



**WATCO**  
**COMPANIES, LLC**  
*"Your Transportation Specialists"*

**Watco Companies, L.L.C.**  
**Company Overview**

**Prepared for**

**The Six-County Infrastructure  
Coalition (SCIC)**

**October 16, 2014**



October 16, 2014

Bruce Adams  
San Juan County Commissioner and Co-  
Chair of the Coalition

Dear Mr. Adams,

Watco Companies, LLC. (Watco) appreciates the opportunity to forward the attached company overview and acknowledge our interest in any current or future railroad projects that Six-County Infrastructure Coalition (SCIC) has on their docket.

Watco has worked to develop and entered into numerous public, private partnerships and State projects including Kansas, Oklahoma, Washington, and Idaho. Our West Region office, located in Burley, Idaho, oversees our operations in Idaho, Wyoming, Montana, North Dakota, California and Utah. Watco now operates a crude oil load-out site in Wellington, Utah specializing in Black Waxy Crude Oil.

We believe our services offer the safest, most cost effective and efficient rail transportation solutions aimed at exceeding our customer's rail service expectations. Our overview intends to address and answer questions you may have about our company, but should you have additional questions please let us know and we will answer them.

Our operations in the western United States, and across the country, start with the understanding our Customer and understanding that Watco's performance directly impacts the financial return realized by our Customers. Our service plans are designed to ensure the freight and switching services provided are executed in a timely, consistent and, above all, safe manner. After reading this overview we will be happy to arrange further discussions with you, at your convenience, to answer and address any questions you may have going forward.



Thank you again for your interest in Watco, we look forward to working with you in the near future.

Sincerely,

Mark Blazer  
SVP Business Development  
Watco Companies  
Office 406-495-1096  
Cell: 620-230-8785



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# Watco Corporate Overview

## Our Mission Statement:

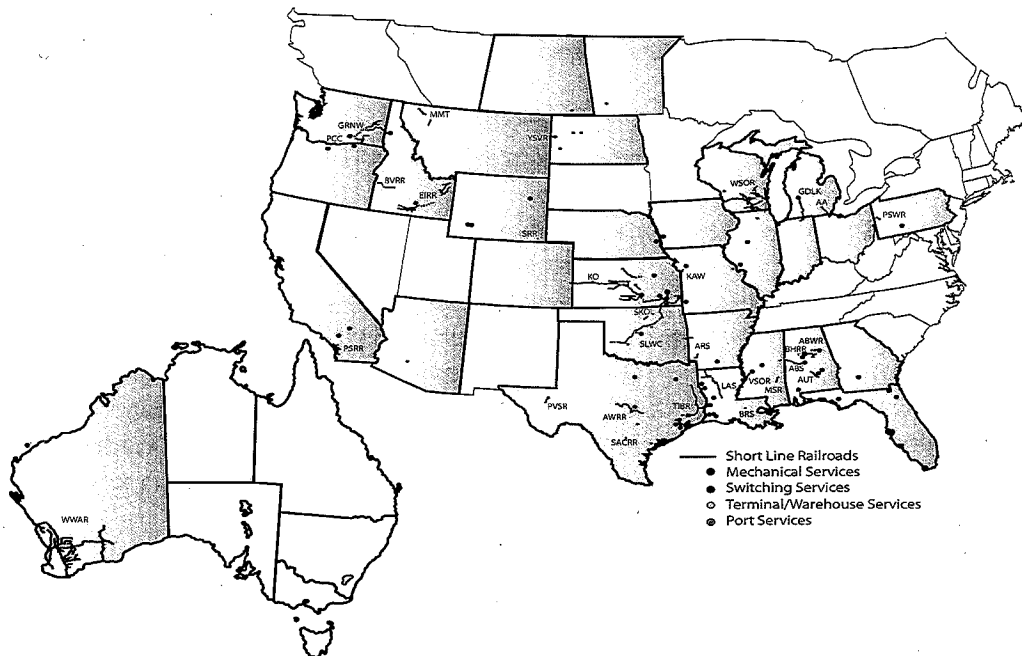
Watco Companies will provide the best transportation related services to our customers in the most efficient and economical manner possible. We will provide an environment that allows our companies and our people to improve and grow, passing on to future generations a company with an outstanding reputation for customer service, profitability and quality.

