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

May 4, 1981

To all Milwaukee Road Employees:

A decision is expected in Reorganization Court this month on Trustee Ogilvie's request to borrow the balance of funds he originally requested last year to continue operations and maintenance of "Milwaukee II" through 1981.

In December, Judge McMillen authorized the Trustee to borrow \$32.8 million from proceeds of property sales held in trust to cover cash needs through April. At that time, the Trustee sought \$60 million, subsequently reduced to \$54 million, of borrowing authority from escrowed funds and the Milwaukee Land Company to continue operations through the entire year. He is now seeking permission to borrow up to \$27.2 million, which is the difference between the amount originally requested and the amount authorized by the Court.

If operations can be conducted with less borrowing, then the full amount will not be used. As he has previously stated, the Trustee will borrow only as much as is needed and only when needed. In the event of a material change or in the event of a decision by the ICC on the new plan of reorganization during the remainder of 1981 it is anticipated the Trustee will return to the Court to review this authorization in light of then prevailing conditions.

Court approval has also been requested for the expenditure of some \$22 million for track rehabilitation projects in Wisconsin. This involves funds requested as loans under Section 505 of the 4R Act from the Federal Railroad Administration. These funds are required to rehabilitate segments of the Wisconsin Valley Line and a segment of the core's main line between Camp Douglas and Milwaukee.

The completion of the upgrading of the Wisconsin Valley Line, which was started with Section 505 funding in 1980, is dependent upon both the FRA and an adequate commitment for traffic over the "Milwaukee II" core from the power company which intends to begin service to a new generating plant on the line in October of this year.

Trustee Ogilvie believes that the efforts of the past few years are beginning to yield the desired results. He still needs time to consider acquisition or sale of various lines, which could also be affected by President Reagan's proposals, which include dismantling of Conrail and reduction of federal aid for railroads. The borrowing authority requested is necessary to permit the Trustee to continue his efforts to reorganize "Milwaukee II," at least until a new reorganization plan is acted upon.

The reorganization plan presently being prepared will be impacted by Trustee Ogilvie's decision on whether the Miles City line is to be included or excluded from the "Milwaukee II" configuration.

On April 13-14 a group of federal and state officials and transportation officers made an inspection trip over the eastern portion of the line from Minneapolis to Aberdeen. Headed by Federal Railroad Administrator Robert Blanchette, the group included Richard Schiefelbein, FRA Associate Administrator for Policy, and William Loftus, FRA Deputy Administrator, Financial Assistance, from Washington, D.C. The state of Minnesota was represented by Governor Al Quie, Senator Dave Durenberger, Representative Vin Weber, Minnesota DOT Commissioner Richard Braun, Minnesota Department of Agriculture Commissioner Mark Seetin, and Senator Durenberger's administrative aide, John Riley. Governor William Janklow led the state of South Dakota group, which also included Senator James Abdnor, Congressman Clint Roberts, Senator Abdnor's assistant, Lee Schoenbeck, and South Dakota Rail Administrator James Myers. Arnold C. Anderson, President, Great Plains Shippers Association, represented shipper interests. The Milwaukee Road contingent consisted of Bob Wheeler, Larry Long, Nate Smith and Bud McCanna.

The train trip was a joint undertaking. Through the cooperation of the appropriate labor organizations, Milwaukee Road train and engine crews volunteered to operate the special train without pay. Great Plains Shippers Association paid the fuel costs.

Stops along the way enabled the group to inspect trackage first hand and meet with the media and interested shippers and spectators.

On April 22, railroad officers and the Trustee met with representatives of the various states, shippers, power company and Federal Railroad Administration. They indicated to those involved that the Trustee's preference is to abandon or sell the line west of Ortonville, Minnesota, and that he would remain firm to the May 15 deadline. He will be willing to continue ownership and operation of this line only under conditions which protect his obligation to the Reorganization Court and the parties to the Court proceeding, which are essentially that the entire line to Miles City must remain intact and that either grant or low interest loans would be made available to rehabilitate the entire segment for approximately \$49 million. He further stressed that "Milwaukee II" must be permitted to abandon the line if it is not performing to expectations, providing adequate debt service and producing an adequate return. He also named conditions limiting the liability of "Milwaukee II" in the event of an abandonment of the line. Whether the involved states and shippers, and representatives of the FRA are willing to meet any of these conditions is not known at this time.

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The Interstate Commerce Commission has authorized Trustee Ogilvie to proceed with his proposed tender offer to holders of all of the railroad's secured mortgage debt. In February 1981 a proposal was filed with the ICC covering this subject. It was approved by the Court on March 9, 1981.

In a decision served April 30, the Commission found that the tender offer is consistent with the public interest. The Commission said that issuance of Trustee's Certificates to finance the tender offer is lawful and compatible with the public interest.

The Commission authorized Trustee Ogilvie to issue Trustee's Certificates not exceeding an aggregate principal of \$81 million to fund the tender offer. If fully accepted, the tender offer will redeem \$122 million of outstanding bonds.

The Trustee has pointed out that if the program is successful, it will substantially benefit the estate and enhance the prospects for reorganizability by settling some claims at less than full stated value. It will also assist in preparing an amended plan of reorganization.

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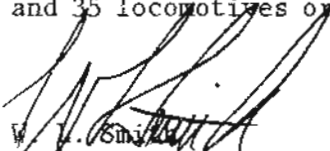
The ICC last month approved the C&NW's purchase of the line between Marathon and Albert City, Iowa (7.22 miles) for \$1,059,000. The sale was closed May 5.

Unfortunately, we were unable to negotiate a sale with the C&NW of the so called "pocket" lines in central Iowa or terminal trackage in other states. The C&NW had been operating over these lines under ICC Service Orders since March 1980 but had not agreed upon a rental rate or rendered payment on its use of any of the lines.

A final C&NW counter offer to purchase the Slater - Woodward and Perry - Herndon - Waukeee, Iowa, segments was declined as not being representative of their fair market value. As a result, the Service Orders which gave the C&NW authority to operate these lines expired April 30, 1981, and the C&NW was asked to vacate our properties.

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The second phase of the repair work financed by our 4R-511 borrowings has been completed. Originally, \$19.3 million was allocated to repair 902 freight cars, 19 cabooses and 35 locomotives. On April 20 when the last car was completed and rolled off the line, our work forces had repaired 1,034 freight cars, 19 cabooses and 35 locomotives or 132 cars more than originally estimated.


W. L. Smith
President