

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Relations Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3328

October 1, 1984

To All Milwaukee Road Employees:

With our reorganization proceedings rapidly drawing to a close, the Interstate Commerce Commission last week issued a complete written report on its decision to return to the court for further consideration both the Soo Line and North Western proposals.

As you know the ICC unanimously approved the Soo Line's bid, but was split on Chicago and North Western's offer, which it returned without action to Judge McMillen.

On September 12, Judge McMillen entered an order establishing the schedule for proceedings before the court with respect to applications to acquire lines of the Milwaukee.

Today, Trustee Ogilvie filed a motion asking the court to establish a clear procedure for filing on October 9 modifications that may be proposed by C&NW or Soo to either the Plan of Reorganization or the section 5(b) purchase applications of the two carriers.

Judge McMillen is expected to rule on Governor Ogilvie's request October 3, 1984.

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In a move designed to protect our core rail operations, we took legal action last Friday to acquire a 54-mile stretch of track in eastern Iowa that we've operated for the past three and one-half years.

Trustee Ogilvie filed an application with the Iowa Transportation Regulation Authority asking for authority to condemn the former Rock Island line segment between Iowa City and Davenport, Iowa, which the Milwaukee has been negotiating to purchase. Acquisition of the line will enable the Milwaukee Road to continue to provide service to customers it has served under a lease agreement since April 1, 1981.

Friday's action is a further step to permanently acquire the line since purchase efforts have been stalled by an application from a competing interest to use public funds to buy the track.

Trustee Ogilvie said it is important in his reorganization efforts to protect the Milwaukee's revenue base, which termination of the existing lease would threaten. As much as \$11.7 million in revenues from traffic associated with the Iowa City line could be lost annually.

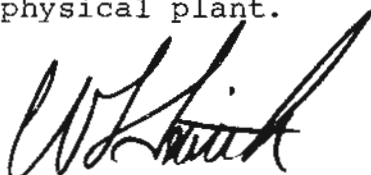
Overhead trackage rights to operate between Davenport and Iowa City are currently granted to the Iowa Railroad, and Trustee Ogilvie said he would be willing to offer the continuation of such rights if the Milwaukee acquires the tracks.

* * *

During the month of August a new type of safety program was initiated which is intended to help bring much of the railroad's physical plant into compliance with OSHA safety standards. Bensenville was the first facility to receive an OSHA-type safety inspection on August 13-15, 1984. The diesel house and car repair facilities were both inspected. A total of 189 exceptions were found covering electrical hazards, storage of flammable and combustible material, condition of walking-working surfaces, housekeeping, fire fighting equipment, lifting equipment, machine guarding, and structural integrity of buildings.

The inspection team consisted of two members from the Quality Assurance Department, one member from the Police Department and a representative from the Mechanical Department. The members of this inspection team had received prior training at the OSHA Training Institute in Des Plaines, Illinois, and were, therefore, familiar with OSHA safety requirements. St. Paul, Ottumwa and many of the smaller facilities will also receive an OSHA-type inspection in the coming months.

We expect this type of voluntary safety program will not only improve safety on the railroad but will also enhance worker morale and the physical plant.



W. L. Smith
President



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The current issue of the Northern Division, Minnesota Region, Newsletter contains an interesting interview with Trustee Ogilvie conducted by newsletter editor Kemma Johnson.

Because of its timeliness, we felt all employees should have an opportunity to hear the Trustee's views on a variety of subjects.

Since P.S. is sent directly to employee's homes, it was decided to use this vehicle for a much broader distribution than that obtained under the regular newsletter circulation procedures.

As usual, your comments are welcome and invited.

W. R. Bickley
Director of Corporate Relations

INTERVIEW WITH TRUSTEE RICHARD B. OGILVIE
TUESDAY, SEPTEMBER 11, 1984

Mr. Ogilvie, you must feel a great deal of satisfaction in the many accomplishments during reorganization - the slimming down from 10,000 miles to a 3,100-mile railroad; the wage reduction and wage deferral programs, which you credit to employees as being the means of continuing to reorganize; the negotiations with trainmen to operate with a two-man crew; the tender offer to creditors and retirement of those obligations; the sale of property and loans from those funds to keep us operative; the alliance with Grand Trunk; then March 1982 - the first time in the existence of Milwaukee II when we turned a profit, and again in May - ALL THESE ACCOMPLISHMENTS - and finally the romancing by Soo Line and Chicago and North Western (CNW), and the additional offers of cash, which so enhanced the lustre of their appeal, right up to the point where we now find ourselves with the Soo seemingly having the edge, but the CNW still contending. The question, of course, is, "What now?" What will happen to my stake in the company? How will I fit into the scheme of things? Will there be a place for me at all? How will I deal with relocation? Will those expenses and losses be covered?