## Our History:

Watco Companies was started in 1983 by Charles R. "Dick" Webb. Our first operation was an industrial switching operation in DeRidder, Louisiana, which is still in existence today. After making sure this operation was serving our Customer to expectation, Dick started his first mechanical operation, a railcar repair shop in Coffeyville, Kansas, with a group of hand chosen leaders and a determination to make a difference in the quality of the railcar repair industry. From this base, we have grown into many facets of the rail industry, including Shortline Railroads, Industrial Switching, and Mechanical Operations. However, throughout our history our focus has been one of Customer satisfaction in any business venture be it in or out of the rail industry. Watco was founded on the concept of providing customized rail services to meet the specific needs of its Customers. Throughout the years, Watco's goal has been to meet with each Customer and determine what their needs are and provide a transportation solution that will safely and cost effectively meet those needs. Yet, all the while, we keep in mind that what works today may need to change as the needs of the Customer changes.

Watco is a nimble company. Our long history is full of innovation and creativity. We continually strive to find new and better ways to serve our Customers. This often means doing things no one thought possible.

**Watco System Map**





The following are just some of our accomplishments over the past 28 years:

- We are the largest car repair shop service provider in U.S.
- We are the 2nd largest short line railroad operator in U.S.
- We are the 3rd largest industrial contract switching provider
- We move 500,000+ annual carloads
- We run over 5000 track miles
- There are 3,500 Watco team members
- We operate 400 locomotives
- We own a fleet of 3,900 railcars
- We serve in 26 states
- We have 28 switching operations
- We operate 29 short line railroads
- We have 16 mechanical shops, 23 mobile mechanical shops, 4 locomotive shops
- We operate 23 Terminal Transload Operations and 2 – Port Facilities
- We have 10 warehouses and 1 intermodal location

## The Keys to Our Success

At Watco, we pride ourselves on creating value for our Customers while spending resources wisely. Watco is privately held and its capital is structured with a syndicate of banks who have provided the necessary capital to ensure stable operations and growth positioning. The five key components of the Watco's Financial Strategy are: 1) Revenue Growth; 2) Operating Efficiency; 3) Asset Utilization; 4) Risk Management; 5) Public and Private Partnerships.

Working toward these goals, we have implemented efficiency standards to measure our performance week-over-week in all areas of responsibility.

- These standards are measured and reviewed each week with local personnel where actual performance is compared to expectation.
- Any corrective action deemed necessary is implemented immediately. The measurement is driven by continually reducing consumption as it relates to a constant such as revenue moves or railcars switched.
- By coupling the performance measurements with continuous customer satisfaction feedback, we continue to improve both our efficiencies and the overall effectiveness for our customers.

At Watco, we believe communication is a critical component of our success. Our managers and team members communicate with our customers daily to review ideas, concerns or issues. We feel that by improving our baseline communication with our customers we will be able to improve our efficiencies more rapidly and effectively.



