1st MONDAY
3rd MONDAY

Prepared for employees by the
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January 4, 1982

To All Milwaukee Road Employees:

As we enter the fifth year of reorganization, we can take pride in what has been accomplished so far but recognize that we face significant challenges in 1982 if the Company is to be successfully reorganized.

The dedication and cooperation of all employees is essential in order to maintain revenues and control costs during the current economic climate.

One area where we have had considerable success is in the management of our equipment assets. Bruce Cederholm, AVP-Car Management, has received a number of inquiries from the field as to the progress and results of the Car Management program. What he has to say will be of interest to all and will update the initial coverage of this program by FM/TM shortly after its implementation in September, 1980.

Bruce tells us:

The management and measurement system has enabled us to see results of decisions made on a monthly basis. This information has caused us to change our philosophy on car handling in many instances. For example, we have determined that for certain car types it is in the best interest of the Milwaukee Road to reload a large percentage of foreign equipment made empty on line rather than to send such cars "home" empty. In so doing, empty miles are reduced for foreign cars, and there are fewer total miles for each load handled.

We have determined that the size of the car fleet directly relates to the market forecast and the costs of owning and maintaining the fleet. Our freight car ownership has been reduced from 21,403 when the Car Management program began functioning, to 16,001 at present, and we expect to dispose of another 3,200 cars in 1982. The cars being eliminated are those unneeded in the revised plan of reorganization and, for the most part, are older cars nearing obsolescence.

Fleet productivity is measured by taking Milwaukee Road revenues and subtracting the tow charge of 30¢ per mile per car and dividing by all car costs relating to system, foreign and private cars.

Fleet productivity has increased from 2.38 in January 1981 to 2.74 in October, and averaged 2.57 for the first ten months of 1981.

(Revenue $271,640,462 less towing charge $70,935,779
divided by car expense $78,128,506)

The tow charge of 30¢ per mile is not the actual cost of moving a car but is a figure used to help us make decisions and measure our performance. The actual cost could be higher or lower depending on many factors.

The contribution to overhead per carload handled increased 2.1% in the second quarter as compared to the first. It increased 12.6% in the third quarter when compared to the first.

Car hire expense per revenue dollar is down 4% in the third quarter as compared to the first quarter of 1981 despite reduced carloadings.

"Towing Expense" - figured at 30¢ per car per mile - is down 8.4%.

Total car hire, car repair and the towing expense for the first ten months of 1981 is 1.3¢ per revenue dollar lower than during the first quarter, resulting in savings of over $3.5 million.

Car Management's first year goal was to achieve a $30 million increase in fleet productivity. That target was met in only ten months.

This success is a result of the cooperation between the Marketing and Operating Departments, and the acceptance by the divisions of responsibility for actual car allocation. Customer service has played an important role as well.

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The Milwaukee Road has entered into a second sale and leaseback of tax title to $10 million of expenditures for track improvements made in October and November, 1981. The transaction - which will produce $3 million, $1 million cash, with the balance to be received within three years - was made possible by the Economic Recovery Tax Act of 1981.

Reorganization Court authorization to enter into the agreement was given subject to a requirement that the proceeds be placed into a separate escrow account.

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The Reorganization Court has approved applications filed by Trustee Ogilvie's counsel for authority to enter into labor agreements with employees represented by several labor organizations. Court authorization has been received for agreements with the International Brotherhood of Electrical Workers (IBEW), Brotherhood of Railway Carmen of the United States and Canada (Carmen), Brotherhood of Railway and Airline Clerks (BRAC), Brotherhood of Maintenance of Way Employees (BMWE), and the International Association of Machinists and Aerospace Workers (IAMAW).

The new labor agreements will be effective at least through June 30, 1984, and comply with the proposed "Mediation Agreement" between the National Carriers' Conference Committee and employees represented by the various labor organizations.

Wages, as increased by the wage increases, will be subject to the general 7% wage withholding during January 1982. The treatment of the wages so withheld will be determined after the Trustee completes negotiations with unions and the Reorganization Court has reviewed and rules on agreements resulting from those negotiations.

Negotiations with other labor organizations are being held at this time and developments will be reported as they occur.

W. L. Smith
President