

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Communications Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3324

March 17, 1980

Managers and Supervisors:

As you know, Judge McMillen today authorized the sale and transfer to Burlington Northern of the line segments covered by our agreement with BN, on a preliminary basis which will permit the BN to begin operating the segments, using our employees, beginning Friday morning. He directed the BN to file an application with the ICC covering the transaction as early as possible, and he directed the Commission to rule on the application within 90 days.

As the result of the court's order, there should be minimal interruption in service to most shippers whom we are serving during March only. Because the FRA has indicated that it will not provide funds past midnight Sunday, March 23, for the mileages in Montana, Washington, Iowa and Wisconsin which we may operate only if such funds are forthcoming, Judge McMillen has ordered Trustee Ogilvie to stop his operations at that time on those lines.

Throughout our embargoed lines, interim operators are in place and providing service. The list of interim operators is lengthy; it contains the names of new railroads as well as old ones: Pend Oreille Valley; Chicago, Madison & Northern; Wisconsin Central; Illinois Central Gulf; Cedar Rapids & Iowa City; Escanaba & Lake Superior; Chicago & North Western; Union Pacific. The Seattle & North Coast was on the list, but legal action by railway labor has stopped the operation by that railroad of our former Port Townsend line in Washington. When Burlington Northern is in place Friday, the problem of continuing service to the great majority of shippers on the embargoed lines will have been resolved.

There is this qualification: Judge McMillen made his order on the BN agreement effective at 10 a.m. Thursday, March 20, so that all parties would know what the ICC's decision on the plan of reorganization will be if the Commission, as expected, announces its ruling Wednesday.

Judge McMillen approved the order on this basis over the strenuous objection of the State of Montana to any approval at all. Attorneys for the state sought further delay, voicing the view that any approval of the BN transaction would be inappropriate until after the ICC had ruled on the reorganization plan. From the witness stand, Trustee Ogilvie pointed out that the Milwaukee reorganization has already been delayed almost two years principally by Montana interests, that he'd prejudiced his negotiations with BN by delaying them for a month in order to accommodate the desire of Montana to seek funds necessary to buy the Montana lines, and that even now the state's offer to buy is contingent on federal funding it doesn't have while BN will pay cash.

This amendment to the BN agreement was worked out in court between the parties: Where originally Miles City was to have been a gateway open only to coal trains, it now will be open also to traffic destined to or from points on lines in South Dakota owned by that state or to or from points on the Milwaukee Road in South Dakota which aren't also served by the BN. Effectively, this opens the Miles City gateway to such traffic as grain flowing westward over the Milwaukee from its exclusive stations.

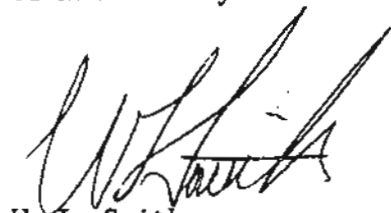
On the last day of its legislative session, South Dakota put itself in the railroad-owning business, but it left for a future session of the legislature the question of rail operations. Accordingly, while we might expect the state to begin purchase negotiations with us, it isn't likely that our embargoed lines in South Dakota, or portions of them, will be operated until perhaps summer.

Our embargo is proceeding very smoothly. The cleanup of residual activities in the embargoed territories continues to go more rapidly than we had expected. The inquiries into the Embargo Control Center continue to diminish in number daily, but the Center will remain open at least through the period of transition to BN operation of the line segments covered by our agreement. As of Saturday, we had only 24 locomotives working in the embargoed territories: 10 in Montana, 6 in Iowa, 4 in Washington, 3 in South Dakota, and 1 on the WI&M. There are 11 other units which remain in the West because we shall sell them out there or they are currently under lease to others. We are removing IBM equipment and continuing generally to clean out buildings and shut down the property.

A date to note: The last train left Tacoma for the east at 9:03 p.m. Saturday, March 15. Mostly, it's bringing carloads of useable company material back to "Milwaukee II."

We continue to receive the court's authority to abandon profitless lines. Today Judge McMillen approved the abandonment of the Iron Ridge-Fond du Lac and Lone Rock-Prairie du Chien lines in Wisconsin and the Andover (South Dakota)-to-Brampton (North Dakota) line, noting that in no case had any protest been raised.

Very shortly, we expect to hear that the ICC has issued the service orders necessary for the Milwaukee, and a number of other railroads, to continue service on essential parts of the Rock Island. Directed service over the Rock by the Kansas City Terminal will terminate at midnight March 23. We expect the ICC's service orders to follow the recommendations of Secretary of Transportation Neil Goldschmidt. If they do, the Milwaukee should receive the right to operate between West Davenport and Muscatine and on down to Fruitland; from Seymour to Centerville; and at Washington, all in Iowa. The Davenport, Rock Island & North Western of which we own half, would operate in the Quad Cities-Silvis area and to Milan, Illinois. Evidently there's no prospect that the Kansas City Southern will be taking over any Rock Island operations north of Kansas City.



W. L. Smith
President