

1st MONDAY 3rd MONDAY SPECIAL

Prepared for employees by the
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To All Milwaukee Road Employees:

Trustee Ogilvie today filed a revised reorganization plan with the U.S. District Court that says the Milwaukee Road has substantial prospects of becoming financially viable as a 2,900 route-mile railroad.

Based upon the projections of the plan and upon the experience gained in reducing the railroad in 1980 from a 10,000-mile transcontinental carrier to a 3,900-mile network, Milwaukee II, the Trustee feels justified in seeking Court approval to proceed with efforts to reorganize the Milwaukee into a strong, regional carrier.

The plan submitted to the Reorganization Court and the Interstate Commerce Commission states that proceeds from sales of surplus assets and the proceeds from the sale of timberlands of wholly-owned subsidiary Milwaukee Land Company will enable the Trustee to satisfy claims against the estate without liquidating the properties needed for reorganization or using the revenues generated by rail operations. It sets forth a five-year strategy for achieving the projected financial results.

The plan contemplates a positive net operating income in 1983, building to \$36.3 million in 1985 and \$45.8 million in 1986. The rate of return on investment of 10.8% in 1985 and 12.2% in 1986 compares favorably with current industry experience.

If the objectives of the corporate plan are realized, the reorganized railroad will meet the requirements of Section 77 of the Bankruptcy Act which states that a plan of reorganization shall:

provide for fixed charges (including fixed interest on unfunded debt, interest on unfunded debt, amortization of discount on funded debt and rent for leased railroads) in such amount that, after due consideration of the probable prospective earnings of the property in light of its earnings experience and all other relevant facts, there shall be adequate coverage of such fixed charges by the probable earnings available for the payment thereof

The Trustee proposes to use assets of the estate to provide for railroad operations, to pay expenses of administration, to retire all outstanding secured debt, other than certain governmental debt, and to pay unsecured claims. Before approval of the plan, the Trustee will ask the Reorganization Court to establish a separate \$60 million working capital fund, using money now in the escrow accounts. This fund would be drawn upon as necessary to support railroad operations during 1982 through 1984, subject to specific Court authorizations.

The plan points out that the reorganization of the Milwaukee Road has reached a point unusual in reorganizations. The financial restructuring scheduled to occur and the steps previously taken can provide substantial satisfaction of allowable claims against the railroad.

Adjustments are being made to the present 3,900-mile Milwaukee II system to eliminate operations on approximately 1,000 miles of lines with inadequate earnings. Marketing strategies have been developed to reflect the reorientation of the railroad from an east-west transcontinental road to a north-south regional road.

A track and facilities rehabilitation program has been developed to remove deferred maintenance from the remaining lines, place maintenance on a current basis and improve major car and locomotive repair facilities. Improvements of lines and terminals are planned to increase train efficiency, reduce fuel requirements and alleviate congestion. An operating plan designed to exploit the advantages of a more compact rail network is being implemented. The record shows that we are developing a very effective regional railroad.

Equipment capital expenditures provide for the rebuilding of 49 road and 20 yard locomotives. Restructuring of the railroad will reduce locomotive fleet size sufficiently to permit retirement of locomotives in need of replacement. The locomotives scheduled for rebuilding are at the end of their first service cycle and will be returned to service with improved components and fuel-saving modifications.

The freight car fleet has been streamlined. The car fleet size basically is determined by the type and volume of traffic handled and the efficiency with which cars are moved on the railroad.

Transit times have improved markedly and have become more consistent. Improvements to the operating plan during 1981 have produced operating benefits. Improved handling of cars has reduced terminal switching requirements and run-through arrangements with connecting carriers have produced dramatic results in the total movement of shipments from origin to destination.

Reopening of the line between Marquette, Iowa and LaCrescent, Minnesota has reduced fuel consumption, transit time, and car mileage expense in the Kansas City - Twin Cities corridor.

The continued upgrading of track has been the primary source of these operating improvements.

The Trustee recently concluded a successful tender offer with respect to First Mortgage Bonds. Participation in the offer totalled 76% of the face value of the total of those outstanding bonds, and the Trustee proposes to provide tender offers to certain other bondholders.

The plan requires continued employee assistance which includes a reduction in train crew size and institution of a 7% reduction in total compensation for employees of the reorganized railroad.

To make the reorganization successful, the work changes and employee assistance are now essential.

The Trustee's revised plan of reorganization will be considered by the Court and ICC and the Commission will establish procedures for filing comments and for any hearings that may be held.

Milwaukee Road's course through its reorganization process has been unprecedented in the railroad industry, and the successful implementation of the revised reorganization plan will be a significant chapter in transportation history.



W. L. Smith
President