Many similar questions were posed at the Soo Line open houses. Even so, it appears there are many areas still being explored or maybe not brought to light as yet, which will be handled under an Implementing Agreement with the Soo, as indicated at the open house meetings.

In light of this, may I ask your comments on some of the concerns which have come to me for your reply.

Q.1. At what point in time can we expect anything (information) concrete?

A.1. About the final resolution? A resolution will probably be determined sometime in early November. Yesterday in court the Judge set a briefing schedule. As I understand it now, the first date would be the 9th of October (filing date), and, on the 16th, assuming that I have everything that I think I need before me, I will make a recommendation to the Judge as to how I think he ought to rule. Shortly thereafter, on the 22nd, there will be additional opportunities for people to file papers with the court, and, then on the, it's not clear yet, on the 29th there may or may not be a hearing conducted by the Judge.

Q.2. Can any legal review of any other legal hassle push the reorganization date beyond December 1984?

A.2. There is no question that that could happen. However, if we are careful and get good cooperation, I think we may be able to preclude that from happening. But there are several parties that might consider appeal. I was earlier concerned that the Grand Trunk might do something to slow things down, but in light of the agreement that they have entered into with the Burlington, I think that's out of the picture. The North Western and the Soo, if either one of them were to lose, there's a possibility they might take an appeal; and the holding company, CMC, if they are not satisfied with the consideration that is being paid for the rail assets, they could conceivably appeal. I am not predicting any of these. I am just saying these are all possibilities.

Q.2b. If not, how soon after reorganization would our railroad be acquired?

A.2b. The Judge has been quite insistent that we try to conclude this, that is, the railroad part of this reorganization, before the first of the year, so, hopefully, before the first of the year - I would assume.

There is going to be considerable paperwork that has to take place, and I am going to have to sign a lot of papers and deeds and things like that in connection with the conveyance; so it is going to take some time.

- Q.3. We have heard a lot about protection for union employees. What protection will you try to achieve for exempt employees?
- A.3. We have already accomplished that in the agreements that we have - irrevocable agreements with both the Soo and the North Western, and protection of exempt employees is provided for.
- Q.4. What are Milwaukee Road's chances of acquiring the Iowa City line and why?
- A.4. I would hope they are good. We've got a full court press on to try to accomplish that. We are associated with a law suit that the Iowa Railway Association has filed, and we may file another law suit. We are also contesting before a Rail Transportation Commission in Iowa, as well as the Iowa Railway Finance Authority. Depending on what they do, we may well take an appeal from it. If they move the wrong way, and we don't get it, we may appeal their recommendation. So we are trying very hard. When is a decision expected? - I can't predict that.
- Q.5. How attractive as an acquisition partner is the Milwaukee Road without the Grand Trunk agreement and without the Iowa City line?
- A.5. The Milwaukee Road has an innate and underlying beauty which just has great appeal. Again, I talked with the presidents of both the CNW and the Soo, Messrs. Wolfe and Cavanaugh, neither of them were overly concerned about the loss of the Voluntary Coordination Agreement which the Burlington Northern has now taken over. I don't think the Iowa City line is a major factor. It's just, we've been there; we're going to try to stay there; and we're going to fight to stay there.
- Q.6. Do you know of any specific factors (and what are they) under which the CNW or the Soo have said they would not be interested in the Milwaukee Road?
- A.6. It's conceivable. I can't think of any at the moment that might occur. This would have to be an enormous change in circumstances that is unforeseen.
- Q.7. Under the Soo proposal, employees are to receive 100% of their wages in 1985. Under what conditions would they be asked to continue the 7% reduction?

