

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

October 20, 1980

To All Milwaukee Road Employees:

The cash position of the railroad has improved since August due to rising revenues and the benefit of the deferred wage program. It was unnecessary to borrow working capital funds during the month of September, and this was the first time since December 1977 that borrowings were not required.

In the first six months of "Milwaukee II" operation, total operating revenues lagged the forecast by 5.7%; however, railroad operating expenses, taxes and rents were 5.6% below the budgeted levels. Net revenue from our rail operations is approximately \$2.1 million better than expected primarily due to the railroad's September performance which was a marked improvement over the difficult summer months.

Several people have asked a question which needs to be answered. Robert H. Wheeler became Counsel for the Trustee effective October 1, succeeding John Rowe who is now Vice President - Law of Conrail.

Early in June, certain indenture trustees filed a petition with Judge McMillen's Court, which, if granted, would have prohibited further use of borrowed funds to meet future deficits in the operation of "Milwaukee II." The ultimate issue for consideration was whether there was sufficient likelihood of successful reorganization of our railroad to justify continued use of property sale proceeds, Milwaukee Land Company funds, or prior lien borrowings to meet operating expenses of the railroad. Hearings were conducted by Special Master Milton Gray on July 8 and 9, from which emanated his report of August 4 which recommended, with certain conditions, that the indenture trustees' petition be denied and that operation of "Milwaukee II" be permitted to continue. In First Monday of that date, I wrote to you in detail about the Special Master's recommendations.

Friday, October 17, Judge McMillen upheld the recommendation denying the petition of the indenture trustees, which, had it been favorably ruled upon, would have brought about cessation of our operations and ultimately the liquidation of "Milwaukee II." Judge McMillen wrote: "The Interstate Commerce Commission...after full consideration of various proposals...refused to recommend liquidation...and expressed a preference for the 'Milwaukee II' configuration. An order of this court for liquidation would in effect be a renunciation of the I.C.C. decision. It would not have been based upon a fair test of 'Milwaukee II' or upon projections based upon a fair test. It would frustrate the very efforts which the I.C.C. has encouraged the Trustee to make in order to determine whether or not this railroad can be reorganized, and it would presumably be based upon evidence which was not presented to the I.C.C."

The Judge went on to indicate that our wage deferral agreement, the "forgiveness provision" of the recent Rail Deregulation Bill (mentioned in First Monday, October 6), and continuing progress in disposal of property of the railroad and Milwaukee Land Company all serve to mitigate against a premature decision to liquidate "Milwaukee II."

Master Gray had made five related recommendations. He had asked that a revised plan of reorganization be filed by January 15, 1981. Instead, the Trustee was directed by the Judge to file by that date a report on the feasibility of formulating a new plan of reorganization, or a plan for liquidation. Of greatest concern to the Milwaukee, and its people, was the recommendation that Trustee Ogilvie be directed to file not later than January 15, 1981, a petition to abandon all services. This proposal was rejected by Judge McMillen because such a requirement would place the Trustee in an ambiguous position and is probably unnecessary under the Milwaukee Railroad Restructuring Act.

~~The recommendation that monthly operations reports be filed was modified to~~ require such a statement only if the Trustee seeks to borrow additional funds or if he becomes aware of significant developments which may indicate there is no longer a reasonable possibility of reorganizing the railroad. Judge McMillen agreed that the I.C.C. should establish an expedited schedule to consider a plan of reorganization; but he removed the suggested May 1, 1981, target date and will set a deadline when Governor Ogilvie files his plan.

Finally, while the Judge is asking that the DOT and I.C.C. develop a contingency plan for orderly cessation of operations should liquidation be found later to be necessary, he has omitted the need to file a report of such a plan with the Court.

While track rehabilitation along our Chicago - Twin Cities corridor has been concentrated this year near its south end, an important related project was in progress at Hastings, Minnesota. The new Mississippi River bridge there entered service with the passage of the local switch engine at 11:15 p.m. Monday, October 6, marking the successful conclusion of a project for which construction began in January 1979.

The last train using the previous bridge crossed at 11:40 p.m. Saturday, October 4. During the intervening 48 hours, the highlight of the reconstruction occurred with the floating into place of the new 1,000-ton, 320-foot lift span which can be raised or lowered in 1½ minutes and provides a 60-foot clearance above normal water level. The new three-span 489-foot structure weighs slightly over 15,000 tons. New bridge L-268, enhancing river navigation and benefiting "Milwaukee II's" Chicago - Twin Cities corridor through reduced maintenance and relative freedom from boat damage, was funded on a cost-sharing basis by our railroad, using internally generated funds, and the United States Coast Guard.

"Milwaukee II" draws compliments in Muscatine! Shippers there continue to express a high level of satisfaction with the level of service provided since we began exclusively serving that municipality in April. Significant reductions in transit times have received accolades from the Muscatine Chamber of Commerce, and it publicized in a recent issue of its magazine, The Observer, the viewpoint that we deserve an opportunity to prove that our unique approach to successful reorganization is a viable plan. The Chamber went on to say that rehabilitation of our Kansas City line is a major accomplishment.

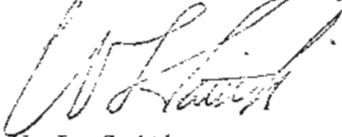
The Milwaukee Land Company was incorporated in 1881 as a subsidiary of the railroad and has been engaged since then in purchasing and managing timber properties and industrial land. While the Land Company was at one time operated in part to provide additional traffic to the railroad, over the past several decades it has been operating as an independent company. Substantially all of the timber properties now owned by MLC were bought before 1930, and there have been no major purchases of such properties since 1970.

Now, as you have all had the opportunity to find out through a recent "To All Concerned" message, Trustee Ogilvie announced on October 10 proposed sales by Milwaukee Land Company. Today, the Court approved purchase by Potlatch Corporation of 92,972 acres of timberland and 4,510 acres of reserved mineral rights in Idaho for \$134,760,000. ITT-Rayonier would like to acquire, in the area of Lewis County, Washington, 23,796 acres of timberlands and 80,541 acres of reserved mineral rights; however, certain objections, including at least one higher bid, were raised in Court this afternoon and Judge McMillen is giving the interested parties until October 29 to file statements.

Meanwhile, MLC is continuing discussions which may lead to the sale of 32,206 acres of timberland and 69,373 acres of reserved mineral rights on Washington's Olympic Peninsula.

Proceeds of all Land Company sales are not available for railroad operating purposes except under Court order. Trustee Ogilvie intends to request from the Court, prior to the anticipated year-end closing of the sales, approval to use a portion of the net proceeds of the MLC sales to fund the tender offer announced in February 1980 to the railroad's secured bondholders.

Judge McMillen, Trustee Ogilvie and I went on a tour of our line between Bensenville and St. Paul on October 18 and 19. The trip acquainted the Judge with some of "Milwaukee II's" operations and enabled him to see the results of our track rehabilitation program. Using business car Stanley E. G. Hillman, we traveled to St. Paul, Saturday, on Sprint #215 and returned on a Kansas City Train #221 late Sunday afternoon.



W. L. Smith
President