

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Relations Department
516 West Jackson Boulevard Chicago, Illinois 60608
Telephone 312 648-3324

February 22, 1983

To All Milwaukee Road Employees:

The deferred tax settlement program proposed by Trustee Ogilvie has been approved by the Reorganization Court.

The program, authorized February 7 by Judge McMillen, will allow Trustee Ogilvie to use funds from the Milwaukee Land Company to satisfy certain outstanding state and local tax claims against the carrier at 90% of principal amount.

Under terms of the tax settlement program, cash payments of 90% of the tax liability will be made by the Trustee within 60 days of receipt of a written acceptance of the offer by the taxing authority. Taxing authorities accepting such payments will be required to waive any further claims arising out of past due taxes, but future tax payments will be made as due. Payments under the tax settlement program will be made from April 1 through August 30, 1983. Trustee Ogilvie estimates that payments of close to \$22 million might be made during that period.

Tax claims not settled as part of the program will be paid as part of an approved Amended Plan of Reorganization.

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As a result of the agreements reached nationally with the UTU and BLE, back-pay checks totaling \$6.6 million were mailed February 11 to Milwaukee Road employees in train and engine service and should have been received last week.

The back-pay covered a period from April 1, 1981 through November 30, 1982. Trustee Ogilvie sought and received court approval to draw down funds from the Milwaukee Land Company to finance the payments.

This settlement brings to \$21.5 million the total amount of back-pay issued to Milwaukee Road craft employees since last August.

Despite the best efforts of all involved in the distribution process, we've been unable to make delivery of back-pay checks to certain employees. We will continue our search for these individuals as Trustee Ogilvie is anxious to have all employees entitled to back-pay receive payment.



W. L. Smith
President

P.S.:

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

February 25, 1983

Dear Fellow Employees:

The following interview with President W. L. Smith was conducted by Kemma Johnson, Editor of the Minnesota Region newsletter. It was originally intended for use in that publication. But because the interview covers such a wide range of subjects, it was felt that all employees, not only those in the Minnesota region, would be interested in Mr. Smith's comments and in having a copy of their own. Kemma agreed. So arrangements were made to distribute it through the use of P.S., which, as you know, is mailed directly to employees' homes.

You are invited to share it with family and friends as it answers many questions employees have on their minds. And thanks, Kemma, for a fine job.

W. R. Bickley
Director-Corporate Relations



Early in November we approached President W. L. Smith with the idea of doing an interview under the sponsorship of LMAG for the Minnesota Region Newsletter.

Employees of the Minneapolis and Milwaukee areas obviously were very interested, and had several issues they wanted President Smith to address - in excess of forty questions.

Mr. Smith was in Minneapolis early in February to attend a meeting of the Northwest Shippers Advisory Board, and he arranged for the interview at that time.

Kemma Johnson
Newsletter Editor

- Q. What is the status of the Minneapolis depot and the construction of a new building in St. Paul? Will we build on to the Yard Office in St. Paul, or is a separate building planned?
- A. The status is a little fuzzy at the moment because we don't really know whether there is any life to the proposal of Harry Wirth to acquire the depot. This has been on-again, off-again for the better part of the last year and a half, that I can recall, and the need to relocate at St. Paul is conditioned upon the requirement to get out of the Minneapolis passenger station. The proposal to build an addition adjacent to the St. Paul Yard Office is still in the capital program, but the timing is pretty much governed by what transpires with the sale of the Minneapolis depot.
- Q. Has any decision been made to relocate employees now based in the Minneapolis depot on final sale of property, and where would these people be relocated?
- A. I believe that the Operating people will be in St. Paul, that the Marketing and Regional Accounting people are going to be elsewhere in Minneapolis. There has been some discussion about offices in the Flour Exchange. I believe that is still the basic program, but I suppose that could change a little bit, depending on the timing of when this event happens, if it does.
- Q. Will St. Paul ever be built-up, now that we have the Duluth gateway?
- A. Yes, in that the emphasis that is going to be placed upon Duluth, the building of the business relationship with Canadian National by way of the DWP, can only increase in volume through St. Paul. Also, the rehabilitation of the line from the Twin Cities to Ortonville will bring the coal back over the Ortonville line. The flow of business from Canada goes both to the Kansas City market and southwestern connections as well as to Chicago and Louisville. So, St. Paul sits in the middle of the main flow of business, regardless of what off-line junction the business might go to or come from. I only see continued growth and strengthening of our position in the St. Paul area.
- Q. How will the traffic with GT affect our shipments at St. Paul - is there anything that you want to add there?
- A. Yes, one other thing. We are working with Grand Trunk diligently to build up the flow of business between the Grand Trunk Western part of the corporation - this is basically the line from Chicago to Detroit - and this will benefit the activity in and out of the Ford plant and commodities that are related to the automobile trade. We often think of the Grand Trunk Corporation and all we think about is the DWP because that is where the big volume has occurred and that's probably where the biggest growth, over the years, will continue to occur. But now on the other part of the railroad the attempt is being actively worked on to build what is the east-west railroad between not only Kansas City and Detroit, but between the Twin Cities, the Milwaukee area, and Chicago and then out to Detroit. Now there are several opportunities in connection with the Milwaukee/Grand Trunk Corporation amalgamation.

- Q. What about the increase in traffic as it relates to increased jobs?
- A. Well, traffic does pull jobs. We've seen the reverse over the last year; that with a decrease in traffic, of course, there are fewer jobs, particularly in the operating side. This is a fluctuating type of service, as everybody involved knows. When there's more business there are more crews, when there's less business there are fewer crews.

One thing that might be of interest to Milwaukee people - it certainly was to me - I saw last week the 1982 figures put out by the Association of American Railroads for all of the railroads that report traffic statistics to them - that's 44 railroads.