- A.7. I can't answer that. Both Soo and CNW pay 100% wages. If for some reason their economic situation were to deteriorate, something we're not anticipating, it would be up to them to propose any employee concessions.
- Q.8. What would be the date of acquisition?
- A.8. Well, I have answered that as best I can. Hopefully, before the first of the year - sometime in December, probably.
- Q.9. What would you expect to be the procedure on reducing personnel?
- A.9. That will be on the basis of retirements, people leaving for personal reasons, not as a result of any action from the operation. Now, there is a probability that some people are going to have to be reassigned, as I understand it, and the Soo and the North Western, whichever one, would do so on a basis that is as attractive as any I have ever heard of, including helping people out with relocation expenses. That's all spelled out.
- Q.9b. How and when would it begin - right at the beginning of the year?
- A.9b. I don't think it would begin right away, but I would think shortly after the two operations are dovetailed and new management would be coming to some decisions. I might tell you that we have for some months now been working with both these companies to provide necessary information so that on the date of the sale of the rail assets, whoever is the successful bidder is going to be in the position to effectively start to run this company as part of its operation.
- Q.10. There is a question here on vacation accrual - or do you want to get into that. I think it continues - as it was answered at the Soo Line meeting.
- A.10. I think that's correct. It does continue just as if you had been working with the Soo (or CNW) all the years you have been with the Milwaukee.
- Q.11. How much more money is needed so that the Trustee can pay us the remaining 16% of our given-up reduced wages?
- A.11. I am going to guess it's \$10 million, or so, more.

- Q.12. From the train and enginemen I have a very definite response and feelings. Number one, they're asking, Governor, are you aware that Milwaukee Road employees are quite concerned about the possibility of the North Western taking over?
- A.12. It is interesting that the letters from our employees almost unanimously support the Soo, and also from outside interests - these are from state governors, a large number of shippers - they are all communicating in support of the Soo application.
- Q.13. Is the major consideration in your decision-making on the Milwaukee acquisition the highest cash bid, or in the interest of employees, shippers and general public?
- A.13. It has to be a balanced decision. We can't pick out one and say that one is going to be the overriding criteria. Let me give you an example. Obviously, cash is a consideration because the thing that took the Grand Trunk out of it was that they were just not willing to compete in the mode that the other two railroads were willing to do. The Interstate Commerce Commission just knocked them out.
- Q.14. The train and enginemen had mentioned the possibility of a referendum ballot on the issue.
- A.14. That's impossible. The reason for it is that I will communicate to the Judge, at an appropriate time, the feelings of the employees, but that's just one of the factors that he is going to have to consider, and I have to consider. The other being the shipping public and the interests of the shareholders and the creditors of the corporation.
- Q.15. I guess this next question you have answered too. When is your decision expected on the acquisition?
- A.15. It will be out, bare-faced, before the world on the 16th of October.
- Q.16. From one of our engineers I have a question, "Why did the Judge extend the deadline for submitting bids?"
- A.16. This would probably be back when he let the Soo come in. One reason is that if he hadn't, the holding company could well have taken an appeal and said that he was not correct. It is difficult for the employees to understand that there is somebody over here that owns what's left over. They are an important factor that we have to be considerate of; and, the Soo said, in effect, we want to be a part of the game, and we are willing to make a substantial offer; and the Judge had to let them - at that time. Now it would be impossible.

- Q.17. I would like to ask you a question. As you look over the last five years, since August 22 of 1979 when you became Trustee, succeeding Stanley E. G. Hillman, do you see areas where you might have acted differently, or gone in a different direction, or felt some gain in another alternative?
- A.17. I really haven't given it a lot of thought, but my quick reaction is that we have been so much the object of forces that were totally beyond the control of the Trustee, or even of the whole Milwaukee Road institution, to affect. We have the enormous impact of the economy; the downturn and recession that we went through was a very difficult time. Nate Smith told me - this was some months after it happened - that there was one point in that bad winter we had that he wasn't sure he could keep the main line open between here and St. Paul. If he had broken that, we would have been out of business. We were really right up to the brink of the cliff.
- Q.18. I remember that when we were in Minneapolis. I remember at least a time or two when people were wondering if we would make it. Maybe this is personal and you would not like to answer, but during those times, when we didn't know if we could continue operation - those dark hours - what were your personal feelings?
- A.18. You're not out until you're dead, and we weren't dead - we were still breathing. I also wanted to mention, in addition to the economy, we had forces of political interests involved. Congress took a very active interest, as you know, and ultimately produced the Milwaukee Railroad Restructuring Act. When that became apparent that we were going to get an Act, whether we wanted it or not, we set about - myself and John Rowe, at the time, together with Mike Murray, whom most of you do not know, but who is our representative in Washington, our consultant there, and wrote the Milwaukee Railroad Restructuring Act, in large part, so that it would produce the results that would permit us to reorganize. We had great help from some of the Senators down there - the Senator from Minnesota, David Durenberger; his assistant then was John Riley, who is now the Administrator of the Federal Rail Administration. He had a great interest in what we were trying to do. Congressman Madigan, a republican, who is an Illinois Congressman, and a longtime friend of mine, was a key member of one of the important sub-committees of the House Commerce Committee; he put his shoulder to it. We had help from Congressman Jim Florio; he's a democrat, but he understood what we were trying to accomplish; and so we had Congressmen and Senators on both sides of the aisle, and they all helped us.

