

1st MONDAY 3rd MONDAY

Prepared for employees by the
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December 15, 1980

To All Milwaukee Road Employees:

Today Judge Thomas R. McMillen granted Trustee Ogilvie the authority to borrow up to \$15 million from the Milwaukee Land Company and up to \$17.8 million from escrow accounts containing proceeds of railroad property sales by a date no later than April 30, 1981. The Trustee had requested an additional \$22.2 million borrowing authority from the escrow accounts for the remainder of 1981. The Judge ruled that further borrowings would require a separate Court proceeding.

As reported in the last issue of FM/TM this request for authority to borrow funds was anticipated in the Trustee's May 15, 1980, report to the Court. Calculations at that time suggested approximately \$61 million would be required for 1981. Based on those figures the Trustee's original petition asked for up to \$60 million. After detailed scrutiny of the 1981 operating plan and an assessment of all available financing sources, the request was reduced to \$54 million. The Court's order allows the Trustee \$32.8 million of this amount by April 30, 1981.

By January 15, 1981, the Trustee will file with the Court a report on the feasibility of reorganization. This report will have the benefit of complete operating information since the initiation of "Milwaukee II" and will place into perspective the significance of recent developments and assess the likelihood for reorganization. The report will also provide the Court with the Trustee's estimate of when the reorganization plan can be filed, using audited 1980 data. Testimony supporting the borrowing given in Court last Friday, showed that "Milwaukee II" was basically making its projections. While the severe impact of the recession on certain commodities created a short fall in revenue units handled, the overall traffic mix has produced more revenue per load than forecast. In October and November actual gross freight revenue exceeded the May 15 projections.

Although our marketing projections were based on a specific set of assumptions and a newly defined market base, the time required to build the business to forecast levels was somewhat slower than anticipated. During this period we made significant improvements in service and rehabilitated equipment, locomotives, track and roadbeds.

Marketing programs were developed which included service guarantees, equipment guarantees based on quality and frequency, and the publication of certain rate structures, including contract rates. Much effort was expended to regain customer confidence and our actual performance has been the best means of accomplishing that goal. We have successfully penetrated markets in which we previously did not participate and have achieved significant increases in presently serviced markets, notably in grain, grain mill products, and chemicals.

Because of its special significance, I would like to quote to you portions of Trustee Ogilvie's testimony:

"On January 15, 1981, I will submit to the Court my report on the feasibility of reorganizing the Milwaukee. So that there may be no doubt concerning my intentions today, it is my judgment, based on our experience with Milwaukee II, that Milwaukee II can be and likely will become a profitable, self-sustaining Class I railroad...

"Each month Milwaukee II is operated we gain valuable experience and learn more about the system's future. On January 15, 1981, we will be better able to discuss Milwaukee II than today and similarly, the new Reorganization Plan will benefit from an even better data base...

"Finally, I would like to call the Court's attention to several real, but as yet unmeasurable, developments since July that I believe enhance Milwaukee II's prospects.

"On October 14, 1980, the Staggers Act, effecting far reaching deregulation, was signed into law. No one is entirely certain how this law will affect the railroads. We believe that the Act creates opportunities for those carriers capable of breaking ties with 'traditional' patterns of business and able to test new methods. At the Milwaukee, we already have broken with the past, having operated in uncharted waters for nearly 3 years, and are prepared to fully exploit market opportunities afforded by deregulation...

"...as a personal observation, I have seen a change in both attitude and atmosphere throughout Milwaukee II. The doubt and skepticism, which not so long ago were common, have been replaced by a determination to make Milwaukee II a success. While determination alone cannot successfully reorganize Milwaukee II, no reorganization can be successful without this determination."

Last week we established a new run-through service with the Southern Pacific on a train designated as the "Golden West Express." Designed to provide top-notch perishable-freight service, the early runs were so successful two major shippers of perishable freight have made a commitment to use our service extensively. It will operate from the West Coast via Kansas City to Bensenville with immediate delivery to connecting lines for forwarding to principal eastern destinations. The schedule calls for fourth day arrival at Chicago for fifth morning delivery and seventh morning arrival and delivery at East Coast cities. While targeting on perishable traffic, we hope to build a good traffic mix on all-Southern California commodities to Chicago and beyond. A companion westbound train operates between Bensenville and the Southern Pacific. Given symbol numbers 226 (eastbound) and 227 (westbound) these new "Milwaukee II" trains will operate six days per week in each direction. The shippers of perishable freight are particularly interested in performance, not paper schedules. We've been tested in the marketplace and have passed the test with flying colors.

Milwaukee Road today presented to the Interstate Commerce Commission its views concerning the contemplated merger of Missouri Pacific, Union Pacific, and Western Pacific.

We will seek to preserve and improve future service opportunities through our important Kansas City gateway. We will therefore participate formally in the proceedings which will be conducted by the Commission.

Our highest priority is to gain a direct connection with any other railroad which may obtain entry into Kansas City for the first time as a result of a merger between the three railroads. We want to be able to move traffic between Milwaukee and such a new entrant into Kansas City in a manner as expeditious as cars are presently interchanged between our railroad and the Missouri Pacific and the Union Pacific. We would like to be able to compete in the marketplace for traffic to and from any new entrant carriers on an equal basis with other railroads.

Additionally, Milwaukee is seeking assurance that its present run-through service with Missouri Pacific and Union Pacific at Kansas City will be continued and is asking that Kansas City not be placed at a competitive disadvantage as a gateway for the Milwaukee Road as a result of the MP-UP-WP merger.

Milwaukee Road is negotiating with the merger partners to achieve our goals; and if a satisfactory agreement is reached, we will drop our opposition to the proposed merger.

As the year draws to a close, it is fitting to reflect on what has transpired during the past 12 months. We've had trials and tribulations this year, and have weathered some rough storms. We are proceeding ahead confident that we are on the right course and look forward to the challenges the new year presents. Your loyalty and cooperation have been rewarding. On behalf of Governor Ogilvie and myself, I would like to wish you and yours a joyous and safe Holiday Season.



W. L. Smith
President