The only railroad in the United States that had an increase in received traffic was the Milwaukee Road - the only railroad - and our received traffic was up 2.2 per cent. The average for the Western District of railroads, and that's everything west of Chicago and everything west of the Mississippi River, was minus 21.1. Milwaukee was plus 2.2. I think that's a significant figure.

Another figure of some importance was that on loaded carloads the average of the western railroads was minus 13.9. The actual for the Milwaukee on loaded carloads was minus 15.4. What this says is we were about equal on loaded revenue and loaded carloads, and we were the only ones who had an increase in the entire United States in received traffic. Now that's a measure of the reason for concentrating on the Grand Trunk.

- Q. How many active Milwaukee employees are on the payroll, and what number does the Grand Trunk expect the Milwaukee to have before they will take the Milwaukee Road?
- A. The mid-month count of employees for December was 4,652, as I recall. Call it 4600. There is no exact figure as far as the Grand Trunk is concerned. They are expecting that we will have a population of not much over 5000 at the time of the acquisition. Of course, again, this depends tremendously on the amount of business that's involved. There isn't any specific number that we are aiming at, but we are below the numbers that have been talked about publicly in the past.
- Q. If the Grand Trunk establishes division offices in the Twin Cities, will it be at Minneapolis or St. Paul?
- A. The Grand Trunk will not be establishing division offices on our property. The Milwaukee Road will be a subsidiary company, retaining its name within the Grand Trunk family of railroads which includes the DWP that we all know about up here, the Grand Trunk Western, the DT&I, and back in New England, the Central Vermont. So, the operation will continue to be our operation.
- Q. There is a suggestion for security purposes of having a photo identification of each employee. Do you have a comment on this?
- A. I have no reason not to go ahead with a program like this if there were a security problem that needed to be met somewhere. I have worked where this has

been a requirement, and, mostly, I have worked where it has not. It is not a requirement in Chicago Union Station. It is in some of the buildings, mostly in the larger urban areas, and it depends a great deal on the ability to maintain the security of a certain building. If it were the right thing to do for the protection of our people, then surely I support such a program, but I haven't had it presented as a problem from anywhere up to this point.

Q. I think you may have already answered this question, but if the inclusion to the GTC goes through, are the plans still to keep the Milwaukee Road as a separate company?

A. Yes, we did talk about that a little bit. There's also another reason for this. The Milwaukee Road has certain rights in its own name. Let me give two examples. We have trackage rights from St. Paul to Duluth, or to Superior, and then on to Duluth under different arrangements. We also have trackage rights over the former Monon route from Bedford, Indiana down to the Ohio River at Louisville.

If we were to engage in an activity that abolished our corporate name, those rights would be abolished with it, which would be disastrous for our ability to get to the Duluth market and to the Louisville market. So there is no advantage to dissolving a corporation. In fact, it would be a major disadvantage. The other issue here is that it is the style of Grand Trunk Corporation, and one that I certainly subscribe to, to have families of railroads working together. There is no impediment to good operation under this system. Witness the run-through trains that go on up at Duluth daily. So there isn't any reason, corporately or legally, to have to dispose of a company name.

Q. There has been some talk of division boundaries being changed with the inclusion. If that happens, when will the boundaries be changed and what will the divisions be known as?

A. I don't think we know that yet. It is the expectation that the Milwaukee will continue to operate with two divisions - Northern and Southern.

Q. How does the DWP fit into all this?

A. Critical. The DWP is the link between the United States and Canada, and most of the increase of business that we have already begun to enjoy will continue to come from the provinces of British Columbia, Alberta, Saskatchewan and Manitoba. It's the production of these raw materials - lumber, sulphur, potash - that flow into the southeast and southwest that move over the DWP.

The DWP is a tremendously important part of the Grand Trunk Corporation. It is not the biggest part, but it generates, I believe, equal amounts of revenues to Grand Trunk Western. Certainly, being a simple operation might well be the more profitable part of it.

Q. How much has our intermodal business increased the past three months?

A. Intermodal has really taken off during the last quarter of 1982. Just last week I happened to get some final figures for the year, and what they say is

interesting. We went through the first three months just about flat. We moved about 60,000 intermodal units in the first nine months of 1981 and also 1982. In the beginning of the third quarter, we began to pick up substantially so that we ended up the year moving almost 93,000 units compared with 83,000 units in 1981. This is about a 10,000 unit pick up - by unit, I mean trailer or container - but for the most part, these are trailers. That's a 12 per cent increase. Actually, this is the biggest year this company has had in intermodal at any time over the past ten years.

Q. Are there plans for intermodal trains between the Twin Cities, Louisville and Kansas City?

A. We don't have plans for a dedicated train at this time because Kansas City, as such, is not a terminating market. The real market is beyond Kansas City into Southern California, and, there, mostly the Los Angeles area. What we have is a considerably increasing flow of intermodal business over Kansas City, particularly with the Southern Pacific. The Southern Pacific opportunity has been developing slowly, but steadily, over the last 18 months, and now it's beginning to really pay off. The highest per cent of increase in intermodal this year, and particularly, these last three months, has been in the Kansas City corridor. In the Twin City corridor last week, the Sprint Train service has come back up to 1100 trailers, which is the best week we have had in a long, long while. But, the dramatic growth has been in the California-related business over Kansas City.

If a terminating market could be built at Kansas City, and at the moment it seems a little remote, then I would be happy to see us go into a dedicated intermodal-type service. But we recognize that the stiffest competition between Chicago and Kansas City is the Santa Fe because they have the short route - just like we have the short route between Chicago and St. Paul, which is why we set the competition rather than have to run to catch up with it.

