



2008 – What a year it was

As 2008 draws to a close, I want to reflect on what we have accomplished this year.

First and foremost 2008 brought Watco's 25<sup>th</sup> anniversary on July 1<sup>st</sup>. This milestone is something you should be very proud of, no matter if you have been a part of our great team for a long period of time or just joined us, because it means we have accomplished something very few companies ever do. We have built a strong and sturdy foundation on which to continue to improve and grow our services for our Customers. We are well positioned because of the hard work and dedication of the people of the Watco team, who believe in our principles of delivering improved service to our Customers and creating improved financial results every day.

In addition, 2008 brought some new and exciting additions to the Watco family of companies. In January, Reload, Inc., our first entry into the world of transloading, was made a part of Watco. By joining forces with Reload, Watco now provides extensive transloading services in 11 different locations across the country with transloading being one of our three main services, besides transportation and mechanical services.

Also in the first quarter of 2008, we started our second switching operation with our very good Customer, Texas Petro Chemical, TPC for short. This operation is located in Port Neches, Texas and has been an outstanding performer from the beginning. Our other TPC operation is in Houston, Texas.

In June, Fitzgerald Railcar became a part of Watco, adding its two shops in Fitzgerald, Ga. and Omaha, Ne. to our 12 existing car repair shops. With the Fitzgerald addition, Watco became the largest rail car repair company in the United States, providing services to Customers at 14 car repair shops and 18 mobile car repair facilities.

In August we started a new switching operation in the West Region, Solvay Switching at Green River, Wy. The Solvay operation is our first profit center in the Green River area, known for its unique soda ash deposits. With this operation, we hope to gain additional business in the area. We are currently in discussions with other Customers to provide services similar to what we provide at our Solvay operation.

In October the West Region had another new addition, the Pacific Sun Railroad (PSRR), near San Diego, Ca. The Pacific Sun Railroad is one of our smaller railroads, but has the potential to grow in

volume and profitability. It serves a part of the country that needs the kind of good short line rail service Watco provides and has a large population base. This combination bodes well for the future of the Pacific Sun Railroad.

In November and December our Gulf Region added two new profit centers to the Watco roster. We started switching the International Paper mill, or IP, in Mansfield, La. and began operations on the Baton Rouge Southern Railroad (BRS). The IP operation was started in 30 days to satisfy an important Customer, IP, which had a need to get things started very quickly. Our Watco Team answered the call magnificently with a smooth start up and except for one human factor accident, good safety and financial performance. This is the second operation where we serve IP, with the other being at Prattville, Al. The BRS was started after a long and protracted negotiation with a couple of very good Customers, the KCS and Exxon. The time it took to get this done was well spent as the BRS has the luxury of having a long term contract with both Customers. We are looking forward to the BRS growing to become a very strong financial performer.

We are very proud of all additions to Watco Companies and believe they will be good additions to the Watco Family for many years to come.

In spite of all the difficulties in these trying economic times, for Watco 2008 was a year of improvement and growth. This is no surprise because I know the caliber of people we have on our Watco Team. Their dedication to providing the right service to our Customers, while improving our financial performance over the long term is second to none. So as we say goodbye to 2008 and begin an exciting journey called 2009, always remember that I thank all of the Watco Team for their continued outstanding performance and desire to continuously improve our services to our Customers and our Company.

Let's make great things happen in 2009.

A handwritten signature in cursive script that reads "Rick".