



July 27, 2007

Watco Team:

It has been nearly a month since rains caused severe flooding for the South Kansas and Oklahoma Railroad (SKOL) and Millennium Rail shop in Neodesha. The shop is now up and running, although not at full throttle, while the SKOL is operating mostly at restricted speeds of less than 10mph, thanks to emergency repairs. Once permanent repairs are completed, normal traffic speeds will be restored across the entire railroad.

Although the worst part of this event appears to be over, the financial impact will last much longer. Flood damage on the SKOL and at the Neodesha shop will lead to several million dollars in repairs. Those are repairs we didn't anticipate nor budget for, so the AOP will be dramatically affected. Additionally, during the time our railroad and shop were closed, efficiencies and revenue were severely affected.

Each and every one of us has an important role in overcoming the financial strains caused by this event. It doesn't matter what part of Watco you call home; as a member of the Watco Team it's all of our responsibility to rise to meet this challenge. This means we all must work as efficiently and economically as possible. By making the most of dollars we spend and by not spending dollars we don't need to, we will be on our way to recovering from these significant financial setbacks.

As always, and now more than ever, we must practice our foundation principles of Improved Customer Satisfaction and Improved Profitability Over the Long Term with value added. By doing this, we will be successful with our Customers and the anticipated improvements will follow.

Thanks for your efforts and I'm looking forward to seeing the great Watco Team achieve amazing results in the second half of 2007.

Keep making great things happen.

*Rich*