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Prepared for employees by the  
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July 19, 1982

To All Milwaukee Road Employees:

We have filed an application with the Interstate Commerce Commission for authority to acquire the important piece of Rock Island Railroad property in Iowa that we have been negotiating to purchase for more than 18 months. As you know, the Rock Island Reorganization Court last week approved the agreement Trustee Ogilvie had reached with the Rock Island Trustee to buy for \$17 million approximately 98 miles of Rock Island line and operating rights between Clinton and Washington, Iowa, plus certain yard and industrial lead trackage in two terminals.

In preliminarily approving the agreement, U. S. District Judge Frank McGarr, who is overseeing the liquidation of the Rock Island, complimented the staffs of the two Trustees for their fine efforts. He directed the Interstate Commerce Commission to complete its review of the transaction and report to the Rock Island Court within thirty days of the filing of the application. Following the ICC decision, the matter returns to the Rock Island Court for final approval. It has already been approved by our Reorganization Court.

The stretch of railroad we seek to acquire is an essential part of the restructured Milwaukee Road envisioned in Trustee Ogilvie's Revised Plan of Reorganization. It will provide us with a direct route between Chicago and Kansas City, Missouri, unencumbered by operating rights which have permitted us to use a portion of this line since 1901. It will also allow us to continue to serve certain industries and communities that we have been serving under ICC service orders and a lease with the Rock Island Trustee. Acquisition of the line to Fruitland, Iowa, will guarantee the handling of unit coal trains moving from Wyoming to a new coal-fired electricity generating facility under construction at that site.

The support we have received from shippers, community leaders and state officials in our attempts to secure the Rock Island properties is very gratifying. It is critical that we continue to receive the support and involvement of these groups as we proceed through the ICC hearing process to a successful conclusion.

In a companion action, directly related to our pending purchase of Rock Island lines, we have filed an application with the ICC for authority to abandon 33 miles of our trackage from Culver to Muscatine. Once we acquire and rehabilitate the parallel Rock Island line, that line will handle through trains currently operating over our trackage.

We will continue to serve all of our present customers at Culver and Washington regardless of the outcome of the application.

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Trustee Ogilvie is expected to announce on July 20 the closing of the sale of 480 miles of our former main line between Ortonville, Minnesota, and Terry, Montana, to the South Dakota Railroad Authority for \$30.4 million in cash plus other benefits worth about \$6.9 million.

We have not operated over this line segment since March 31, 1982, when service was terminated following abandonment authorization by the Interstate Commerce Commission and our Reorganization Court. In April, Judge McMillen approved the interim lease and ultimate sale of the line to the South Dakota Authority.

Since mid-April, freight service between Ortonville and Terry has been provided by the Burlington Northern Railroad, which operates the line for the South Dakota Railroad Authority.

This sale is a continuation of Trustee Ogilvie's efforts to reshape the Milwaukee Road from a 10,000-route-mile transcontinental carrier into a 2,900-route-mile midwestern core network.

Proceeds from the sale will be placed into escrow and are not available to the Trustee for railroad operation without Court approval.

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As you are aware, at Trustee Ogilvie's request, Reorganization Court approval has been granted to pay back-pay for the years 1978, 1979, 1981 and 1982 based upon collective bargaining agreements to those eligible employees and former employees as dictated by national agreements and the wage-deferral/reduction agreement.

Plans for the preparation and distribution of back-pay checks to these employees have been formulated and they will be implemented at the earliest possible date. Because of the large number of checks to be processed and the need to review various payrolls covering the different work periods involved, it is expected that checks will not be mailed earlier than the end of August. When ready, checks will be mailed to the payee's homes.

Employees should understand that any 1981-82 back-pay subject to the wage-deferral/reduction agreement will be reduced by the 7%. Also, back-pay payments for the crafts that did not participate in the wage-deferral program will be deferred to a later date. Payment will be made to UTU and BLE employees for their 1981 and 1982 back-pay once their current negotiations are finalized and their new labor agreements are implemented.

Trustee Ogilvie has urged all involved in the process of preparing and making back-pay payments to give this top priority. This general outline is provided so employees may have a better understanding and appreciation of the methodology of this project.

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Earlier issues of FM/TM have focused on the Letter of Intent that Trustee Ogilvie signed with the Grand Trunk Corporation for the transfer of stock ownership of the Milwaukee Road to the GTC. It was reported that pending ICC and Court approval of the proposed transaction, the two systems will continue to operate as separately managed companies. But, you will recall that the Milwaukee and the GTC had agreed to establish certain operating coordinations designed to improve service in their primary corridors.

On June 21, the Milwaukee and the Duluth, Winnipeg & Pacific Railway inaugurated a daily run-through train between Winnipeg, Manitoba, and St. Paul, Minnesota, with a scheduled running time of 22½ hours from Winnipeg to St. Paul - an improvement of 18 hours from previously provided service. Customers who have monitored this new run-through service are aware that this schedule has been consistently maintained. A second train was placed in service six days per week between St. Paul and Duluth to handle local DWP traffic and Head of the Lakes (Cloquet and Superior) business not handled on the run-through operation.

From Port Huron, Michigan, via Battle Creek, Grand Trunk Western Railroad began operating a train directly to and from our Bensenville, Illinois, classification yard. Additionally, a number of principal Milwaukee Road freight trains were rescheduled to enhance these operations.

The performance level of these coordinations effectively demonstrates the service benefits our customers may expect from the natural alliance between GTC and the Milwaukee Road. In this fiercely competitive market, we're determined to be the number one performer in terms of dependability, consistency and efficiency.

We expect to expand our run-through operations and put in place further service improvements as opportunities become evident.



W. L. Smith  
President