



February 4, 2008

Watco Team:

The economy is a hot topic on the political trails and in all media today. What we are experiencing today is a consequence of excesses driven by short term thinking by financial institutions and the American public. This is not a new situation. We see it today with subprime lending in the housing market; we saw it in the 90's with the dot-coms and LBO's (Leveraged Buyouts) in the 80's. In the future, we may see it as a result of excesses with credit card debt.

The basic pattern is that the financial community believes it has developed some new-fangled way to make financial profits through some new method of investing or financing. One of the early signs of the looming crisis is when you read or hear some financial pundit proclaim this is a "new paradigm", something that is "different and improved" over anything in the past. A second sign is when you see hyperactivity of financial companies as buyers paying exorbitant prices for companies while companies that operate in that industry refrain from paying unreasonable prices.

The real driving force behind all of these situations is greed and ego. People begin to believe they are smarter than their many, many predecessors in the financial markets over a long history of time. Second, people see a quick way to make a buck in a "transaction" without regard to the havoc the situation will bring to many people at a later time. Third, fundamental reasoning and logic at the very basic level is supplanted by justifications stemming from new financing methods or portfolio theory. The end result is that excessive amounts of money flow to areas of the market that are fundamentally illogical. Prices in this area drive upward beyond a reasonable amount due to excess demand stimulated by easy access to cheap money. In the end, the consequence of ignoring the fundamental risks and logic at the consumer levels comes to roost.

The lessons we can take from this situation are the soundness of remaining focused on basic principles such as our Watco Foundation Principles. The logic of staying focused on serving our Customers in a safe and efficient way and building good relationships with our Customers, people and communities may not always be in vogue, but is a fundamental logic that will endure the test of time. Staying focused on these fundamentals is how Dick and the Webb/Lundy family, along with the many great people in the Watco family have been able to build Watco to what it is today from a single location 25 years ago. It is also how we will continue to build on this success long into the future.

Thank you for your dedication to these Principles and for your hard work and loyalty to Watco.

A handwritten signature in black ink, appearing to read 'Dick Webb', is located at the bottom left of the page.