- Q.19. Will you continue in your role upon acquisition by another railroad, and what, then, would be your capacity and involvement for the Milwaukee Road?
- A.19. Once I sell the rail assets, I am out of it. I have some continuing responsibility, probably a few months, maybe up to six months, to dispose of the rest of the assets and turn over the title to real estate and to pay out the funds that we have in the bank to the holding company to pay off its obligation to the debtors. When that's done, then I'll be all through.
- Q.20. Management people of the Milwaukee Road have been given a great deal of credit for their efforts in turning the Milwaukee back into a profitable, desirable railroad. Do you have comments on this?
- A.20. I think that that is true and that they deserve that credit. I remember when I first came here, I couldn't believe the animus and angularity between certain people to the leadership of this company. That's turned around. I remember going to one meeting when somebody was accusing Paul Cruikshank and Worth Smith of being agents of the Burlington Northern in here to destroy this company. That was just asinine and nonsense. They have been totally dedicated and saved the railroad in getting it reorganized. One thing that many people don't realize is that some of these fellows could have left here and gone off for other jobs, because they are highly qualified. Headhunters are looking for talented people all the time. Two instances, at least, that came to my attention were two of our vice presidents were offered jobs, but they turned them down to stay here because they wanted to see this thing through. We have a very thin management team - there's not a lot of backup. Again, if some people think we are top heavy up here, I can tell you on the basis of my involvement with other companies and industrial concerns, that we are just borderline. If something should happen to any one of them, we would really be in serious trouble. Now we are through with that problem. They have stuck it out, and they won.
- Q.21. September 10 - the long awaited date on which the Interstate Commerce Commission specified they would make an announcement on the decision of the bidding for the Milwaukee Road, the Soo Line and the North Western having been found acceptable, and with the headlines in the paper today - the Soo Line seemingly in the lead. Do you have any comments now - something that you would like to say to the employees?

A.21. Unfortunately, I cannot say what most of them want to hear yet. I can't because all the cards are not up on the table, but they will be within thirty days, so we won't have much longer to wait.

I'll reiterate what I said yesterday. When the Soo and North Western first made their bids, I said Soo is marginally ahead, as I said, the hundred thousand dollar figure; and yesterday, I said here the Commission has determined they have increased their lead; and if you're a horse race fan, you know what I mean. They're in the home stretch - the Soo's got the lead!

Q.22. Again, I would like to express my thanks for your employee concern.

A.22. It's very gracious of you to say that. I really enjoy this - this is a great team of people around here. I didn't have any substantial railroad involvement before I became the Trustee, but I did have a grandfather and a great grandfather who were railroaders, so I have some idea of how people feel about this business. It's sort of fantastic.