**The following are just a few specific examples of our innovation and focus on forward thinking:**

- Watco was the first Company to provide contract Industrial Switching Services west of the Mississippi, starting operations in 1983. Prior to that time only one other Company was providing a similar service and they have since been sold.
- Watco began one of the first Railcar Mechanical Shops to maintain utility -owned coal car fleets and was the first company to do so outside of the Powder River Basin.
- Watco purchased the first Shortline railroad sold by the Union Pacific Railroad in 1987 to better enhance service to its own Railcar Mechanical Shop and has subsequently grown the business on that railroad from 600 to more than 6,500 cars annually.
- Today, Watco is the Union Pacific Railroad's largest interchange partner
- Watco was one of the first Shortline railroads to partner with a State government for an arrangement in which the State provides railcars and Watco provides rail transportation in an effort to open new markets for its Customers.
- Watco's Eastern Idaho Railroad was the first shortline railroad to provide an on-time guarantee of rail service for perishable traffic. Since inception in 1993, the EIRR's on-time performance has exceeded 99%.
- Watco was the first Shortline railroad to provide rail service as a non-union agent for a Class I railroad, on trackage rights granted to it by another Class I railroad.
- Watco has sustained an annual growth rate in excess of 10% for the last 30 years, while providing Industrial Switching Services, Mechanical Services, Transload/Port Services and Railroad Operations.
- Watco's Kansas & Oklahoma Railroad was the first Shortline in the State of Kansas to receive any direct funding for acquisition of rail lines from the State of Kansas.
- Watco operates the largest short line railroad operation in the states of Kansas, Oklahoma, Washington and Idaho.
- Watco's first Customer in 1983 is now its second largest Customer. And, Watco's second Customer, which we began servicing in 1984, is now our largest.
- In March of 2012, Watco launched its first international operation when we began our Australian operations. This operation includes providing comprehensive rail logistics services for the CBH Group, a Western Australian farmer owned cooperative with more than 4,800 growers. Our services include train handling, planning and scheduling, railcar tracing, maintenance and inventory control. This will involve transporting an average of 368 to 441 million bushels of grain from 192 country receiving sites to CBH's four export terminals in Western Australia.
- In May of 2012 Watco launched another international operation, this time in Canada. Watco began its first terminal operation for the Canadian National Railway and to date has grown this opportunity from 1 – terminal to 3 – terminals.
- Watco has provided unit coal train loading for Arch Coal at their Black Thunder location since May of 2012



## Watco Corporate Officers

Dick Webb	Founder – 1938-2009
Rick Webb	Chief Executive Officer
Terry Townner	Vice-Chairman
Gary Lundy	Chairman
Rick Baden	President- Chief Commercial Officer
Ed McKechnie	Executive Vice-President- Chief Operating Officer
Craig Richey	Executive Vice President- General Counsel
Matt McKenzie	Executive Vice President- Chief Financial Officer
Allan Roach	Senior Vice President -Business Development/Marketing
Andy Cordischi	Senior Vice President - Chief Information Officer
Dan Smith	Senior Vice President - WTIS Development
Dave Turner	Senior Vice President – Mechanical Services
Gary Vaughn	Senior Vice President - Safety & Environmental Health
John Brown	Senior Vice President - Special Projects
Stefan Loeb	Senior Vice President- Marketing & Service Assurance
Larry Jensen	Senior Vice President- Chief Mechanical Officer
Mark Blazer	Senior Vice President - Strategic Development West Region
Joe King	Senior Vice President - Finance
Phillip Penner	Senior Vice President - Transload and Intermodal Services
Rachael Peterson	Senior Vice President - Human Resources
Ron Close	Senior Vice President - Supply Chain Management







# Watco's Customer First Foundation Principles

At Watco Companies, our Customer First Foundation Principles are the overall guiding light and driver for our leaders and team members. Every day these principles are our guide, providing a clear path for what we do, the decisions we make and the manner in which we do our jobs.

## Customer First Foundation Principles



- **Improve Customer Satisfaction**
  - ✓ Right Service
  - ✓ Right Time
  - ✓ In the Right Condition - Delivered SAFELY
  - ✓ At the Right Price
- **Improve Profitability**
  - ✓ Revenue Growth Rate
  - ✓ EBITDA Growth
  - ✓ Return on Assets > WACC%
  - ✓ Free Cash Flows
  - ✓ Economic Value Add (EVA)
- **Do Both Over the Long-Term**
  - ✓ Building Relationships with:
    - ◆ Customers
    - ◆ Watco Team Members
    - ◆ Communities
    - ◆ Vendors
    - ◆ Investors



## Watco's Commitment to Safety

At Watco Companies, safety is not just an important part of how we do our jobs; it's the most important aspect of our working lives. We demand and reward a mentality of safety from our team members. We take seriously the issue of safety reporting and documentation – it is an issue of integrity and is an integral part of Watco's corporate culture. Watco has, within our company, individuals qualified to provide safety training both intra-company and for our customers whenever needed or requested.

