



July 20, 2007

Watco Team:

Management is really the process of creating greater value through the direction of many hands, rather than using one set of hands. In other words, the purpose of management is to take the knowledge, experience and abilities of one person and multiply the value of those skills and talents over several people. In doing so, a Company is able to create more value for its customer, people and investors.

Having been in several different industries working with, and for, many different companies has allowed me to learn many things about this process. In the case of smaller companies, it is common to find people in management positions who ascended to that level based more on their own technical skills rather than a proven capability to expand that value through strong management skills. Many times these people, while great at the technical aspects of the job, fail as managers because they fail to develop good management skills.

Absent proper training of management skills, these people resort to what led them to be promoted, which is doing multiple jobs themselves by telling people every detail and making every decision. This trait is frequently referred to as micromanagement and if you have ever worked for a micromanager, then you know how it affects moral and productivity. People are generally more satisfied with their job when they are able to be part in the decision process rather than be relegated to simply an order taker. Engaging people in the decision-making process vests those responsible for making things happen with a sense of ownership and understanding of purpose that is complexly absent when just doing what someone else told them to do.

People want to engage their minds and not just their bodies. It is imperative that as a growing company, we transfer the knowledge and skills that enabled Watco to grow from a single operation to the nationwide company it is today from the mind of our founder to our entire organization. We often refer to this as the Watco franchise. If you are familiar with the concept of a franchise like McDonalds, the purpose is to combine the benefits of local ownership with a support structure and ways of doing business in a larger corporate organization. This approach to business allows good people at the local level to act quickly to address the dynamic business factors at the local level, while providing them with the back office support that is more efficient and powerful than that which would be normal in a smaller organization.

When we talk about the Watco franchise approach we are doing the same thing. It begins with having great people, then providing them with the understanding of the business principles that lead to success, combined with the support mechanisms that provide the information, measurements and knowledge to make the right decisions at the local level. Local managers must be owners of their operations and therefore the primary driver of actions that respond to changes in customer needs, market conditions and other local factors that a person located many miles away could never do as well. The principles we teach are our Foundation Principles: Achieve

Customer Satisfaction, Improve Profitability over the Long-Term. The support systems we provide include our AOP system, Safety, HR, Accounting, IT, Legal, Business Development, Government Affairs and Purchasing among others. The way we empower our local managers is through development of their understanding of how to apply our Foundation Principles to local decisions and situations and to vest them with the authority to make local decisions. Of course the authority granted to them always comes with a responsibility to achieve our stated goals and the accountability associated with this right.

In the end, this is the only way that Watco will be able to continue to grow as a Company and allow us to sustain the success that has enabled us to become a nationwide leader in the railroad industry today. Evaluate how you interact with your Team and make sure you're providing them with just what they need and not hindering performance. Eliminate barriers for performance and provide the resources your Team needs to execute their plan. We want to empower our Team to become entrepreneurs at the local level and allow them to react to dynamics of Customer needs and business factors, but in a framework of success. By trusting our Team to make the right decisions and act accordingly, we will continue to take Watco to new levels of success.

Thanks for being a part of the Watco Team.

A handwritten signature in black ink, appearing to read "T. D. ...", is positioned below the text. The signature is fluid and cursive, with a long horizontal stroke extending to the right.