



October 5, 2007

Watco Team:

Monday, October 1<sup>st</sup>, Watco Companies began operations of its 17<sup>th</sup> railroad, the Austin Western Railroad, or AWRR. While we are always excited to start new operations, this 155-mile railroad is unique because late next year it will not only provide freight service, but also commuter service.

The Austin Western primarily moves aggregates from the Marble Falls, TX area to the BNSF and UP interchange near Austin, TX. The quarries that support the rock traffic have 100-year reserves and the demand for rock is strong and will continue to grow. In fact, we expect at least a 30% increase in carloads within the first 18 months due to new unit train business.

Late 2008 will bring commuter service to the Austin Western and we are very excited to expand our knowledge of rail services with this venture. Our partner, Veolia, is a world-wide leader in commuter rail operations and will operate the commuter service, primarily during a 12-hour daytime window. One of the reasons Watco won the bid on this operation is because our freight schedule model offers the greatest opportunity to incorporate freight and rail service together.

As Watco continues to grow and diversify our revenue streams, we will have opportunities such as this one to increase the services we offer and become even more valuable to our Customers. We are optimistic that as more commuter operations intermingle with freight operations Austin will become a model that will be replicated around the country.

Thanks to everyone for their dedication on making this operation a reality. By working together, we will continue to be the best Team in the industry.

Keep making great things happen.

*Rick*