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Prepared for employees by the
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July 20, 1981

To all Milwaukee Road Employees:

Trustee Ogilvie last week rejected a \$22.9 million offer from three utilities to buy our main line from Ortonville, Minnesota, to Miles City, Montana. In a letter dated July 15 jointly addressed to Northwestern Public Service Company, Otter Tail Power Company, and Montana-Dakota Utilities Company, the Trustee said: "We cannot recommend to the Reorganization Court that this offer be accepted inasmuch as it falls substantially short of the fair value of the property."

He added: "In order to call to the attention of the Court and our creditors the status of our negotiations, we will present your offer to the Court for its information." The Trustee said he expected to continue negotiations to sell the line.

Formal hearings are scheduled to start today in Aberdeen, South Dakota, on our application to abandon the 519-mile line segment and to discontinue trackage rights over Burlington Northern, Inc., between Miles City and Billings, Montana.

Testimony in that hearing will point out that August 3, 1981, marks the third anniversary of the announcement by Trustee Ogilvie's predecessor, Mr. Hillman, of his initial determination that the main line west of the Twin Cities likely would have to be dropped if the viable parts of Milwaukee Road were to be reorganized.

More than 1-1/2 years later, in his May 15, 1980, "Report and Recommendations for the Future of the Milwaukee Road," Trustee Ogilvie stated that the Miles City line "is an economically marginal part of Milwaukee II; but a part which should be maintained, if possible, in the public interest." He described three major steps he felt were necessary to preserve the line.

The first was that rehabilitation would have to be financed with low-interest loans from the federal government under Section 505 of the 4R Act or by interest-free state and shipper loans. Later in 1980, the Trustee set a deadline of February 15, 1981, for this assistance to materialize, else he would file for abandonment of the line. The Trustee twice extended the deadline with the final extension being to the date of our application, May 15, 1981. The Trustee, shippers and states having been unable to secure the necessary financial assistance, the Trustee followed through on his pledge to seek abandonment. Our abandonment application, therefore, came as no surprise.

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As we approach the middle of the summer, I think you will be interested in a brief review of the several maintenance-of-way projects in progress or recently completed on the routes of Milwaukee II.

In central Wisconsin, tie installation and crossing renewal have been completed for a distance of twenty-five miles north from New Lisbon, and surfacing has been accomplished on approximately two-thirds of that distance. Rail installation will begin early in August. At Knowlton, the final section of our new bridge was scheduled for placement this past weekend, and the high-production surfacing gang has finished its work between Junction City and Weston. These improvements to the Wisconsin Valley line will make it ready for operation of unit coal trains when the Weston power generating plant enters service this fall and will improve service to all of our customers between New Lisbon and Wausau.

Also in Wisconsin, placement of 25,000 new crossties between Green Bay and Milwaukee was concluded last week. On the same subdivision, a surface correction gang has progressed from Green Bay to Hilbert and will complete its work to Milwaukee by October.

Before going to the Wisconsin Valley line, the high-production surfacing gang devoted its attention to both main tracks between Chicago and Milwaukee, and today the rail gang is commencing laying of new 132-pound continuous welded rail between Northbrook and Lake Forest, Illinois.

Elsewhere in the Chicago metropolitan area, preparatory work has been completed and a plow gang has begun work on the number one main track between Bensenville and Elgin. This project, which is expected to continue until late October will renew both switch and crossties and put down crushed granite ballast.

Upgrading continues in both the Chicago and Milwaukee terminal areas, and we have completed tie replacement, ballasting and the surfacing between Latta and Linton, Indiana, on our Louisville line.

In anticipation of the re-opening of the Marquette, Iowa, -La Crescent, Minnesota, line segment in mid-August, track rehabilitation is well in hand north from Marquette to the Iowa/Minnesota border. Also progressing on schedule are tie, grade crossing, and surface work on the southern portion of this line between Dubuque and Sabula, Iowa. On the Kansas City Line, tie injector gangs and surfacing gangs are working between Washington and Ottumwa, Iowa, and between Lucerne and Kansas City, Missouri.

On our north Iowa line, plowing, new ballasting, surfacing work, and grade crossing improvements have been completed between Rudd

and Charles City, Bassett and Ionia, Fort Atkinson and Calmar. Earlier we completed plowing, ballasting and surfacing between Albert Lea and Alden on our Jackson, Minnesota, line.

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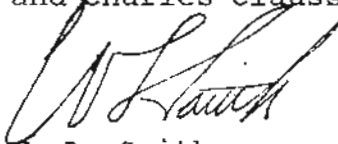
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Milwaukee Motor Transportation Company personnel participated in the 38th annual Illinois Truck Rodeo last month and again scored very well.

MMTC entrants took a first place in the 5-axle division, a 2nd in the 4-axle and a 2nd in the Doubles Class. One of our driver's also received a Good Sportsmanship Award and for the second consecutive year, MMTC drivers won the team championship.

Those honored were: Tony Gilio, who won the President's Trophy for Good Sportsmanship and Exemplary Conduct; Jim Hansen, who was crowned Illinois State Champion in the 5-axle division; Runners-up in their respective divisions were Lloyd Luebking, 4-axle division and Charles Clauss in the Doubles Class.



W. L. Smith
President