At the beginning of work with Watco, our people undergo 40 hours of classroom training. We then administer monthly rules testing and GCOR (General Code of Operating Rules) examinations following classroom training. Our team members then spend 480 hours in the field training with a qualified and hand-picked Watco leader, where they are efficiency tested weekly. Any failed efficiency test results in immediate reeducation.

Moreover, Watco will comply with any safety regulations specified by our customers. Watco crews participate in daily job briefings prior to the start of each shift. Each location then holds a safety meeting weekly and all team members are required to attend.

Each of our locations has a Team Member Safety Improvement Committee which meets monthly to identify and correct safety issues specific to their operation.

The foundation of Watco Companies safety practices is found in our Six Tenets of Safety:

1. All injuries can be prevented
2. All exposures can be safe-guarded
3. Prevention of injuries and accidents is the responsibility of each team member
4. Training is essential for good safety performance
5. Safety is a condition of employment
6. Safety is good business

**In short, Safety Is Our Number One Priority.**

***"No job is so important . . . no service so urgent... that we cannot take time to perform all work safely"***

Watco is committed to safety for our team members and compliance with our new policies and regulations is essential and required to ensure the safety of our team and our company. Compliance with our rules/policies and with regulations is not an option but a condition of employment with Watco Companies. And, strong, effective relationships with our customers are highly encouraged and are essential to the continued improvement of our company.

Moreover, we reward safe practices. We provide our team members with quarterly safety bonuses and reward milestone safety anniversaries with commemorating gifts and events for themselves and their families.

In 2013, Watco Companies, West Region goal of operating safely every day yielded us an RPI ratio of 1.25 - better than all U.S. Class 1 railroads and all U.S. Shortlines.

Moreover, our focus on continuous improvement has allowed Watco to improve safety by more than 90% since 2003.

