



December 4, 2009

Watco Team,

Coach Wooden's teachings on success are based on the concept of the pyramid. The structural strength of a pyramid is due to its broad supporting base and narrowing design which graduates to an apex. The blocks are bound together by mortar running through the structure. The mortar represents values that Coach Wooden believes must exist throughout all points of character to allow the pyramid to endure all challenges that life can present. The first mortar we discussed was ambition, the second was sincerity and the third mortar is adaptability

Everything about life involves change. From the simplest of changes like the seasons or weather to our own aging to macro changes in the economy, war and peace, technology and a host of other aspects of our lives. There is no denying that change is an inevitable part of our lives. Our ability to adapt to change is often times a major determinant of our success and failure.

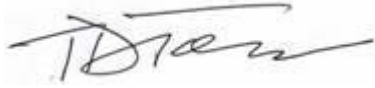
Adapting to change suggests that we modify what we can control to draw into closer correspondence or harmony with critical environmental circumstances. In this sense, there is significant truth to the old saying that standing still is the same as going backwards. Likewise, experience in business shows that success depends to a great extent on our ability to adapt to change and endure difficult circumstances. Failing to adapt and survive difficult circumstances culls out weaker players and leaves more of the market to the survivors. Over time, the survivors gain strength, grow in size and come to dominate the market. This concept of "survival of the fittest" was coined by British polymath philosopher Herbert Spencer to draw parallels between Charles Darwin's concepts of natural selection to his own economic theories.

The truth is, according to Coach Wooden, that we can be excellent at planning but circumstances rarely happen as we expect. We must not only be malleable and able to respond to the unexpected but we must take advantage of changing circumstances to ensure our long term success. Just like in sports, we must adjust our strategy and resources according to the circumstances to win in the long term. It is incumbent on us as leaders to be agents of change and to be effective facilitators of positive change at Watco. Successful change management begins and ends with building trust among our People and throughout the organization. We build trust through open and effective communication with our People. We can never over communicate in times of change as we strive to educate our People about the factors driving change and to build deep understanding of the need for the change. Understanding and responding to the range of human emotions during times of intense change, is also critical to success.

Next, leadership must provide full and active support to the change management process. To mitigate anxiety and concern and improve the quality of our response to change we must engage and involve our People in

organizational planning and execution. These are the big five when successful change is achieved. As leaders of any organization we do not have the luxury of remaining comfortable in a static environment. We must always remain aware of and understanding of critical factors within the internal and external environments and drive actions to adapt in a manner to not only survive, but to win over the long term.

Thank you for all that you do every day to care for our Customers, People, Communities and Company.

A handwritten signature in black ink, appearing to read "T. D. ...". The signature is fluid and cursive, with a long horizontal stroke extending to the right.