Q. Is there any possibility that at least part of the Milwaukee Shops will be reopened in 1983?

A. There are a couple of programs - they aren't big ones. There is a program to convert some covered hoppers to ballast cars and replace some friction bearings with roller bearings. There may be some programs later on related to business increase - I hope so - but at the moment, other than a modest locomotive program, there isn't very much scheduled for all of 1983.

Q. How are we progressing with the forecasted budgets laid out in the past?

We are on budget, and this is absolutely essential. The key document that I hope people have seen and read comes from the Revised Plan of Reorganization of September 15, 1981. It is a two-page exhibit called Exhibit No. 3. The first page is the income statement; the second page is the cash statement. The important figures are that we put this out a year and a half ago and said that at the end of 1982 we would have an operating loss for the railroad of \$29.1 million. This is a planned projected loss. The reason for it, as I have commented before, is that our need to rehabilitate and our need to spend money, particularly in the track structure to bring the plant back up to proper

condition, exceeds our ability to internally generate the funds. So, in December of 1981, we went to the Court in Chicago and said to the judge we needed to draw down \$60 million from the escrow account, \$40 million to be spent in 1982 and \$20 million to be spent in 1983. It is the spending of those dollars in carrying out the track program that produced the deficit.

I don't have the audited figure for 1982 yet, but we projected a negative \$29.1 million and we are going to be almost exactly on that figure. The cash figure is a rather different thing. I don't want to get complicated in the accounting process, but we have laid out for the years 1982 through 1986 what our cash at the beginning of the year and the end of the year would be for each of those years. As we begin the year 1983, we are on projection. It is important for this reason; the whole Grand Trunk transaction is premised on the idea that the Milwaukee will be making substantial and steady progress towards its own reorganization. So, not only do we have to do it in order to complete the reorganization, but we have to adhere to these figures in order to make our contract for acquisition with the Grand Trunk a valid one.

- Q. What degree of success are we having in paying off outstanding debts? We know that \$92 million of our debt was paid a year ago; what has been our progress since then?
- A. The debt, paid off a little over a year ago, was part of the debt to the United States government. We had a pay-back provision which enabled us to make an early payment at a discount, so we actually saved money in paying it back early. From an economic standpoint, it saved the estate, as I recall, some \$5 or \$6 million to have paid it off early rather than to wait for the actual reorganization.

Recently, we announced a plan to pay past-due property taxes to the states at 90 cents on the dollar rather than have the states wait until the date of reorganization to be paid 100 cents on the dollar.

We are not now, to the best of my knowledge, engaged in any discussion with bondholders or people who hold income debentures to prepay these debts. The plan of reorganization contemplates that the date of January 2, 1985 will be the date that all accounts are settled, and with the exception of the property tax matter, I don't think there is going to be any attempt to pay off any of these debts prior to that time.

- Q. Do you feel that in 1983 we will see the expected upturn in business that has been forecast by some experts?
- A. I am always a little skeptical of experts. My feeling is, yes, I think we see it now. Over the last couple of weeks we have seen a firming-up in certain areas. We have seen a better flow of automotive-related commodities. There is a pick up in flow of lumber. A couple of significant ones that I watch are paper products because if industrial toweling doesn't move, it means the factories aren't working. Looking at places like Green Bay and Wisconsin Rapids, I begin to see a little movement there. The price of scrap has gone up a little bit, which means that more product is coming out of the steel mills. I think it is going to be slow, but I believe that a slight pick up is going on

right now. How fast it will occur, who knows? Grain is a big unknown for us. Even though we are moving a fair amount of grain now, the real kicker for grain is the export market.

Q. What are the monetary results for 1982? Were they within projection? How does it compare to the 5-year reorganization plan?

A. I think we were talking about that a little bit in connection with the plan. The monetary results will show that we have a railroad operating loss around \$29 million, which is on the plan.

One thing that encourages me about the operation of the core railroad is that we were on our projection in each of the years '80, '81, and '82 in spite of the fact that we have gone through a very bad economic time generally. I have no reason to believe that we won't remain on our plan. We have gone through some tough budget re-examinations and some reorganizations, and all of the things related to it, to get our budget in line with the 1983 projection. We are in line with it now; our capital program and our operating budget - everything fits. If we hold to our projections, and I think we can, and if the market activities will support the revenues - and that's the unknown always - we will be on plan again for 1983.

Q. Understand there is a revision being made of reorganization at this time. What impact might this have on reorganization timetable?

A. I assume that refers to the statement that was made in 1st and 3rd not too long ago that we had asked the ICC to grant an extension to, I think it's March 31, for the filing of our amended plan. The reason for doing this is that if something happened at the last minute and we weren't able to file on February 5, which is two days from today, we didn't want to get hung up on some legal technicality that would throw a delay into us by not having asked for the extension. It doesn't really have anything to do with the timing of the larger reorganization plan. Our target has been, and still is, January 2, 1985, and taking a few extra days to be sure that the amended plan is precise, and that all the i's are dotted, t's are crossed, and all the figures add up, is not going to upset the timetable to any degree at all, that I can see.

Q. Are there any more major cuts expected that are reorganization-related - either management or labor? We do understand that for economic reasons some may be made, but are there any directly in line with reorganization process?

A. No, I don't think so. I don't have anything in front of me at the moment. We have gone through a couple of tough exercises. We went through one in March of last year and another one just a few weeks ago, and as I mentioned, we are at a mid-month count, including everybody, of 4600 people, which is less than we thought it would be back several months ago. Our budget for 1983 is constructed on a basic force of about that number. You mentioned business-related. Well, that's true, the number might be higher, and given the level of activity, I don't see it going very much lower.

