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July 12, 1999

Mr. Michael Sol  
101 East Broadway #300  
Missoula, Montana 59802

Re: The Milwaukee Road

Dear Mr. Sol,

Thank you for your letter of June 25. I would very much like to know more about your project. It would be of great interest to me to review your manuscript. A book about what happened to the Milwaukee Road could be a great lesson in the workings of 20th century capitalism. The Milwaukee Road has already been the subject of a historic book, Max Lowenthal's "The Investor Pays," was one of the works that led to the creation of the Securities Exchange Commission. That book described the events leading to the first reorganization of the Milwaukee Road in 1925-28 at a time when all other railroads were prospering. Lowenthal detailed how the Milwaukee Road's "insiders" blundered, but they left the public shareholders holding the bag after they bailed out. If you have not already read it, that book will give you a good start to understanding how the Milwaukee Road got in such bad shape and with such bad management.

Shortly after the Milwaukee Road emerged from the first reorganization, the depression hit, and as a result the Milwaukee had to reorganize again. It did not emerge from the second reorganization until 1945. Judge Igoe, a good Roman Catholic Chicago Democrat, was in charge of the second reorganization. He appointed his friend, Crowley, who had been Lend-Lease administrator in the wartime Roosevelt administration, to run the railroad. In my opinion, the directors and the management of the Milwaukee Road were not even "minimally competent." As a group they owned virtually no stock in the company, and their primary concern was to protect and preserve their own personal perks and privileges.

In 1968, the Chicago law firm for which I was working was retained by a group of California investors who had found a clever way to get a relatively high yeild tax free investment by owning the preferred stock of the Milwaukee Road. The preferred stock paid a 5% dividend, and every year the railroad paid that dividend. The reason for the regular payment was a provision in the railroad's Charter that if the dividend was not paid, the preferred shareholders could then elect a majority of the Board of Directors. Under the tax law, a dividend created taxable income only to the extent of the payor's "earnings and profits," and the Milwaukee Road had no earnings and profits. Every year the operations resulted in a loss, and the management sold assets, primarily timber and timberland, to pay its bills, including the preferred stock dividend.

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Under the then pending merger with Northwest Industries, the Milwaukee Road's preferred shareholders were to receive a new preferred share of Northwest Industries preferred stock for each share of their Milwaukee preferred. But since Northwest Industries had earnings and profits, once the merger was done the return to the investors would no longer be tax free. Thus, they were against the merger, and our firm was retained to oppose the merger, or obtain better terms for the Milwaukee's preferred shareholders.

I was the point man for our firm on the case, and soon became immersed in the record of the CNW-Milwaukee merger which had been pending since 1965. I soon had two new friends. One was Tom Ploss, then an ambitious Milwaukee Road ICC attorney, who while officially working to see the merger move forward, in his heart did not want to see the Milwaukee become submerged into CNW. The second was Morton Weinress, a Chicago investment banker, head of Weinress & Co., who had been a director of CNW from 1954-1967.

Weinress had helped Ben Heineman gain control of CNW, but he had feuded with Heineman and left the CNW board. Weinress saw the Milwaukee Road as an investment opportunity. He knew that it had many valuable assets and an incompetent elderly management. He knew what had been done to transform the CNW into Northwest Industries, and he believed that the Milwaukee Road presented a similar opportunity. It was his hope that the CNW merger would fail and that a new group (including him) would then be able to take control of the Milwaukee. As our firm was opposing the CNW-Milwaukee merger, Weinress was eager to help our efforts.

As you know the CNW- Milwaukee merger did not happen. Quinn was brought in to take over from Crowley. We threatened a proxy contest. In a compromise, Weinress and another of our committee were elected as directors. Chicago Milwaukee Corporation was formed, but Weinress did not like the way he was treated. He resigned as a director, but continued for the rest of his life to attempt to interest investors in the potential of the Milwaukee Road.

Before this letter becomes a book, I will end it. The Milwaukee Road was a part of my life from 1968-1985. I would be happy to be of help to you in answering any questions that you may have.

Sincerely,

A handwritten signature in cursive script, appearing to read "David D. Ploss". The signature is written in dark ink on a light-colored background.