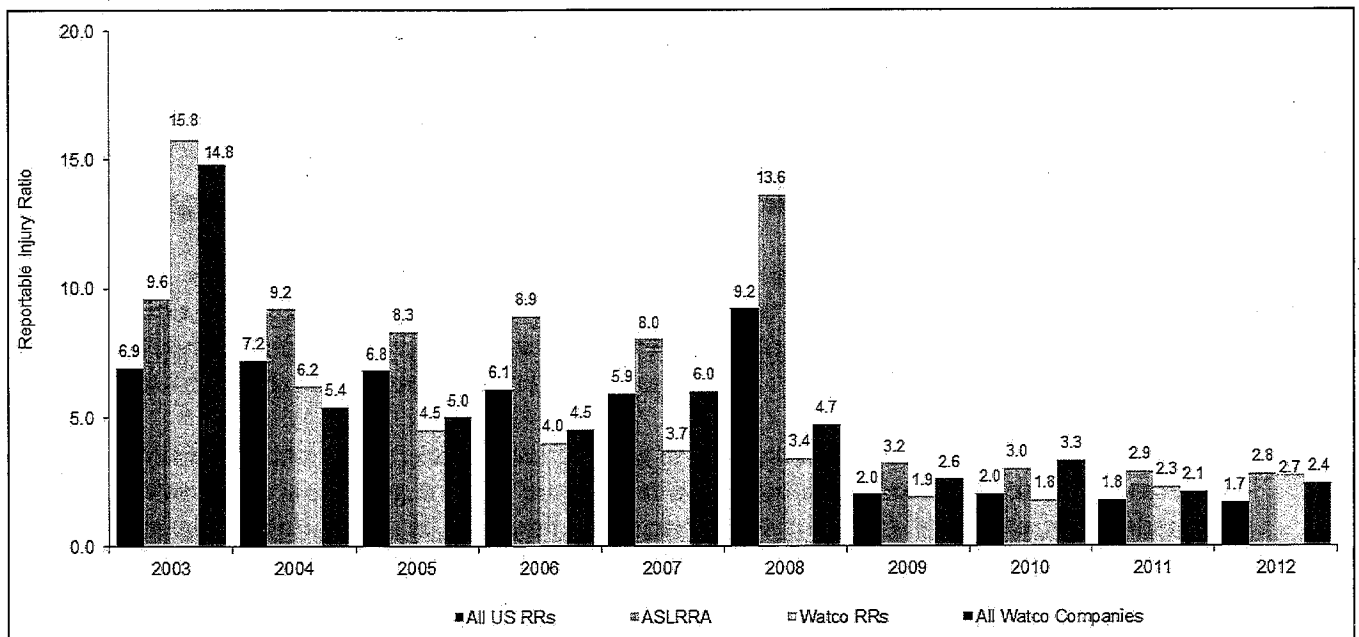


In the western United States, our managers and team members are supported by our regional safety team, which is comprised of Safety Managers Jason Stutzman and Greg Baker.

**Jason Stutzman** - Jason began his railroad career in 1997 as a conductor on the Eastern Idaho Railroad - Union Pacific's largest Shortline spin off in the Northwestern United States. Jason transitioned to Locomotive Engineer until 2001, when he was promoted to Trainmaster with the Kansas & Oklahoma Railroad. Over the next two years Jason refined his efficiencies and continued to excel in the safety aspect of railroad operations. In 2003, Jason was promoted and accepted the position of Regional Safety Manager of Watco's West Region. Today, he is responsible for all initial safety, efficiency, and General Code of Operating Rules training and refresher courses.

**Gregory Baker** - Gregory began his railroad career in 2003, working for a startup railroad in Southern California as a Conductor and worked up to Engineer. In 2004 he joined RailAmerica working for the CORP as a Conductor. In 2006 he joined the Watco Team as a Conductor and Engineer working for the K&O Railroad. After proving himself as a safe and efficient team member he was promoted to Trainmaster in 2007. He worked for the K&O until 2012, taking a promotion to Assistant General Manager on the SLWC, another Watco property. Gregory then accepted the position of Regional Safety Manager of Watco's West Region in 2014. His responsibilities include initial safety, efficiency, and General Code of Operating Rules training and refresher courses.

#### Industry Reportable Injury Ratio





## Watco's Commitment to Training

Watco has stringent staffing requirements. We seek out and hire the best workers in the railroad industry and hire and train quality team members from an extensive pool of local and national applicants. Through our Watco hiring process, we do the following:

- A complete reference check covering two employers or 10 years, whichever is less
- We conduct a thorough interview and qualification match
- Our team members complete a drug screen urinalysis and physical examination
- Our team members are then placed through an extensive training program

Watco will hire and retain only the people that meet our high standards for safety, training and performance. These team members undergo a rigid background investigation and training regimen to ensure only the safest and most qualified operate at your facility.

Through the Watco on-boarding process, at the beginning of work our people undergo 40 hours of classroom training. We then administer monthly rules testing and GCOR (General Code of Operating Rules) examinations following classroom training. Our team members then spend three months in the field training with a qualified peer trainer, where they are efficiency tested each week. Any failed efficiency test results in immediate reeducation.

Our additional and on-going training process includes:

- Random and as-needed drug screen urinalysis
- Annual GCOR testing
- Weekly efficiency tests
- An annual 8-hour GCOR refresher course
- An annual rules examination

Additionally, we work with our team members to train them in the specific area in which they will work. For example, team members who will be working at a switching operation are trained differently than those working for one of our railroads, with a special focus on the plant facility and local safety rules mandated by our customer and local management.

And, finally, we cross-train our team members. We provide them with the opportunity to learn skills beyond their initial level of expertise. We educate our team members in areas such as track, with on-the-ground instruction from Ron Isaacs, our Corporate Director of Track Training – on areas such as identifying potential track deficiencies.