Incidentally, we have a very full year planned in the rehabilitation of plant. We talked about the shops a minute ago, and perhaps I should add one more thing. There isn't really much justification for repairing types of equipment that are in surplus and for which there is no projected marketing need. So there isn't any economic reason for opening up the shops to repair that kind of equipment. I would love to open up the shops to repair equipment that the market needed or wanted, and if that gets to be our situation, we'll do that.

The other side, the plant, we've got to continue to work on that and we will do so. We have a good program outlined for track rehabilitation this year.

Q. If the GT acquisition goes through, what overall effect on the staffing of the Milwaukee Road, both labor and management, might that have?

A. I shouldn't think we'd see anything other than perhaps maybe some changes through attrition or some changes through the course of years. It's hard to tell. I don't have the answer to that. I don't know that any study of that has been fully made. This is an end-to-end physical tie up which has the least impact on people. Certainly a parallel merger where a lot of common points are involved has the greatest impact.

Q. We have made so many recent cuts in car and equipment maintenance. What is your opinion as to how that might affect our ability to handle future business if our economy improves? The same question could be applied to any roadbed maintenance we are anticipating, and are we anticipating any maintenance?

A. No problem. We have a good car fleet and we have a good car management system. We have excess serviceable cars in storage. Yesterday morning, for example, we had 700 jumbo covered hoppers stored serviceable. We have 50-foot box cars stored serviceable. Everybody knows Rail Box has thousands of cars serviceable, so equipment is not any great problem.

Yes, we are anticipating roadbed maintenance. I perhaps should have mentioned in connection with the other question that we have a capital budget of around \$8 million for this coming year which is up over 1982. 1982 was around \$6 million. We have about 75% of that money going into the track. In maintenance budget, about \$40 million is going into the track. Two of the big items planned for 1983 are that we're going to get another 130 miles of welded rail in this year and place about 425,000 ties. Last year we placed 349,000 ties, so we have a good program. In fact, we are already starting to get some of the rail going for the rail program.

A lot of the work is going to go into the main line between Milwaukee and St. Paul, the River Junction line and the Kansas City line, and, of course, we have an item in the budget for the rehabilitation of the line from E14 on out to Ortonville.

Q. The Grand Trunk lost money in 1982. What effect might this have on the acquisition process?

A. I don't think it has any effect. It's always a concern when anybody loses money, but the principle behind the acquisition is for the Grand Trunk to

guarantee debt of the Milwaukee Road - some \$250 million worth of debt. There is no cash payment, as such, involved. I don't know what the Grand Trunk figures were. Maybe they lost money. A lot of railroads did, including Santa Fe and Southern Pacific. I don't know of very many who didn't. So, I'll assume that they, too, will come back from the bad economy of 1982, as we will, and that we will go along as planned.

Q. Is the Duluth gateway as lucrative a process as we thought when we threw all our eggs in that basket? Our 99-year lease expires in less than 20 years, and at that time will it precipitate another crisis if we have all our eggs in the Canadian basket? Can they remove us from the territory at that time?

A. I guess I look at the Duluth gateway a little bit differently. The Duluth gateway is one very important gateway to the Milwaukee core route structure. Business from western Canada enters the United States at several places, and Duluth is one of these places. There are four railroads that connect with the DWP at Duluth. Our market share in 1982 went from approximately 11% to well over 30%, which is a tremendous increase.

I think of this more as capitalizing on an opportunity to work an existing market rather than as putting all our eggs in one basket. I see some other baskets we are working pretty hard on, too, such as Chicago, Louisville, the Wisconsin Valley, Green Bay Line, Kansas City. In fact, if you sort out where the revenues are coming from, you find that while a major revenue concentration is at the Head of the Lakes, including Duluth-Superior and the DWP, this would not constitute our one basket.

Now, the track lease. The way these things usually work, it will be renewed. The terms might be different, but it is not the way it works to just shut off gateways. The producers in Canada who wish to sell their product to the United States are going to continue to move a lot of it down through Duluth. The real issue is, who is going to handle it beyond Duluth? And it is our objective to handle increasingly more of that business. But we have to keep in mind that the Soo Line, the North Western and Burlington Northern all connect with the DWP, and they all serve certain markets that we do not. They will continue to have some business up there.

Q. What is your opinion of the CNW & Soo Line trying to obtain the Rock Island spine line between St. Paul and Kansas City and of the effect that might have on our ability to compete?

A. We are watching it with a great deal of interest, of course. The North Western presently is operating the spine line as a directed service carrier. The Soo Line and North Western have been involved in negotiations with the Rock Island trustee, and I really don't know where that stands. One or the other I assume will be successful. We are effectively competing against North Western right now, and they are on the spine. I have no reason to believe that we won't effectively compete with the Soo Line if they get on the spine.

Take a look at our geography, for example. Let's say the Soo Line had the spine and had overhead rights to go from the Twin Cities to Kansas City. That's a good route, there's no question about that. From a total elapsed time

standpoint, I'm not so sure it is any better than our route down the river and through the Quad Cities, Muscatine and on to Kansas City.

By independent measure, if you will, Canadian National measure, we are the transit time service route between Duluth and Kansas City right now. There's no reason why we can't continue to be.

As far as Chicago to Kansas City, there's no way the Soo Line could improve itself as a result of the spine and serving Kansas City. Look at the Green Bay-Wisconsin Valley situation. They would have to come all the way back up to the Twin Cities to get on the spine to go down to Kansas City, so while they might be able to do some things they don't now do between the Twin Cities and Kansas City, I would not view this as much of a competitive disadvantage.

