



June 1, 2007

Watco Team:

This past week we had a couple of new beginnings. Both took a long time to make happen and will make our company better in the long run. While they both involve railroad operations, they are different in nature because with one we are changing an existing operation and the other is the start of a brand new venture.

The operation that we are changing was in need of improvement due to market shifts that required our Customers to change how they had planned for us to serve them. We had a choice to either tell our Customers "tough luck" because we had a contract that we could force them to honor, or tell them that no matter how well you plan, markets do change and therefore we must change our service arrangements to reflect that reality. As we always should do, we offered a helping hand to our Customers and started working with them to put together the right service plan for their current needs. By doing so we gained some very satisfied Customers and positioned ourselves to be successful with them for many years to come. This change didn't come without some pain for our people and our pocketbook, but I'm sure it was the right thing to do.

The new operation we won was a very competitive bid process. Our team led by Allan Roach, Dave Eyermann and Paul Schiefelbein did a great job of preparing, submitting and winning the bid. They, as well as all who worked so hard on this project, deserve a big thank you for our success. Interestingly, the new business we won will more than offset any lost revenue from the agreement change I mentioned before and will be significantly better for our bottom line.

These two new beginnings again show that by always trying to do the right thing for our Customers, either existing or potential new ones, while keeping our financial interests in mind over the long-term, we will be successful. Those foundation principles work every time. Don't ever forget them and keep making great things happen.

*Rich*