**Watco University** – In an effort to take our training to the next level, in 2010 Watco established Watco University, a week-long training program at our corporate offices in Pittsburg, Kansas. The goal of Watco University is to be a premier corporate university offering our team members leading-edge development opportunities. The mission statement of Watco University is to assist all team members with the achievement of organizational objectives and personal career goals through training and development programs. With Watco's Customer First focus, the program provides professional development opportunities that strengthen the effectiveness of the individual and organization by teaching what we expect and expecting what we teach.

The program's curriculum includes the basics of Watco management, Watco's management philosophy, an understanding of different behavior types, learning how to coach and teach our



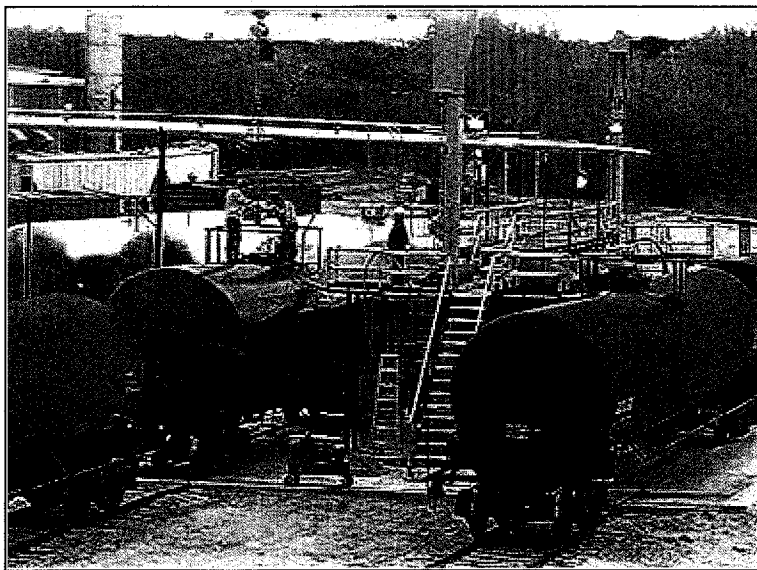
team members, building and maintaining the right culture at Watco, setting goals , objectives and expectations, performance and financial management, teamwork, and building relationships and trust.

## Watco's Commitment to Support

Yet another key component to our success is the support Watco can provide to our team members working on the ground every day to service your facility. From the corporate and regional level, our local team members are supported by a Watco management team that represents the best and most experienced the railroad industry has to offer. Specifics of this support include:

**Operations Quality Assurance** – As part of our on-going efforts to ensure our operations are working at the highest level of safety and efficiency possible, Troy Forbis, Watco West Region Q&A Safety Manager, makes regular visits to each of our switching facilities to audit the overall operation and conduct joint efficiency testing with the site manager. Troy also audits each facility for issues such as FRA compliance, training and the overall health of the facility and operation – effectively everything from the fire extinguisher to ensuring all team member files are current.

**Track Quality Assurance** – On a regular basis, Scott Adams, Watco West Region Chief Engineer, along with our West Region Track Q&A Manager, Bo Fox is on site at our switching operations to both ensure the quality of the track and to work with our track team members to make sure they are well trained and are good stewards of our customer's infrastructure. Scott and Bo are also available to each of our customers for track repair and consultation, as well as track inspection and maintenance reports.



**Safety Quality Assurance** – Our safety team members are on our switching properties frequently to conduct regular safety audits and provide training and retraining with our operations, track and railcar repair crews. They are also available to consult with our customers on any safety related concerns or issues that arise. Additionally, within Watco's West Region, our management team holds annual region-wide safety audits which identify any safety-related issues that have not been previously identified by our local site managers.

**Locomotive Quality Assurance** – Mark Green, Director of Locomotives for Watco's West Region, is available for support and regular on-the-ground visits to our switching locations to provide



guidance and support to our local locomotive support team members. Mark, as well as our West Region locomotive repair team, is available to ensure we will have the locomotive power to meet and exceed your needs each and every day.