Q. What is your opinion as to whether our shippers are still supporting us?

A. Our shippers are very strongly in support of us. They like what we are doing. They like the fact that we are the service carrier in the Upper Midwest. We spend a lot of time with our shippers keeping them informed of what we are doing and why we are trying to do it.

I think one of the measures of that might be that we have 281 contract arrangements with shippers for carrying their goods. Twenty-five percent of our business moves under contract now instead of just ordinary tariffs. If shippers didn't like to do business with us, if we weren't doing the service and the price job for them that they needed, we surely wouldn't have that much going on in our marketing activity.

I spend a lot of time with shippers, trying to keep up with what they are thinking, what their needs are, and I find a very, very positive reaction to Milwaukee service and marketing responsiveness.

Q. What is your opinion on whether you feel the Milwaukee-Grand Trunk merger will happen, and what the expected results of that merger might be from a competitive standpoint?

A. I think it will happen. As to the first part of that, I would hope that we get before the Commission fairly soon and that we would have an answer by the end of this year and would be in a position to become a part of Grand Trunk by the end of 1984, certainly by the date of January 2, 1985, which is reorganization date.

The results of the merger, well, basically there are two. It is an opportunity for a tremendous volume of business to come over Milwaukee's rails, and we need an increase in volume of business. Grand Trunk's view of it is, it's an opportunity to retain revenues within the Grand Trunk system by the extension of haul. Let me give you two examples. Right now a car can move DWP to Duluth and it goes off to any one of the four connecting railroads to either Louisville or Chicago or Kansas City, and none of the revenue associated with movement to those gateways is available to Grand Trunk. If we are part of the Grand Trunk system, then all of it would be.

The extension of haul - consider the movement over Milwaukee to Kansas City is now a separate railroad. When we are part of Grand Trunk, it becomes part of Grand Trunk's revenues. So the net of it all is an increasing volume, a retention of revenue. Therefore, while I cannot talk about the figures in our application, you will find that its projection would be a very profitable thing to do.

Q. Do you believe anyone might have sufficient objections to prevent the merger?

A. I don't think so. There will be a few flies batting around on the edges, but so far the only people that like it are the shippers, the public people and the employees. Other than that, there might be the vested interest of a railroad that doesn't like it, but I observe that some big things are going on in the industry, Pacific Rail being the most recent, the MOP-UP, as it is commonly called, Norfolk Southern, the Seaboard system, BN Frisco - all of these things have happened. Not everybody in the railroad industry has been pleased with it, and yet they have happened.

I can't believe that an opportunity to reorganize on an income basis is going to be prevented by the parochial interests of a competitor. There will be objections - sure.

Q. What is happening with the coal trains? Will we still get them in December, as anticipated, via Ortonville?

A. Yes, we are planning to, and the rehabilitation of the Ortonville line is a part of the 1983 program. We expect to be receiving the coal trains the first of next year.

Q. We understand we will start construction of the Saunders Connection this summer in the Duluth area. Will we bear the entire expense or will other railroads participate and/or contribute? If so, will this have an adverse affect on our market share?

A. We are building it. It is about \$1.1 million, counting the track, the land, the control switches, the interlocker - that sort of thing. The primary beneficiary, of course, is ourselves. We have asked if anyone else wants to use it, and if they do, they will have to buy their way in. I doubt that anyone else is going to want to use it because it doesn't really fit what they are trying to do. That's alright with me, because the advantage is that it will take, I think, at least a couple more hours off the movement of our business moving through the Head of the Lakes.

We have a major competitive advantage at the present time with our run-through service, and this is just going to improve that advantage. So, I see this as helping our marketing situation, and in no way is it adverse.

The reason that this is going on, of course, is because the I-35 project at Duluth will prevent everyone's business from coming across the bridges on St. Louis Bay. The DWP and Milwaukee run-through just takes advantage of the situation. We are going to benefit greatly from it.

- Q. Will the automobile facility be relocated from South Minneapolis? If so, are the auto companies agreeable, and why is it necessary that we relocate?
- A. Let me start with the last question first. The reason is that the Minneapolis Redevelopment Authority wants to gain access to that property from near downtown on out to 26th Street, where the facility is, for the development along Hiawatha Avenue. So that is what causes this.

The automobile companies are agreeable. They also are affected by this, so it is something that we are all going to find a way to do in order to accommodate the city.

Yes, the facility will be relocated from South Minneapolis. I am not at liberty to say where it will go, because it might affect land values and it might give a competitor a useful piece of information. But today I can tell you some of our marketing people are in Detroit meeting with the automobile people on proposals for relocation.

- Q. Is the CTC installation between Hoffman Avenue and St. Croix still in the plan?
- A. Yes, it is. There is half a million dollars in the capital program for 1983.
- Q. Would you please explain deregulation and its relationship to carload revenues?

- A. Well, generally the effect of deregulation has been to decrease average per car revenues. That's not necessarily all bad. What I mean is that one of the things that deregulation has allowed railroads to do, and we have been extremely aggressive in doing it, is to enter into contractual arrangements with shippers, both large ones and small ones, wherein we can offer a price incentive to a customer to put a greater volume of his business on our rails.

I mentioned a little bit ago that we had, as of the end of December of 1982, 25% of the volume and 25% of the revenue, on our railroad under contract arrangements right now - 281 contracts, and I think that is probably one of the largest numbers of any railroad in the country. We aren't trying to do that in order to set records. We are trying to do it in order to put a revenue base, a volume base, underneath our marketing plan.

The other things that we can do are sit down with a customer and set rates based upon customer need and our costs that are not influenced by a common tariff between two points where all railroads have to charge the same thing. We have picked up a lot of business as a result of this. We have been able to influence the business over our rails that originates off line. There is a tremendous amount of soda ash, for example, moving out of Wyoming that moves into Michigan and Ohio that comes to us at Kansas City, goes across our railroad and goes off to Grand Trunk, or others, depending on destination. And the reason that we are moving it is because of contracts with customers.

