubtful accounts:					
Year ended December 31, 2008	\$ 150	\$ 6		\$ 26	\$ 130
Year ended December 31, 2007	\$ 175	\$ 0		\$ 25	\$ 150
Year ended December 31, 2006	\$ 175	\$ 0		\$ 0	\$ 175

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-65937, 333-65949, and 333-21617 each on Form S-8 of our report dated March 25, 2009, relating to the financial statements and financial statement schedule of Providence and Worcester Railroad Company, appearing in this Annual Report on Form 10-K of Providence and Worcester Railroad Company for the year ended December 31, 2008.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
March 25, 2009

Providence and Worcester Railroad Company
Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, ROBERT H. EDER, certify that:

1. I have reviewed this annual report on Form 10-K of Providence and Worcester Railroad Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on our evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: March 25, 2009

/s/ Robert H. Eder
By: _____
Robert H. Eder
Chairman of the Board
and Chief Executive Officer

Providence and Worcester Railroad Company
Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, ROBERT J. EASTON certify that:

1. I have reviewed this annual report on Form 10-K of Providence and Worcester Railroad Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on our evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: March 25, 2009

/s/ Robert J. Easton
By: _____
Robert J. Easton
Treasurer and Principal
Financial Officer

PROVIDENCE AND WORCESTER RAILROAD COMPANY
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Providence and Worcester Railroad Company (the Company) on form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert H. Eder, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert H. Eder

Robert H. Eder,
Chairman of the Board and Chief Executive Officer
March 25, 2009

In connection with the Annual Report of Providence and Worcester Railroad Company (the Company) on form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert J. Easton, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert J. Easton

Robert J. Easton,
Treasurer and Chief Financial Officer
March 25, 2009