



January 6, 2008

Watco Team:

Auburn University recently studied the differences between farmers who are profitable and those who lose money. The study concluded that successful farmers display three characteristics:

1. High-profit farmers gained advantage by closer management of their expenses.
2. They maintain better records so as to monitor their business closer than low-profit counterparts.
3. They pay more attention to details.

The difference of course is sustainability during poor times and the ability to take advantage of business opportunities during good times.

What Auburn describes is no real secret and is the same best management practices that all the best business people use. The same is true in our business. Many times it is easy to find people who consider themselves true "railroaders". By this they mean someone who knows how to move railcars. While moving railcars safely is an extremely important factor in our success, our purpose as managers is to realize our business goals and objectives for service, safety, productivity, efficiency and relationships as defined by our Foundation Principles. In other words, we are business people first who operate in the rail industry by providing rail services to our Customers.

Like the best farmers, we must ensure that we do the following:

1. Deliver value-added service to our Customer that is timely, accurate, safe and priced right. This involves moving the right cars at the right time.
2. Perform our services safely and efficiently by paying close attention to details of our operations. This involves understanding how to define the right work, defining and communicating to our people expectations for performance of their work, measuring actual performance against the expectations and identifying the root cause for deviations and communicating and coaching our people in a timely manner on how to improve. Going from average to great isn't a matter of improving one or two things that represent a huge improvement, but managing the small things that individually don't represent a whole lot but in total represent a huge difference in performance. This is a matter of desire and attitude to want to be great rather than just being complacent with average or even good performance.

3. Build long-term relationships with our Customers and our People. The best managers are those that are trusted by the people they lead and manage. They communicate and explain reasons for their decisions. They involve their people in the decision process. They engage their team mentally in the business to enable them to improve over time rather than just giving orders to their team members.

Customers become loyal to us as we deliver quality service that they can depend on time and time again. As their trust and confidence grows, our Customers will allow us to take on more of their freight business, as well as the opportunities to provide switching, mechanical, transloading or other services.

Does this sound familiar? It should, as all three points enumerated above are our Foundation Principles in action: Customer Satisfaction, Profitability achieved over the Long-Term.

Just like farmers, success starts with us as managers as to whether we are average, good or great.

Thanks.

A handwritten signature in black ink, appearing to read "T. D. ...". The signature is written in a cursive style with a horizontal line above the first few letters.