

1st MONDAY 3rd MONDAY SPECIAL

Prepared for employees by the
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Managers and Supervisors:

Last month, Trustee Ogilvie and I met with the members of the General Chairmen's Association, which represents all of the unions covering Milwaukee Road employees. I discussed in detail with the General Chairmen our present status and future prospects, much as I outlined to you in FM/TM of February 4. We also discussed a few other subjects which were brought up by the General Chairmen:

-- What about back pay? Will it ever be paid? We recognize back pay and vacation pay to be legitimate claims against the estate which have their priority in the ranking of all claims. Back pay is included in costs of administration, which are the first claims paid. If the Trustee's revised plan of reorganization is approved, he proposes to offer \$150 in stock in the reorganized railroad for each \$100 of back pay claim, if an employee elects to take stock instead of cash.

-- Are we planning to consolidate dispatchers' offices? Yes. We will combine the remaining territory of the Aberdeen and Austin dispatching offices and handle it from a new office in Minneapolis. The Perry dispatching that remains will be handled by the dispatchers at Ottumwa and the new Chicago dispatchers' office.

-- Why did we spend money on improvements to the yard office at Savanna and on a lighted flagpole there? We put new steps and doors on the yard office, and will put new storm windows on it, because our forces don't deserve to work in a building which was in such bad repair. Since the lighted flag seems to be offensive to some, I've instructed that the lights be turned off.

-- How can we get some motor-car setoffs installed in certain territories which lack them? I agreed that we had too few setoffs in the areas of concern. Additional setoffs will be installed.

-- What about the rumor that we bankrupted the railroad because Northern Tier Pipeline needs the right of way? Ridiculous. The seeds of the Milwaukee's financial difficulties were sown long before Northern Tier ever became a possibility. To the extent that the pipeline could use railroad rights of way, it could be installed without disturbing rail operations. It looks as if the pipeline will use only about 111 miles of Milwaukee Road right of way, and about the same mileage of Burlington Northern right of way. Our financial interest in Northern Tier is actually held by a small subsidiary of Milwaukee Land Company, not by the railroad itself. This subsidiary, MNT, Inc., has invested \$250,000 in Northern Tier, about 1.3% of the total investment. The large investors in Northern Tier are U. S. Steel, Westinghouse, Cenex and a subsidiary of Burlington Northern.

-- Will there be a chance for employees to own stock in "Milwaukee II?" We hope so. As I've indicated, Trustee Ogilvie is proposing stock ownership as an option to cash payments of back pay. In addition, he hopes to find other ways to generate the improvements in productivity which might flow from employee equity. He has to be careful, however, because under certain conditions substantial employee ownership could cause the Milwaukee to lose its tax-loss

carryforward and thus suffer a reduction in net operating income. Among other things, this would affect the value of the stock.

-- Sizable reductions in work force are coming as the result of the restructuring. How will they be made? Entirely in accordance with seniority rules, and only after the federal loan to finance the settlement is assured now that the labor-protection settlement which was negotiated with the Railway Labor Executives Association has been approved by the court. We want all employees who may be affected by the restructuring to have that settlement as an option to other forms of labor protection. We covered the terms of the settlement in general in a "To All Concerned" message last December 18. If you need a copy, call Wally Abbey's office. Further information about the settlement is in preparation by the Railroad Retirement Board.

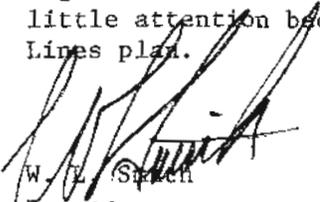
Here's a question which has come up since the General Chairmen's meeting: It's rumored that we'll be requiring our supervisors who have seniority rights to exercise their rights or relinquish them. True? Absolutely not. No such plans are being considered, nor will Larry Harrington even permit them to be considered.

Also, there appear to be questions about the status of the Mason City line and possibly some others. Study the map which is part of this letter. It's what we presently regard as the reorganizable portion of the Milwaukee, plus those non-"Milwaukee II" lines which the Trustee may be able to operate on the strength of outside financial assistance. The Ontonagon line is missing from this map because we expect to sell it. The lines in southern Minnesota and northern Iowa are under intensive study right now. We expect the findings of an independent consultant in a matter of weeks. If we conclude that we cannot continue these lines with "Milwaukee II," we believe that we have potential buyers for them.

As you know, the restructuring of management is effective February 1. There will be further announcements as the principal department heads get the chance to study their organizations. One such announcement: Nate Smith is Assistant Vice President and Chief Engineer effective February 1. Also, Ward Miller and his plant-security function are now reporting to Bill Plattenberger instead of to George Barry.

On February 1, Trustee Ogilvie materially revised his plan of reorganization in comments to the ICC which also covered our position on the competing reorganization plans. Briefly, the revisions proposed a new way-to-satisfy the claims of secured creditors through a cash tender offer in 1980 financed ultimately by the earnings of Milwaukee Land Company and land-sale proceeds; proposed that holders of the railroad's unsecured debentures receive stock in the reorganized company for their claims; indicated that the revised plan contemplates no payment of the claims of existing common or preferred stockholders; proposed employee stock ownership as I've discussed; and indicated that we're finding our revenue projections for "Milwaukee II" to be somewhat conservative.

Trustee Ogilvie demonstrated how the New Milwaukee Lines plan remains as unsound as it was when the ICC rejected it initially last December 31. He said that the stockholders' plan for complete liquidation isn't required and might well be self-defeating. He pointed out that the S.O.R.E. plan merits little attention because its sponsors are now the proponents of the New Milwaukee Lines plan.


W. L. Smith
President