**Fleet management system** – Fleet management is a critical component to success in the rail industry, and Watco's team has the experience and resources needed to help you manage your fleet and Class 1 railcars - regardless of size, carload volumes and your specific needs.

Watco has strong relationships with the five Class 1 railroads in the continental United States. We also have the technology to help your transportation staff manage your railcars, helping to reduce demurrage and transit times. Our services are there for you to pick and choose. Our corporate fleet management's scope of services include: Car repair history; Railroad repair auditing; Contract shop auditing; Rebilling/rebuttal billing; Bad order cars; Railroad damage cars; Car repair analysis; Forecasting and budgeting; Accounts payable; Financial distribution; Car hire accounting; Depreciated value statements; AAR mandated programs; Mechanical information; Fleet Master; UMLER/EMIS administration; and car repair billing.

**Purchasing power.** – As a leader in the railroad industry, Watco Companies is a primary purchaser of rail materials nationwide. Each year, Watco purchases thousands of railroad ties and thousands of feet of rail. We have the relationships and buying power to help save you time and money when purchasing rail materials for your facilities. We can not only provide track repair and construction expertise, but can make sure you are receiving the largest return for your track dollars in an expedited manner. Put our track material buying power to work for you.



## References

### Location and Contact

*BNSF*  
Ft Worth, TX  
Christopher Randall  
(817)352-6132

*Solvay Chemicals*  
Green River, WY  
(307) 872-6519

### Location and Contact

*UPRR*  
Omaha, NE  
John Miller  
(402) 544-4522

*Granite Peak*  
Casper, WY  
Rich Fairservis  
(307) 472-3116

### Location and Contact

*Arch Coal*  
Wright, WY  
Paul Barber  
(307) 464-2153

*OCI*  
Green River, WY  
Richard Kalber  
(770) 375-2335

*Additional references are available upon request.*



## West Region Personnel

Our customers can be assured that the most experienced members from our Leadership team are present to ensure a safe, efficient operation. Conductors, engineers and track personnel are selected from our experienced teams in the Watco family of Industrial Switching operations and Shortline Railroads. Our West Region Management Team Members are:

**Mark Blazer-Senior Vice-President Strategic Development** was one of the original leaders handpicked by Dick Webb in 1983. As such, Mark has been called upon to lead several aspects of our company. Mark was first chosen as our switching manager at Boise Cascade Corporation's Deridder, LA plant, Watco's first industrial switching location in 1983. From there Mark has served in many capacities, including our first marketing manager, manager of our first mechanical shop in Coffeyville, KS, manager of our first railroad, and first regional manager over railroads, mechanical shops, switching locations and marketing. Mark is, and will continue to be, a key contributor to Watco's growth in the Pacific Northwest. He now holds the position of Senior Vice President-Strategic Development with an emphasis on the Northwest Region.

**Rob Thrall-Vice-President Operations – West Region** started his railroad career working for WSI in Burley, Idaho, in 1992 managing grain train loading and shipping operations. In 1994 Rob accepted a position with Eastern Idaho Railroad starting in track service and conducting. Rob quickly moved to locomotive engineer and in 1999 was promoted to train master. Rob's understanding of management practices and finances helped him in the transition to General Manager over the Great Northwest Railroad and the Palouse River Coulee City Railroad, overseeing 60 people including managers for track services, car repair, locomotive repair, and train masters throughout the region. In 2005, Rob accepted the position of Director of Operations for the West Region of Watco Companies and was then promoted to Vice-President Operations – West Region in 2011. In this position, he is responsible for the daily operations of railroad and switching operations in the West Region. Rob has shown excellent dedication to the company and has been involved in setting up other Railroads as they were purchased by Watco Companies. He looks forward to making Watco the best railroad company in the industry.