Prior to entering into the Grand Trunk operating contract in May 1982, we had in March and April of last year entered into a number of contracts with the producers of lumber in British Columbia. A lot of the lumber that is coming over the Duluth gateway is coming because of Milwaukee Road contract and

marketing effort, not necessarily our good relationships with the Grand Trunk Corporation and Canadian National.

I think that deregulation is generally a good thing. It is also influenced by the economy. There was a lot of scare talk that under deregulation costs would go up to the customer. I don't think that is logical because the object of many railroads is to try to increase their volume and increase their market share, and often a discount has to be offered in order to do that. You see that when you go shopping. You see it every place.

The other thing that has affected deregulation on the down side, carload revenues and average revenue per car, is just the generally lousy economy. So it's a great big subject, but generally it is, I think, good for customers and good for railroads. One of the measures is that there have been surprisingly few complaints to the ICC in the two years that this has been in effect.

- Q. What is your feeling on the BN proposal to pool railroad and privately owned covered hopper cars? Would it improve car utilization and result in transportation savings which could be passed on to grain shippers?
- A. We have studied that and we think it is kind of a wormy idea. None of our people could figure out exactly what they had in mind. One of the problems from the private car owner standpoint, and these are some of the big customers of all of us - Pillsbury, Cargill, Continental Grain, just to name three - ADM, of course, is that if the owner of the car still has to pay his lease cost, which he does, and if he doesn't have control over the use of his car, he could find his own cars being used in very short haul service, or not at all, and he's ending up using someone else's car. We don't think that administratively this makes a lot of sense. The general reaction from the trade has been very strongly against it, but more than that there hasn't been any good reason figured out as to what it is they are trying to accomplish.
- Q. If the GTW acquisition of the Milwaukee Road is disapproved by the Interstate Commerce Commission, or for some other reason, do you feel we can make it on our own?
- A. Yes. Keep in mind that the basic objective of this whole reorganization is to come up with and implement a free-standing, self-supporting core railroad. That is what the reorganization is all about. The plan that we had laid out does that, and we are on our plan. In the course of doing that, it is not surprising that interest in us was expressed by someone else, and I think from a strategic standpoint it makes tremendous sense for our company to be associated with the Grand Trunk Corporation - from their standpoint as well as from ours.

But let's assume that it is disapproved for some reason. I don't think of one, but if that occurs we are indeed going to stand on our own. In fact, the premise of the Grand Trunk activity is that the Milwaukee Road will continue to make progress towards its own reorganization. Now in doing that, we solidify our own future, and in doing that we also put ourselves in a position to complete the Grand Trunk acquisition. So, while this is a very good development - excellent development - it is not a situation where if this does

not come to pass that all is lost. Not at all. We are becoming a very solid regional transportation company, and we are going to improve on that situation.

Q. The railroad is, of course, a service industry. If you were to give a brief statement of why the railroad is necessary - the Milwaukee Road in particular - and if there could be a simplified answer, what would you say are the primary reasons for our existence?

A. Well, we are going to talk about marketing philosophy now a little bit. The only reason that a railroad exists is because it solves the distribution problems of its customers, and if it solves those problems well and does the job that the customer wants done, then it will retain and attract an increasing share of the customers' business. If it doesn't do that job, it will lose it, and someone else will gain market share.

A railroad has no life separate from the life of its customers. We don't make a product. You can't store anything on a shelf. It is a perishable service - it happens minute by minute, and it is gone, and it is part of the process of other people. So I argue that this is a marketing activity, and that our right to live is going to be judged in the market place. What we have argued all through this reorganization, for example, is that we don't want anything except the right to compete. The success of our reorganization is going to be based upon a market judgment, and that's where it belongs. It should not be a regulatory judgment from Washington; it should not be a decision from the board rooms of our competitors, but it should be decided in the market place. That's why I keep coming back to the speech, the thesis, the belief that we have to understand that we are in the business of solving distribution problems for our customers. If we solve them well, we make a place for ourselves. If we do it poorly, then we deny a place for ourselves in the plans of our customers.

Q. First Monday/Third Monday has become a very special publication, not only to the employees, but more especially to wives and families of employees. Wives and families play a vital part in our everyday employee's production, work attitude, work habits, etc., with very little opportunity to find out how our railroad is progressing. Your First Monday/Third Monday has changed that.

I would hope you have no plans for changing this publication. Would you care to elaborate on this?

A. Well, I appreciate the comment. First Monday/Third Monday is something that was important to me to get started, and I have a personal involvement in every issue. I go over them before they are written and occasionally I write pieces of it. I sign it, and I have a very strong feeling about it. I am glad that it is useful.

I agree with your comment, too, about the attitude of wives and families. My copy is read by my wife, even though I have seen it before, and she is as versed in First Monday/Third Monday as I am, and that's important.

I have no plans for changing it other than if there is a way that it can be improved and be more responsive to what is on people's minds, then I am certainly open to suggestion and invite suggestion on how to do that. We will

not suspend it. We aren't going to cut it down. I think twice a month is reasonably good timing. There are several years of very significant events unfolding, and I think if we put it out less frequently we might begin to lose some of the continuity. I would like to continue the way it is so long as that appears to be doing the job. I certainly invite, and I do at all times, invite suggestions on how we might change or improve it.

