



January 25, 2008

Watco Team:

This week I wanted to update you on activities in Washington, D.C. that impact our industry. While we focus every day on taking care of our Customers all across North America, what we do and how we do it is viewed by Members of Congress and regulators in the federal government. Those impressions by members of Congress then in turn convert into laws and regulations that impact how we can do business every day.

The Surface Transportation Board has made a number of rulings in the past six months that are being viewed as unfriendly to railroads. The impact of the Michigan Central filing we made, paper barriers, and the small rate case could slow or stop Class I railroads from outsourcing additional miles of track to companies like Watco, and slow or complicate our daily business activities.

The reasons for the change in attitude on the STB are numerous, but one certain fact is that Washington responds to those who show up and take an active part in the public policy debate. Watco actively engages in that process. Ed McKechnie, our Chief Commercial Officer, sits on the short line association executive committee, and Kirk Hawley, our Vice President of Customer Service, sits on the short line association board of directors.

Kirk and Ed will be joined by several other members of the Watco team this March in the annual Railroad Day on the Hill, as we participate in the industry-wide lobbying effort for issues that are important to railroads and our Customers.

This year we will have six of our great Customers attend Railroad Day to help tell our story for us. Customers from Kansas, Montana and Idaho are going to Washington to visit with key members of the Senate Finance Committee, the Committee that has jurisdiction over the short line tax credit. That credit expired on December 31, 2007, after providing more than \$30 million to improve the Watco network of short lines.

I truly appreciate the willingness of these important Customers to give up three days of their busy schedules in order to travel from very distant locations in our country to help tell the Watco story in Washington.

What we do every day impacts how we are seen in ways that is hard to imagine. The commitment of our team from the Pacific Northwest to Florida and from the L.A. Basin to Pennsylvania, and

every where in between, gives our Customers the desire to travel those great distances and help us help them.

Keep making great things happen,

Rich