1st MONDAY
3rd MONDAY

Prepared for employees by the
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To All Milwaukee Road Employees:

During conversations with employees and shipper groups, questions have been raised about Chicago Milwaukee Corporation, its history and what its relationship is to the Milwaukee Road.

To better understand this important issue, the answers to typical questions are listed below:

Q - "When was Chicago Milwaukee Corporation (CMC) formed?"

A - CMC was incorporated under Delaware law in 1971. In 1972, CMC acquired most of the stock of the Milwaukee Road by exchanging its own stock for that of the railroad. As a result, most of the owners of the Milwaukee Road - its stockholders - became the owners, that is the stockholders, of CMC.

Q - "What is CMC's principal business?"

A - As a holding company, to own and hold the stock of other companies, its subsidiaries, and help them grow and expand. Its principal objective is to acquire and develop companies which will provide the shareholders with an expanded and diversified earnings base.

Q - "CMC isn't a railroad company?"

A - No, but it's called a "railroad holding company". Its largest holding is the Milwaukee Road.

CMC also owns or controls several other companies which are not connected with the railroad business. Through two subsidiaries CMC is a participant in the food-service industry. It also owns a company engaged in the highway paving buiness.

Q - "What about Milwaukee Motor Transportation and Milwaukee Land Company?"

A - These two companies are subsidiaries of the Milwaukee Road. The railroad owns 100% of the stock of the motor carrier and the Land Company. CMC, in turn, owns approximately 96% of the railroads' outstanding common stock and 92% of its outstanding preferred stock.

Q - "Who owns the other 4% of the Milwaukee Road common stock?"

A - The minority stockholders of the Milwaukee Road who did not exchange their stock for that of CMC when CMC was formed. Or people who, for one reason or another, bought the stock of the railroad from those who did not tender to CMC since the holding company was formed. The company whose stock is listed and traded on the New York Stock Exchange, the company that owns 96% of the stock of the railroad, is Chicago Milwaukee Corporation.

Q - "Why was CMC formed? Wasn't it formed by the railroad?"

A - It was. The example used is that this was a case in which the child gave birth to its parent. It was the Milwaukee Road's Board of Directors which conceived the idea of a holding company and put CMC together. In doing so, a prime objective was to enhance the investments of the people who were then the stockholders of the railroad company. It did so by opening the doors to diversification into other enterprises: doors that, from a practical standpoint, were closed to the railroad company.

Q - "Why was diversification necessary, and why couldn't the railroad diversify?"

A - Largely because of the limitations of the Interstate Commerce Act, which regulates the Milwaukee Road. It isn't feasible for a company which is regulated by the ICC to engage in some new non-transportation business. Diversification usually involves issuing securities -- the company which desires to diversify often issues securities in order to acquire the stock or assets of other companies. The Interstate Commerce Act permitted a railroad company to issue securities only for carrier-related purposes and then only with the approval of the ICC. Under those circumstances, the Milwaukee Road couldn't go out and acquire non-railroad buinesses.

Also, the properties of the Milwaukee Road are mortgaged. Under the terms of the mortgages, any additional assets or properties which the railroad company might acquire automatically become subject to the railroad's mortgages.

Q - "Has the railroad paid any dividends to CMC?"

A - No.

Q - "What about the cost to the railroad of setting up the holding company?"

A - Nothing directly. Milwaukee Land Company did loan $1.7 million to CMC so that it could pay its start-up costs. The loan is in the form of a 10 year note dated March 1, 1975 bearing prime rate interest. But this money did not come from the railroad.

Q - "What has it cost the railroad for CMC to acquire other companies?"

A - Nothing. CMC borrowed funds directly from banks, etc.

Q - "Who then, or what, paid for these companies?"

A - CMC acquired its other subsidiaries largely on the strength of the own earning power of those subsidiaries. In effect, CMC mortgaged those companies and bought them with the proceeds of the mortgages. Those companies are paying off the mortgages out of their profits. No railroad money was involved.

Q - "You've explained how CMC got started. What happened when the Milwaukee Road filed for reorganization?"

A - When the Milwaukee Road filed for reorganization, a Trustee, appointed by the Court, assumed the ownership of all of the railroad's properties. The Trustee controls the railroad's operations under Court and, to an extent Interstate Commerce Commission, supervision. If possible to do so, the Trustee must develop a plan of reorganization which will restore the railroad to profitable operation. When the process is completed, the Court gives the "reorganized" properties and operations back to the original corporation, or to its successor.

While the railroad operations and the reorganization process are going on under the direction of the Trustee, the old railroad corporation remains in existence. It still has its stockholders, bondholders, board of directors, and some corporate officers, but it does not have any of the railroad's properties or other assets. It conducts no railroad business. It is only a "shell" corporation, not a railroad.

Because of the reorganization, all of our elected officers resigned from the "shell" company to work for the Trustee. The "shell" company then elected new officers and a new board of directors, none of whom have any authority over the railroad in reorganization. The Trustee, alone, has that authority.

It was also necessary that those persons who worked for the Trustee remove themselves from any positions held with CMC. They resigned as CMC officers or directors. CMC then elected new officers and directors to succeed them.

It's worth remembering that, as a practical matter, when we speak of the Milwaukee Road, we are speaking about the same properties and people but that their responsibilities are now to the Trustee and not to the "shell" corporation.

W L Smith

W. L. Smith
President