- Q. How essential is the success of LMAG and QC programs to the success of the Milwaukee Railroad survival in the reorganization?
- A. The QC programs I see as part of LMAG, so I guess my comments would go more to LMAG in general. I see the LMAG effort as essential to survival in the reorganization. In fact, a number of very specific steps have occurred through the LMAG process that without them we simply would not be where we are at the present time.

We have made progress financially in our plan because of the response to the need for wage deferral and wage reduction, which affects us all. We have done some very specific things in operations that have been, I think, the critical decisions that have enabled us to improve market share. I am thinking, just as one example, of the run-throughs at Kansas City. Now that activity was an LMAG involvement from the beginning. The question was, "How do we solve the Kansas City terminal delay?" A lot of good work was done, a lot of good ideas were presented. It was necessary to modify the way certain things were done. This was done cooperatively, and the result is that for about two years we have had run-through operations at Kansas City. Just as one dimension of measure, we have more than doubled the revenue over Kansas City since going to the core railroad. We run through with the Santa Fe, the UP, the KATY, the Cottonbelt, Southern Pacific, and beginning this Saturday, the 5th of February, we are going to do some things with the D&RGW that are going to enable us to continue to improve our market. That's just one example.

Some of these are big, and some of these are smaller. I can think of our trip from Austin to Jackson last fall on our special train, and I think about the crew that ran that train - a volunteer crew - and the impact on the people, and the amazement of the people that there was an attitude amongst Milwaukee people to have resulted in this was very, very impressive. I have had several notes and a couple of phone calls to say, "This was an amazing thing!"

We have engaged in a lot of constructive, creative things. But to me the real purpose of all this is to have an attitude, a climate and an environment in which people can sit down and isolate problems that can be dealt with outside of schedule restrictions and this sort of thing, and how can a bunch of concerned people come together and deal with problems of importance to benefit the whole. I think it is just an essential ingredient to the process.

- Q. Up-to-date, top management has displayed enthusiasm and commitment toward the growth and success of LMAG, but it appears that this same enthusiasm and commitment has not been shared by all levels of management. Therefore, the obvious question is: "Can LMAG succeed without total management commitment and, if not, what can or will be done to enhance success?"

- A. I suppose it can't succeed in the manner that we would wish without total commitment, and I acknowledge that. I suppose that the same is true on the "L" side of LMAG that there is a whole spectrum of reaction and attitude amongst people. I guess from my standpoint, I keep banging away at it, and ask that all others interested in it keep banging away at it. Sure, the real issue is to cause people's minds to accept change and be prepared to accept a different way of doing things. You certainly have to start by example. You and I are involved in it, and so our example is two. If we can get one more convert every week, we have four, and then we have eight, and so on.

One way I look at it is to say, "OK, what suggestions do you have other than LMAG? Do you have a better idea?" And I haven't heard too many better ideas. If there are some, we'll adopt them. But to me it is part of the process. It's part of the way that I go about my day and I know a lot of other people go about theirs.

We'll get through to some of these other people. It might take a little longer to do it, but we'll get it accomplished. I'll work at it, and you work at it, and let's all try to improve the general climate. I think it is a demonstrated success, and surely people can back a success.

- Q. In light of the role communication has played in recent years on the Milwaukee Road, and in particular the newsletters, what do you perceive the newsletter role to be when we are under the acquisition of the Grand Trunk?

- A. I think it will be just as important, it is hard to say more so. I think of all the important things that have happened since First Monday/Third Monday began. I certainly will attempt to keep it up. Some of the big questions will be some of those that we have been talking about here today and not only the "what's going on?" but "what's likely to happen?" categories. My personal intent is to keep up the same format for the same purpose. I think we have a better newsletter arrangement on the divisions than anyone else that I can think of, and the combination of the division newsletters and the First Monday/Third Monday activity I think should be retained. There is no way that we are going to abdicate this responsibility to someone else. I would rather export our method of doing it to our associates at Grand Trunk so that they, too, will be informed consistently in this manner as our people are. I think we have a good thing going here, and I would be happy to have other people copy it, but I don't intend to see it fall by the wayside.

- Q. This interview, and the newsletters, are under the sponsorship of the LMAG program. The three newsletters are basically a tool for communication by and for the employees in the Milwaukee, Bensenville and Minneapolis areas. How do you feel this aspect of communication might be improved or expanded, or both?

- A. I think that the newsletters have been a successful tool to supplement the First Monday/Third Monday activity. I hope the reverse is true that First Monday/Third Monday supplements the newsletters. The newsletters by their nature are focused on a part of the geography, and, therefore, a part of the population of our company, where First Monday/Third Monday is aimed broadly. As you know, First Monday/Third Monday not only goes to our Milwaukee people, but it goes to hundreds of our shippers. It goes to the congressional delegations

from our states, it goes into all of the state departments of transportation, and many, many other places. The division letter audience is different. I imagine some things will be of more interest on a division basis than might be of general interest in First Monday/Third Monday. Somehow, and it's a tough job in creating one of these things and keeping it going, is to have it be timely, to not have it attempt to fill space just in order to fill space, but to tell people about things they ought to know or they want to know.

The biggest problem from my standpoint is the temptation, I suppose, to put things in First Monday/Third Monday that I think are of interest and that people ought to know about, and I might not perceive what it is that the reader really wants to hear about. So it's a marketing issue all over again. Who is the customer, and what is it the customer needs to know and wants to know? That's why I think, from both our standpoints, the division newsletter and First Monday/Third Monday, the problem is getting a response back. What is it the people want to hear? Is the purpose of this communications tool meeting its objective? And the answer to that is in the minds of the people receiving it, and not in the minds of the people who are putting it out. This is always a kind of tough interplay, and I don't know what the best answer is, but I think our format generally is right. And the need to supplement the broader First Monday/Third Monday with the division communication, or function, is right. There are two different things to be done here. I see the bigger problem of being able to focus on content that is useful, meaningful, helpful to the people receiving it, and to have a feedback system or process where we can all know what it is that's on people's minds so that we can do a better job of initiating the communication.

