

1st MONDAY 3rd MONDAY

Prepared for employees by the
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April 2, 1979

Managers and Supervisors:

As spring follows winter, so floods follow heavy snows. For much of the past two weeks part of the main line between Watertown and Portage has been under water. We have detoured over our own tracks via Watertown, Madison and Portage. We have also run some Chicago-St. Paul trains via Savanna. Latest reports indicate that there will probably be no major flooding of the Mississippi, although some tracks in the St. Paul area may be under water for a short time.

As a result of good transit times and turnaround of equipment, we are now moving all set-up automobiles from the General Motors plant at Janesville to Council Bluffs. This traffic previously moved on the North Western.

The need to conserve cash by reducing operating expenses and the need to secure funds from outside sources are among the most critical issues facing the Milwaukee Road.

We have just come out of a disastrous winter in which revenues fell far behind expenses. While operations have improved in the past month, revenues are behind levels of a year ago. At the same time the cost of everything we have to buy keeps going up.

The Trustee is charged with the responsibility of maintaining the operations of the railroad while a plan of reorganization is developed. This task requires cash, a commodity often hard to come by given our circumstances. Since appointed Trustee, Mr. Hillman has been very successful in securing financial assistance from the Federal government, from some states and shippers, and through negotiations with the secured creditors from otherwise restricted internal sources.

That this outside assistance has not been sufficient to meet our needs is reflected by the April 1 reduction in the maintenance of track and equipment forces. This is not an action that we wanted to take, but it is something that had to be done.

Despite improved operations, carloadings for the first 15 days of March were about 11% below what they were during the same period last March. Total 1979 loadings through mid-March were slightly more than 12% below loadings during the same period a year ago.

Sprint Trains have been a bright spot in the traffic picture. The Sprints carried a record of 1,525 loaded trailers during the week ending March 24. For the full month, total Sprint loadings are expected to be more than double the average of 2,400 TOFC/COFC loads handled monthly in the Chicago-St. Paul corridor in the year prior to the start up of Sprint service last June.

We have signed a contract with Precision National, a locomotive leasing firm, to rebuild some of their road units at the Milwaukee Shops starting April 2. The contract is subject to court approval. The first locomotives to be repaired will be six PN units that we have been leasing for some time. The contract may be expanded to include the rebuilding of as many as 50 locomotives.

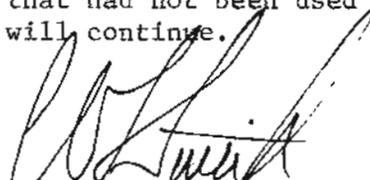
As a result of this contract, the backshop employees at Milwaukee Shops who would have been laid off under the April 1 force reduction will instead be assigned to the PN locomotive program.

The court has approved the Milwaukee Land Company's \$10 million loan to the railroad (see March 13 special issue of FM/TM). The loan is secured by a Trustee's Certificate in that amount. A hearing on Mr. Hillman's request to issue an additional \$10 million in Trustee's Certificates is scheduled for April 2.

The Trustee has told the ICC that the Milwaukee Road would lose about \$1.3 million in annual freight revenues if the Commission approves the sale of the Rock Island's 956-mile St. Louis to Tucumcari to the Southern Pacific. The Milwaukee cannot afford such a loss without compensation. Mr. Hillman wants to discuss several protective conditions with the Rock and the SP. He told the ICC the Milwaukee could support the proposed sale if agreement on the conditions can be reached.

The price of diesel fuel has escalated from about 40 cents a gallon in early January to about 46 cents a gallon today. This year we will buy about 90 million gallons of fuel. This means that each cent increase in the gallon price adds about \$1 million to our basic operating costs. Recent actions by the oil producing nations will almost certainly push the price even higher in coming months. Some fuel companies are already allocating supplies. The fuel availability situation could get tougher later this year.

In the effort to obtain cash we have found quite a bit of it right under our noses. For almost a year we have been in the process of locating and then selling items that we no longer had any use for. So far this conversion of unneeded assets into cash has brought in almost \$3 million. Items sold range from old freight cars to a scrapped rotary snow plow to a 500-cup coffee urn that had not been used in 20 years. The urn netted \$100. The scavenger hunt will continue.



W. L. Smith
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