

1st MONDAY 3rd MONDAY SPECIAL

Prepared for employees by the
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Managers and Supervisors:

As we proceed toward the restructuring and reorganization of the Milwaukee, we have arrived at the point at which the management organization of the railroad needs to be modified. From here on, we shall have two managerial tasks ahead of us. We therefore need two separate, largely independent, groups of managers -- both essential to the success of the total effort, but in different ways.

One task, of course, is to take advantage of the opportunity we have to make "Milwaukee II" a strong and successful -- which means profitable -- railroad.

The other is to manage the disposition of those of the estate's assets which won't remain part of "Milwaukee II" but which will be sold to others either as operating railroads or as material salvage and sales of property.

Governor Ogilvie and I today are announcing that, beginning now and extending over the next few weeks, the structure of the railroad's management will be revised to reflect these two distinctly different assignments. We'll be using the people who are helping to manage the railroad now, but they'll be organized differently.

At the outset, I want to emphasize that each of these basic management groups is as essential to the success of the reorganization as is the other. For example, while our ultimate goal is to have a profitable railroad in "Milwaukee II," our ability to reach that goal depends greatly on our ability to sell, at attractive prices, the lines of railroad, rolling equipment, other property and scrap which "Milwaukee II" can't use. We'll keep what we need and can use, but there will be much left over which, over time, must be converted to cash. You'll recall that our plan of reorganization is based on our helping ourselves by concentrating on "Milwaukee II" the assets which are now spread out across the entire Milwaukee Road. There's no other way that we can make this reorganization work.

We've worked out the management restructuring at the top level, chiefly by defining the principal departments and functional responsibilities of the major "core" -- which means "Milwaukee II" -- and "noncore" departments, and by designating whom the principal department heads will be. Later, there will be other changes with the objective of reducing to the absolute minimum the outlay which the estate must make for the cost of manpower.

I have instructed the principal department heads that no changes related to the restructuring of the Milwaukee which might affect the jobs of existing personnel are to be made until the new labor-protection agreement is officially available as an option to other forms of job protection. For the new agreement to be in place, the agreement needs to be approved by the reorganization court. Also, the \$75 million in loan guarantees provided by the Milwaukee Railroad Restructuring Act to fund the protection need to be made available to us. The necessary court proceedings on these two matters are about to begin.

"Milwaukee II's" organization will consist of five principal departments, all responsible directly to me. Four of these departments will concern themselves directly with the railroad: operations, marketing, administration and finance. The fifth will be The Milwaukee Motor Transportation Company, the activities of which long have needed to be more closely coordinated with those of the railroad.

The management of what we probably shall call the nonoperating properties will be under the direction of a vice president who will also be responsible to me. There will be four principal areas of activity: property management, material disposition, noncore operations, and financial planning and control.

The present law and corporate communications functions will work closely with both the "core" and "noncore" staffs, but will be responsible directly to the Trustee.

There will be some realignment of departments within the four major areas of "Milwaukee II" management. The objective here, again, is better coordination of similar or related activities.

The Operating Department, which in effect is the railroad's production line, will manage the transportation, engineering, mechanical and security activities.

The Marketing Department will be a combination of the present marketing and planning functions, so designed that all activities which relate to the production and allocation of dollar inputs to the railroad, from revenues and from financial assistance as well, are concentrated in a single responsibility area. The new Marketing Department will contain these functions: market development, sales, pricing, business planning, budget development, state- and shipper-assistance programs, and our continuing work with the FRA and federal financial assistance.

The Administration Department will embrace the activities of today's administrative and special services and management service functions: labor relations, personnel, administrative services, purchasing and materials, and data systems.

The Finance Department will add to its present responsibilities certain functions which are now the responsibility of the Planning and Law Departments. Its major areas of activity will be accounting, treasury and finance, auditing, taxes, including property taxes, insurance and freight claims.

Over on the noncore side, here is how the work will be organized:

The property-management section will concern itself with the sale of noncore real estate as land becomes available for sale through the termination of operating authorities. It will also concern itself with the continuing activities of Milwaukee Land Company.

The material disposition section will be converting to cash unneeded rolling stock, inventory and scrap.

Because there will be train service over certain of the noncore lines for quite some time, the noncore management will have its own operating function separate from that of "Milwaukee II" but of course coordinated with it where necessary. The noncore operating function will concern itself with noncore operating strategy, maintenance and security.

Finally, the financial planning and control aspect of the noncore activity will deal with the accounting, financial planning, budget and budget control work plus the Title VIII activities of the present Planning Department which are related to line abandonments.

This nonoperating group is that activity to which we have referred in the past as occupying perhaps some 200 persons with the continuing work on the reorganization effort as contrasted with the operation of "Milwaukee II." The definition has changed a bit with further development of plans to fill the need, and the number of persons involved may be 300 at the outset and will be a smaller number a year from now, but the philosophy is essentially the same.

I emphasize again that the noncore activities, and the people who will be conducting them, are every bit as much a part of the reorganization effort as is the "Milwaukee II" staff. By their very nature, we do expect the noncore activities to phase themselves out over time, and some of the principal directors of the noncore activities are persons whose retirement is only a few years off. Yet some of our relative youngsters in management are to be involved in noncore work as well.

As to the staffing of the principal "Milwaukee II" and noncore departments:

For "Milwaukee II," Paul Cruikshank will be Vice President, Operations. Pete White will be Vice President, Marketing. Larry Harrington will be Vice President, Administration. Tom Power will be Vice President, Finance. Laurin Cowling will remain President of MMTC.

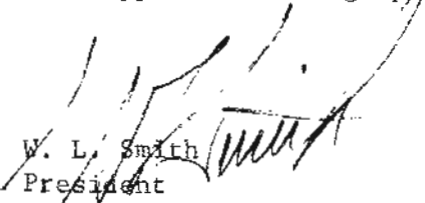
For the nonoperating properties, Vince Anderson will be Vice President. He will have working for him Ed Stoll in property management, Burt Worley in material disposition, Gordon Jonasson in noncore operations, and Clayton Smith in financial planning and control.

John Rowe will continue as counsel to the Trustee and as head of the Law Department. Wally Abbey will continue as Director of Corporate Communications.

The names of two principal and highly valued officers are, of course, missing from this list: George Kronberg and Dick Nugent. George is retiring as of March 1. Dick has told us that he has accepted a position outside the railroad industry.

Close cooperation among all of the "Milwaukee II" and noncore departments is of course essential, particularly since in a practical sense the divisions of work won't be as precise as this description would suggest. I know you'll all help.

It's difficult to designate a date on which these organizational changes are to be effective. Some have already been made, in effect. For example, Ed Stoll is already in place in Seattle where the bulk of his activities will naturally be centered. In some areas the transition will be gradual by reason of the nature of the work. Many details remain to be worked out by the newly assigned departmental managers. But the structure of what we need is designed and soon will be in place for an efficient transition to a successful "Milwaukee II" supported in large part by the funds produced by a separate noncore group.


W. L. Smith
President