

1st MONDAY 3rd MONDAY

Prepared for employees by the
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May 12, 1980
(Delayed issue of May 5, 1980)

Managers and Supervisors:

"Milwaukee II" works!

Over the past few weeks, I have been meeting with some of our customers individually and in groups, partly to assess our progress and partly to develop letters of support and commitment for our report to the Court. From the responses I've been getting, it's plain that since the embargo we have come a long, and important, way toward being the kind of railroad that is meeting customer needs in the territory we can serve adequately.

Pete White and others in the Marketing Department are seeing the same reaction. With our adjusted service pattern, our greatly improved supply of equipment, and the positive spirit among our people, this railroad is beginning to roll.

The first few weeks of "Milwaukee II" operation indicate clearly that our restructuring will materially benefit our financial situation. In Court a couple of Mondays ago, Tom Power, Vice President, Finance, told Judge McMillen that even with the recession our revenues at year-end should be 9% or 10% greater than we'd forecast earlier, and that our cash drain in April and May combined would be \$15 million less than we'd expected.

You will be interested in what Trustee Ogilvie will have to say on this and many other subjects in his report to the Court. That report now is scheduled to be filed on Wednesday, May 14. The report will detail new marketing projections which will include the impact of the events which have taken place since the reorganization plan was filed last August. Bear in mind that, by the nature of the process, the ICC was working with somewhat outdated information when it rejected our August plan. There was still a Rock Island last August. There was no agreement with the Burlington Northern which would bring new coal trains to our Miles City line. There had been no opportunity actually to taste and feel the results of concentrating our efforts and our assets on "Milwaukee II." These things and more will be reflected in our new report.

What we'll be filing won't be a new, full-scale plan of reorganization, however. That will come later, as Trustee Ogilvie indicated in March. We want to be able to base our new plan on actual experience with "Milwaukee II," not on forecasts and projections. But what you shall see later this week will certainly be a big chunk of the material which will go into our new plan.

You'll recall that in his March statement Trustee Ogilvie indicated that he'd report to the Court this month on three general courses of action: pressing on with a modified "Milwaukee II;" liquidating the entire railroad and selling off everything piecemeal; or selling "Milwaukee II" as a package to another railroad. It's important to remember that these alternative courses of action are more thrust upon the Trustee by the nature of our circumstances than they are matters of choice.

Liquidation has never been the Trustee's choice, of course, nor is it now. About a week ago, Governor Ogilvie spoke to a group of municipal executives. He most emphatically said that liquidation would not be his chosen option this time around, either.

You doubtless have heard rumors about communications with other railroads over the possible sale of "Milwaukee II." There have been such discussions and there will be more. The Trustee indicated in March that these discussions would be coming. The report to the Court will refer to them, but there isn't much of a special nature to discuss at the moment. As is often the case, the rumor mill seems to be reading into current events much more than is actually happening.

We should hear from Judge McMillen this week on two issues which have become related through an action of the State of Montana. One is the sale of about 150 miles of line in Idaho to Potlatch Corporation. The other is whether the Court's order approving our sale agreement with the Burlington Northern will be modified at Montana's request -- the effect of the modification being that BN couldn't acquire the properties we've agreed to sell it but that it would have to continue operating them.

Montana still holds to the position that it expects to buy most of the Milwaukee in that state. Much of the required money must come from the federal government. There's no clear indication that it will. In fact, newspapers have reported rather definite statements out of the money-lending agencies to the effect that it won't be available. Seeking further delay, Montana used the indication that the Department of Justice was engaged in a preliminary look at the possibility of a violation of the antitrust laws by the BN to toss another roadblock in our path. Montana claims that the sale of portions of the Milwaukee to the BN shouldn't happen until the antitrust matter is resolved. Nor should we be allowed to abandon Lines West as the Court has ordered.

The possible antitrust issue had arisen because certain internal BN documents were revealed by a former Milwaukee Road attorney who apparently believed that it was his ethical duty to do so. The documents related to conditions which the Milwaukee had won in the 1970 BN merger. They had been produced, under strict protective agreements, in the course of the Milwaukee's quest for inclusion in the BN, an issue which was then still alive but which was one of the things to be resolved by the BN sale agreement. Montana, and others, asserted that the documents proved that BN hadn't allowed the Milwaukee Road conditions -- which opened the so-called 11 western gateways -- to work as they'd been supposed to.

The BN's response was that the documents, on their face, proved just the opposite. The gateways were reciprocal, the BN pointed out to the Court. Not only did they afford the Milwaukee new opportunities to compete with the BN, while guaranteeing nothing, they afforded the BN new opportunities to compete with the Milwaukee.

Trustee Ogilvie testified on May 5 that reversing the Lines West abandonment, and holding up the Potlatch and BN sales -- not to mention the Union Pacific sale and others to come -- would disrupt his efforts to reorganize the Milwaukee and would add further uncertainty to the current situation. Nothing in the BN documents suggested that the Milwaukee could or should resume operation of the

Pacific Coast Extension nor suggested that the BN sale agreement was unwise or should be delayed, he asserted. Counsel John Rowe pointed out that Montana was seeking the luxury of having a choice of railroads by denying our former Idaho shippers the opportunity to have any rail service.

In court also on May 5, Judge McMillen approved the abandonment of our line between South Chicago Heights and Fayette. Operations over the parallel Conrail line are working very well. Conrail is engaged in considerable track rehabilitation and is getting ready to install new connections which will further improve our service to and from Louisville.

All employees should have recently received the letter from the Labor-Management Action Group, a cooperative venture which has been established with the help and support of the FRA and the parties involved. The Action Group is a new organization committed to finding ways to increase employee and equipment productivity and therefore enhance the financial viability of "Milwaukee II."

Tom McGuire of the UTU, Earl Mann of the BLE, Jim McPherson of BRAC, and Larry Harrington of the Milwaukee constitute the Action Group's general committee. The staff is composed of Dave Schrupp for the operating crafts; Ron Russ for the nonops; and Wayne Merritt, Dean Cooksy and Carl Lee for the railroad, with Gordon Jonasson acting as chairman.

A series of meetings designed to acquaint all employees with the Action Group's goals, and to produce suggestions from employees for possible areas of study, began last week and will continue throughout May. I assign this activity the highest level of cooperation. It's important to everyone. Thank you.



W. L. Smith
President