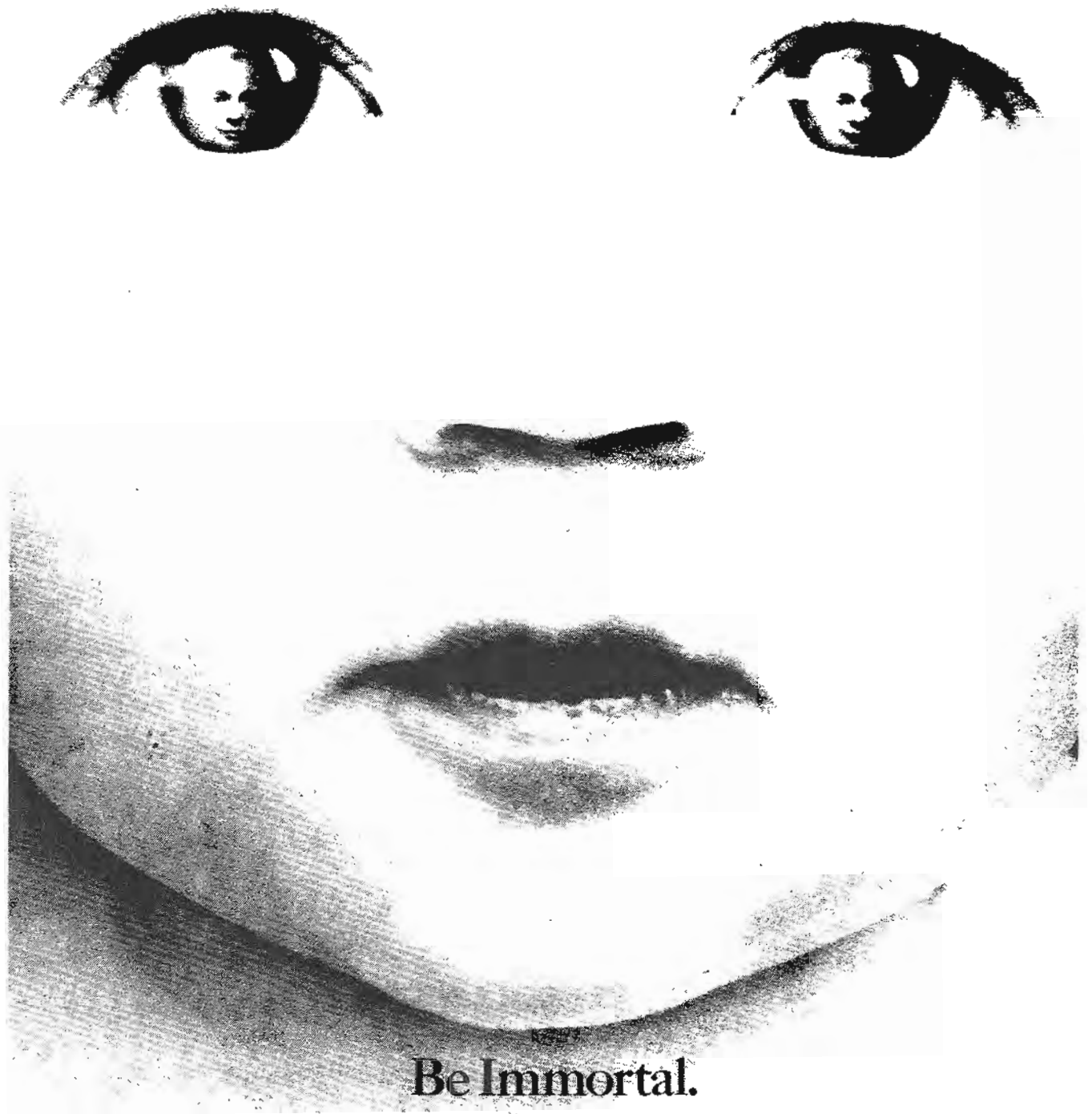
Q.23. Governor Ogilvie, I want to say that everyone I have talked with has expressed this. I think it is a very general and a very genuine feeling.

A.23. I just hope that we can maintain that level of morale, of dedication and love of the company. One final thing I will say, it's going to be absolutely essential for whomever acquires the Milwaukee to continue to have the kind of dedicated support that I have had, and been given, in order to make this thing work. It would be the worst thing in the world to get this all off track some way and be back in reorganization. I hope this will never happen again to the Milwaukee, and I predict it won't if everybody understands, as I said in a speech not so long ago, "The enemy is not management, the enemy is not labor, the common enemy is our competition."

We should think in terms of being in the transportation business, not just the railroad industry. We recognize that trucks and barges are competitors. But there's an old saying, "If you can't lick them, join them."

If you can't serve a shipper with rail, structure the company to serve him with rubber, and, yes, even barges. I believe that the companies that will be strong survivors will have diversified their transportation capacities.

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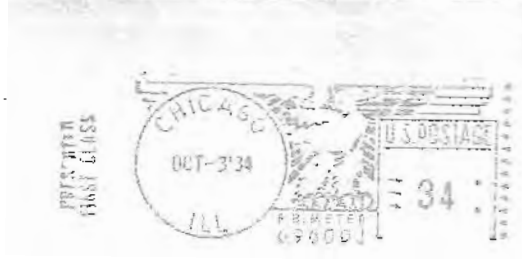
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