



December 17, 2007

Watco Team:

Last Monday we received a negative ruling from the Surface Transportation Board, (STB), on our quest to form a joint venture with the Norfolk Southern in Michigan, which would create the Michigan Central. As in any setback, especially one that we worked so hard to accomplish, there were many emotions flowing, including disappointment, frustration and even anger. But when we step back from the heat of the moment and look at what was accomplished, we have much to be proud of and in which to take heart.

We worked with the NS to create a new way to form short line railroads that will allow continual improvement to merchandise carload Customers. Even though we didn't get approval this time, I'm convinced that we will eventually because the need to create a structure that will allow more parts of the Class I network to be outsourced to better serve the Customers has not gone away. The market is demanding a solution and there is no better Customer solution provider than Watco.

The thing that inspires me the most about this situation is the dedication to success exhibited by our people. The perseverance of Ed McKechnie, Craig Richey, Rick Baden, Dave Eyermann, Allan Roach, Shasta Stump, Kirk Hawley and the many, many others who supported this effort was and is an amazing sight to see. The efforts of our great Watco people put us in a position to win, will never be forgotten and will always be appreciated.

Moving forward we will use this as a learning experience. We are currently working with our joint venture partner, NS, to explore ways to restructure our approach on providing a new short line solution for the Customers that will get approved by the STB and still allow the creation of the many positive benefits that would come from such a transaction. I believe in this situation, as in all other positive things in life that should happen, no is just a temporary stop on the way to YES!!

I want to wish all of the Watco family a very MERRY CHRISTMAS and hope you enjoy a safe, peaceful and joyous holiday in celebration of the birth of our LORD!

Keep making great things happen,

*Rick*