

1st MONDAY 3rd MONDAY

Prepared for employees by the
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Managers and Supervisors:

I have postponed this month's third-Monday letter for a few days so that in my report to you I could include a review of the reorganization activities which occurred early this week.

There have been several of significance: The court has approved the Trustee's request that he be permitted to apply to the FRA for a loan of \$20 million. Richard B. Ogilvie, counsel to the Trustee, has been given limited powers to act in behalf of Mr. Hillman until the court appoints a new Trustee. With a motion of certain creditors before it to prohibit further expenditures of funds for 4R Act-financed rehabilitation programs, the court has declined to stop the rehabilitation work while legal arguments on the issue take place.

Meantime, attorneys for the Trustee have filed an appeal from the order of the court of June 1 which denied Trustee Hillman his request to embargo what would have been approximately 6,000 of the Milwaukee's 9,500 route-miles. The Trustee's attorneys may also ask Judge McMillen to reconsider part of his order of June 19 -- that part which is being widely, and erroneously, interpreted as an order of the court to abandon the entire railroad.

In his June 19 order, Judge McMillen granted Trustee Hillman's petition to borrow \$20 million from the FRA, the funds being part of the \$50 million available through the Emergency Rail Services Act of 1970. Our application to the FRA for the funds is already being processed. We expect to be able to close with the FRA on the financing agreement very soon. We have ICC approval for the loan. We expect also that the secured creditors will appeal the court's order. The degree to which an appeal may block our access to the funds isn't yet clear.

Judge McMillen conditioned his approval three ways. He ordered the Trustee immediately to "commence proceedings to abandon the Milwaukee's entire system and, to the extent this is not authorized by any Title VIII map not already published, to publish and file such a map as soon as feasible." He ordered that the Trustee file a plan of reorganization on or before August 6, 1979, "such plan to include reorganization by abandonment and liquidation to the extent deemed advisable or necessary." He ordered that the Trustee use any other funds which are or may become available to him before utilizing the proceeds of the priority borrowing which he was authorizing; and that, "to the extent permissible, the Trustee use the priority borrowing for the benefit of those portions of the railroad which may possibly be reorganizable."

It should be understood clearly that Judge McMillen did not order the Trustee to abandon the entire railroad. On the contrary, in denying the embargo earlier the court told us, in effect, that we must continue to operate the entire railroad.

In part because of the misunderstanding of the court's order, Mr. Ogilvie issued a statement yesterday designed to clarify the matter. The statement was designed also to indicate that we do not regard the recent actions of the court as requiring us to change our goal. The full text of his statement was

transmitted as a To All Concerned message. It was issued as a news release. It will be sent or handed to as many of our customers as possible and to all Senators and Congressmen from the areas we serve.

You've seen the statement, but let me quote its most pertinent sections:

"The recent orders of the court require us to continue service throughout our territory to the extent permitted by the availability of cash, equipment and fuel. Moreover, we see nothing in the recent orders of the reorganization court which tells us that we cannot reorganize a substantial portion of the railroad, nothing which commands us to abandon all or any part of it, and nothing which disputes the facts of record by which the Trustee and his officers demonstrated that a chance for economic self-supportability may exist.

"I asked the Trustee's officers this morning whether they were as convinced as they've been all along that the key portion of the Milwaukee has a reasonable chance. They said, 'certainly.' We'll continue along the lines that Mr. Hillman had laid out, determined to produce a plan to reorganize the Milwaukee as a well-equipped, service-oriented railroad operating in the territory in which it has the best chance for viability.

"Judge McMillen hasn't ordered us to abandon the entire Milwaukee Road, in our interpretation. He has said, as have we, that a plan of reorganization is necessary as quickly as possible. He has also said that in the event a plan is not possible, or that a plan will be based on abandonments of existing routes, we should begin the time-consuming abandonment procedures of the ICC now.

"We shall file a preliminary plan of reorganization with the court on or before August 6. I have every confidence that this plan will demonstrate that the portion of the railroad which we have described to the court as potentially viable can and should be the basis for the reorganization of the Milwaukee."

The Planning Department shortly will publish and file with the ICC a new Title VIII map which will respond to the court's order. Keep in mind the timetable which applies to any line abandonment or line sale: The line must be indicated in red on a Title VIII map for four months before a formal application to abandon may be filed with the Commission. Once the application is filed, the Commission has as long as 15 months in which to rule. Importantly, showing a line in red on the Title VIII map signifies only that we anticipate that it will be subject to an abandonment application within three years. Moreover, we always have the option to change the category of any line -- as I expect us to do with the "core" on a map which accompanies the preliminary plan of reorganization.

Trustee Hillman is home from the hospital, recuperating steadily but slowly from his ulcer attack. He has empowered Mr. Ogilvie to act for him in a limited manner, an arrangement which has been approved by the court. Mr. Ogilvie will be Mr. Hillman's Attorney-In-Fact until a new trustee is appointed by the court and confirmed by the ICC. Judge McMillen has indicated that he will probably announce his selection by July 2.

While inspecting the 4R Act rehabilitation activity in Wisconsin earlier this week I found that some of you seem concerned that the rehabilitation program is in jeopardy for reasons connected with the court proceedings. Here is what has happened: On June 13, the attorneys for certain creditors asked the court

to terminate any further borrowing under Trustee's Certificates which the court authorized nearly a year ago, contending that the Milwaukee's present financial condition and future prospects warrant no further expenditure of 4R Act funds to the detriment of the debentureholders and stockholders. The Trustee's attorneys of course disagree. In court on June 18, Judge McMillen set a schedule for written arguments on the issue. He then pointedly declined to prevent further borrowing for track and equipment rehabilitation under the 4R Act programs while the arguments take place. I shall keep you advised.

Fuel supply is now a topic of daily concern, not only on our railroad but with all railroads nationally. Currently, we have some inventory margin at all fueling points -- not as much as we'd like or as we normally carry, but sufficient that we have no plan at present to curtail service for lack of fuel.

Our major locomotive fuel suppliers have us on allocations which limit us to a percentage, of considerably less than 100, of the fuel which we bought from them at this time last year. But since we have long covered much of our fuel need with purchases from brokers on the so-called spot market, since these brokers haven't had their allocations trimmed as severely as have the "majors," and with the good work of Vince Anderson and his people in scouting up sources of fuel and of Paul Cruikshank and his people in managing the available supply, we've managed to avoid real fuel crunches so far.

We do need greater fuel availability, however. In testimony, I have urged the Department of Energy to give to freight-carrying railroads the same 100%-of-need allocation which the department has given to farmers and agricultural truckers. The railroad industry likewise is urging 100% allocations.

A closing request: First Monday / Third Monday is now six months old. I've attempted to reflect for you what I suspect may be areas of concern, and to provide information which, as supervisors, I would think you need. From what I hear, I think the effort has been helpful. But in frankness I haven't had much feedback. If you have a thought on the effectiveness of FM/TM, or on the general topic of information you need that I can provide, would you please drop me a note. I need to know whether this communications project is helpful, and to what degree. Thank you.



Worthington L. Smith
President