**Scott Adams-Chief Engineer** worked for UP for 25 years starting in 1978 as a track laborer. In 1984, Scott was promoted to system rail and tie inspector, inspecting rail and ties for replacement within capital programs. Transitioning to Track Supervisor/ Roadmaster in 1989, Scott worked throughout the Northwest working system gangs, surfacing & lining gangs, rail relay, undercutting and yard rehab projects. This position also involved planning and implementation of capital projects. In 1997 Scott was promoted to Manager of Track Maintenance in Oregon overseeing work from North Powder, Oregon to Hinkle, Oregon. In 2001 Scott accepted the position of Manager of Track Projects, covering the Northwest from Eastern Idaho to the West Coast and the Canadian border. In 2003 Watco hired Scott as Chief Engineer of Track overseeing the daily track maintenance, capital programs and third party work for the track structure.

**Carl Legg – Vice President of Sales and Marketing - West Region** served in the United States Navy, forward deployed in Yokosuka, Japan. After leaving the service, Carl purchased a refrigeration company, manufacturing and marketing supermarket equipment throughout the





Northwest for 16 years. Carl implemented several business plans, developing and marketing businesses from start-up to implementation, including patents he personally developed. As a consultant, Carl successfully completed the turnaround of a dairy service and supply company and ultimately negotiating the sale of this business to an international dairy service and supply company. After obtaining marketing rights to a global dairy industry equipment line, he started another business as the sole principal for a dairy and agriculture business for eight years. Carl accepted a position with Watco and currently serves as Vice-President of Sales and Marketing - West Region and as Director of Property Management - West Region. Carl has huge reserves of energy and brings his passion for business and a common sense approach.

**Jerry Carter - Director of Railroad Operations** began his railroad career working for Rail America in Roseburg, Oregon, in 1992 as a conductor trainee in train operations. He was promoted to a conductor that same year. In 1993, Jerry received his engineer's certificate and was later promoted to Trainmaster with the Central Oregon and Pacific Railroad. Jerry progressed to Operations Manager and then Assistant General Manager with the CORP Railroad, where he worked until 2009. Jerry then came to work for Watco, where he has excelled in a number of different areas, including track inspector and West Region Operation Specialist. Jerry was promoted to Director of Operations for Watco's West Region in 2011, where he manages daily operations of railroad and switching operations within the West Region.

**Jeff Deakins - Director of Switching Operations** started his railroad career with the CSX in 1997 as a conductor. He continuously progressed in his career by holding positions as a yardmaster, trainmaster, labor relations manager, and terminal manager. In August of 2011 he went to work as the Superintendent of Transportation for the Ohio Central Railroad, a Genesee and Wyoming company, overseeing the transportation department. During his tenure at the Ohio Central, his team exceeded 1200 days injury free with 130 team members. In September 2014, he came to Watco as Director of Switching West Region. His goal is to continue driving exceptional safety, customer service, and team development.

**Mark Green-Director of Locomotive Operations** began his career with Watco Companies, Inc. twelve years ago in 1994 on the Eastern Idaho Railroad, Union Pacific's largest Shortline spin off in the Northwest. Beginning as a laborer, Mark exemplified a strong work ethic and focus on performance as he progressed in his promotions to Mechanic, Electrician, and eventually Chief Mechanical Officer. In 2005, Mark accepted the position of Director of Locomotive Operations for the West Region, where he oversees the safe and efficient repair and operation of our locomotive fleet.

**Teri Ellis - Financial Analyst** began her service with Watco in 2012, bringing with her a wide range of operating, managerial, and financial expertise. Teri brings 20 years of analyst, leadership and entrepreneur experience. Teri began her career as an analyst in 1994 with a Fortune 100 corporation and quickly rose in the ranks, experiencing team leadership, project management and division management. She purchased a small business in 2006 and expanded 122% over the next six years ultimately selling a healthy, thriving corporation in order to leverage the opportunity to join the Watco team. Teri contributes a common sense approach to Watco and the railroad industry, and will be available to effectively analyze any complex issues that our customers may have.