For instance, we are talking about some questions here. We had 40 plus questions. This is great. Here are things that are on people's minds. Now maybe as I sit and look at First Monday/Third Monday I might have thought of about 28 or 29 of them, or maybe 35 or 17. Who knows? But there are some things here that didn't occur to me as being specific questions. And so this, to me, is a feedback. What I will do, I'll take these and I'll go back to First Monday/Third Monday. When Bill Bickley and I sit down, I'll say, "Here's the type of things that came up on the Northern Division, and here's the type of question, and let's be sure that we're covering these kind of questions.

If you are agreeable to responding to some questions of a more personal nature, I have a few questions that I believe would be of interest to our readers.

- Q. The corporate image calls to mind such things as portfolios, documents, ringing phones, meetings, and yes - gray flannel suits. What is the stuff of which an executive is made, particularly the president of a corporation?
- A. Well, I don't know that people are a great deal different. They are in different places at different times. They are all trying to accomplish the same thing in this life, I believe, which is to get through it with a hope to do something useful and to pass along some worthwhile citizens for children and generally be a positive force in this world.

I suppose there are stereotypes about people. There's an awful lot of luck involved in things, in being in the right places at the right time. So I don't

know just how I would answer that...I suppose that regardless of a level of responsibility that a person has, and this changes from time to time, the desire to want to cause something to happen certainly is a characteristic of anybody in any sort of a supervisory or managerial capacity, and this doesn't necessarily mean three-piece suits. I don't own a three-piece suit, but I understand what you mean.

When I look around at where the people who are the head of railroads come from, I find they come from a tremendous amount of backgrounds. There are former operating, former marketing, there are several from law, there are people from finance. I don't know that there is any one thing, but some of the common traits are that they believe that what is being done in the industry and in their company is important to do. There is also responsibility - there is responsibility to shippers, to our customers - there is responsibility to our employees. And the biggest responsibility is to work towards the creation of a business unit that is soundly based so that it can be a focal point for people to work, to prosper in the course of their work lives.

- Q. It seems common among business people in other areas to have deep interests in railroads, maybe because some of their early experience has been in that area, or because someone in their family has been railroad-connected. What motivates a man who becomes president, in the first place, to be in his present position?
- A. Well, I suppose it is unique to railroad people, at least I think it is, that many of them do have a family association with the railroad industry. I guess there are about five generations in my family that were. A kind of interesting thing to me is that the first person in our family who worked for the railroad was back in the 1850's, and he was involved in the creation of the Central Vermont Railroad, which is now a subsidiary of the Grand Trunk Corporation. It seems as though we might be involved in going around full-circle to associate with the company that once more has that subsidiary in it. My father and my grandfather were railroad people. My grandfather was a telegraph operator for the Southern Pacific in Arizona before Arizona became a state. My dad was a trainman on the Grand Trunk when it built into Prince Rupert, British Columbia. He later worked for Northern Pacific. Since I wanted to work for an Operating Department, I went to work for the Great Northern. We started out as competitors - we later got over that - but we started out that way.

I just think it is an activity that is essential. It satisfies me to be working for something that is essential. I just don't think I could get too excited about being in the hamburger business, or something like that. There's no essentiality - well there might be in the minds of some kids at 10 o'clock at night, but as a long-standing thing, I think this is an important industry, and if you're going to do something then you want to keep working hard at it to try to make an impact on it. If that results in arriving at a certain position, I think you have to consider the element of luck is in there somewhere, too.

- Q. Recently there was an announcement of new appointments and also the establishment of an Executive Committee. Certainly there are responsibilities carried out by a President which are his alone, or the result of decisions arrived at with his associates. Does that make a President different from other executives, and, if so, why must that be so?

- A. I don't think it makes him so different. The way we operate - we only have four departments - Finance, which is now called Reorganization under Tom Power, Pete White in Marketing, Larry Harrington in Administration, and Paul Cruikshank in Operations. Each one of these people, I notice, in the conduct of their affairs rely upon primary associates. Let's take an easy one - in Operations, we have Maintenance of Way, Maintenance of Equipment and Transportation. The decision-makers in those three areas are the associates of the Vice President of Operations, and when decisions are made, they are made with the interplay of these people. The same thing happens in all of the departments.

The Executive Committee you referred to actually is a function of the Trustee. We had one for a while, and then we set it aside because the activities shifted. Now that we are going more heavily into the revised plan of reorganization, the Trustee feels that it would be useful to talk over largely reorganization-related activities for a half hour or an hour every Monday morning, prior to my staff meeting with the department heads, which has routinely been going on on Monday mornings for three or four years. At that meeting I have, in addition to the department heads which I mentioned, the head of Planning, Corporate Relations, a couple of our people from Law, and one or two others, depending on the subject matter that might come up. The Trustee also participates in that.

So the Executive Committee is a smaller group of about six people - I mentioned the four department heads, and it includes Bob Wheeler, counsel to the Trustee Dick Ogilvie, and me, and so that is seven people. It is focused on a rather different kind of agenda.

But, as I see it, a manager certainly should consult with his associates constantly so that you get out of it all a consensus of what to do, and an agreement, consensus, of how it should be done.

I think that is a fairly common approach to most businesses, and it is a natural one, surely, in our business where we have the disadvantage of working over a broad piece of geography. And it's very easy for people who think they know it all to make decisions unilaterally that could be absolute disasters.

Mr. Smith, I think we have covered just about everything that we intended to cover and I just want to say thank you.