

1st MONDAY 3rd MONDAY

Prepared for employees by the
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December 7, 1981

To All Milwaukee Road Employees:

Consistent with the revised plan of reorganization filed September 15, 1981, Trustee Ogilvie last week sought Reorganization Court approval to borrow up to \$60 million from property sale proceeds to fund capital improvements and continue operations of the railroad.

Judge McMillen signed an order today that will allow the Trustee to draw down funds to cover operations through 1981.

After January 1, 1982, borrowing will be permitted only if the Trustee is able to reach agreement on employee assistance with respect to work rule changes and the 7% wage reduction.

In his revised plan of reorganization, Trustee Ogilvie said that "without assistance from the railroad's employees, the operating and marketing improvements will not produce a commercially viable railroad. Without employee assistance, operating losses in the initial years of the Plan will be simply too large to be offset by prospective gains in the later years." The Trustee testified in court that a series of in-depth informational meetings have been held at locations throughout our system and that the sessions were well attended. He said full and frank discussions were had and overall leadership and rank and file have been understanding and constructive. He pointed out that without the wage deferral previously agreed to with the employees, it is unlikely that the railroad would be operating today.

The order authorized the Trustee to establish a \$60 million reorganization escrow account and to withdraw funds from time to time as needed to maintain and operate the Milwaukee II system, including non-operating and transitional expenses. But it stipulated "the Trustee shall not draw funds under this order to maintain and operate the Milwaukee II system after 12 midnight, December 31, 1981, unless he has achieved agreement with employees and/or their respective labor unions to put into effect as soon as possible the employee assistance set forth in the Revised Plan.

The Court ruling requires the Trustee to file a progress report with the Court by April 30, 1982 which will include information on the performance of the railroad for the first quarter of 1982.

It also provides that any withdrawal of more than \$28 million from the reorganization escrow account shall not be made without further Court authorization and that the funds must be used for rehabilitation projects and to make capital improvements to the railroad.

Trustee's certificates will be issued to cover amounts borrowed from escrow accounts.

In support of the order, the Court found that:

1. There is a substantial likelihood of a successful reorganization of the Milwaukee Railroad provided that the Trustee is able to obtain employee assistance set forth in Section 3.7 of the revised plan of reorganization;
2. The requested funds are necessary to the reorganization;
3. There is no other practical source for the funds; and
4. the requested borrowings are in the best interest of the public and the estate, and will provide the creditors of the estate the best opportunity for satisfactory resolution of their claims.

Taking action designed to generate additional piggyback traffic during a period that is normally considered the off-peak shipping season, our Marketing Department is offering reduced rates to customers using our Sprint Trains.

A flyer is being distributed to current and potential customers announcing holiday rates which will be in effect from November 30, 1981 to March 1, 1982 in the Chicago-St. Paul corridor on 34 Sprint Trains operated weekly. The charges are:

\$470 per car - in shipper-owned equipment
\$520 per car - in railroad furnished equipment
\$495 per car - using a combination of equipment

Charges are applicable on shipments utilizing both 40 and 45 foot equipment. This is an unusual money-saving opportunity for TOFC/COFC users and all employees may want to advise interested parties of this action.

Potential piggyback customers should also be made aware of the excellent services offered by Milwaukee Motor Transportation Company, which is a wholly owned subsidiary of the Milwaukee Road.

Here is some background material on the motor carrier operation. While MMTC is operated entirely independently and bills the railroad for all services performed for it, the motor carrier has been the Milwaukee Road's constant partner in the growth of piggyback service and today is an important part of the railroad intermodal service.

To fully coordinate its efforts with those of the railroad, MMTC established related departments within its organization. These include Operations, Maintenance, Safety and Personnel, Accounting, Marketing and Sales, and an Intermodal and Service Center. Some of these departments have functions similar to departments within the railroad. This organizational parallel enables MMTC to

operate efficiently both as a motor carrier and as an important transportation arm of the railroad.

As an independent carrier, MMTC engages in intrastate and interstate over-the-road operations and also provides local cartage service to customers other than the railroad.

The motor carrier employs 208 persons and owns, or leases, 142 tractors and 2,250 trailers. MMTC is, of course, the major pick-up/delivery associate for the Milwaukee Road's piggyback operations with principal COFC/TOFC terminals at Bensenville, St. Paul, Milwaukee, Kansas City, Green Bay, Louisville and Davenport. These terminals utilize "Piggy-packer" side-loading fork-lift tractors and the Chicago area terminal utilizes an overhead gantry crane as well.

The acquisition of power equipment and trailers is the responsibility of the motor carrier company.

The railroad's reorganization process has had an impact on Milwaukee Motor. Certain terminals which had been totally dependent upon the railroad for traffic handled were closed.

Because it is an independent company, MMTC has continued operations in a number of areas where the railroad no longer operates. Billings, Montana continues as a truck-load service handling commodities associated with the building trades. These operations extend from Montana into the Dakotas, Wyoming and Minnesota. Seattle business continues, handling import/export trade containers and performing general trucking in the Seattle/Tacoma area.

In today's deregulated environment, with the ease of entry into the motor carrier field, Milwaukee Motor has been expanding its motor carrier authority base. It is engaged in some over-the-road hauling and is trying to develop this business on a profitable basis. It continues to make every effort to develop new business that can move in connection with the railroad with a prior or subsequent truck or rail move, and is working to develop highway traffic into areas where the railroad does not operate and where MMTC has motor carrier authority.

Milwaukee Motor's management non-contract employees generally have benefits which parallel those of the railroad's employees in similar categories. MMTC medical insurance and dental benefits are similar and its pension plan attempts to parallel that of the Milwaukee Road.

MMTC contractual employees, truck drivers and mechanics, are covered by Teamster agreements, and the benefits are similar to those available to Teamster employees throughout the trucking industry.

An interesting note is that MMTC was organized by the railroad as a Wisconsin-based corporation in 1942 in response to a war-time U.S. government requirement that all railroads turn over their less-than-carload traffic to truck companies, a measure designed to help ease a World War II car shortage. The initial motor carrier authority was granted by the Interstate Commerce Commission to the Milwaukee Road rather than to its trucking subsidiary. It was not until 1960 that all motor carrier authorities were transferred and the Milwaukee Motor

Transportation Company became a fully certified motor carrier. The first operations of Milwaukee Motor were between Milwaukee and Iron Mountain, Michigan, and its operations, generally, were limited to service in connection with Milwaukee Railroad hauls.


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