

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Relations Department
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Telephone 312 648-3324

July 7, 1982

To All Milwaukee Road Employees:

With the observance of the Independence Day holiday on Monday, July 5, this issue of FM/TM was delayed slightly. But, the delay was worthwhile because it gave us time to report several significant developments of interest to all employees -- the first of which is what Trustee Ogilvie calls a "Christmas in July" development, the happy resolution of the back-pay issue involving contract employees.

True to his word, Trustee Ogilvie earlier filed an application with the Reorganization Court requesting authority to make back-pay payments to employees, and former employees, for work performed in the years 1978, 1979, 1981, and 1982 and to allow the Milwaukee Land Company to declare a dividend to fund such payments.

Over the objections of certain creditors who argued that the Milwaukee Road is still losing a substantial amount of money and, as a result, the rights of other priority creditors might be impaired by the payment of back wages, Judge McMillen yesterday approved the Trustee's application for authority to pay backpay. The claims for the four years involved amount to approximately \$20.4 million.

The back wages are based upon collective bargaining agreements which were approved by the Court but under which the payment of certain increases were deferred because of a lack of current funds. The Court's order will enable Trustee Ogilvie to fulfill a commitment which he made earlier. Further, he believes the use of the accumulated funds of the Milwaukee Land Company is in the best interests of the estate, as was the case in the past with respect to tender offers to bondholders and the prepayment of certain E.R.S.A. loans.

Trustee Ogilvie has held the position that he had an obligation to put forth a real effort to secure Court approval for the payment of back wages because of the cooperation he received from employees with regard to various labor agreements and the wage reduction program, and he is delighted those efforts were fruitful.

The machinery by which payment will be made is now in motion and involved employees will be advised as quickly as possible when they may expect to receive back pay.

Another important development concerns our purchase of certain Rock Island Railroad property in Iowa.

You are familiar with Trustee Ogilvie's endeavors to acquire approximately 64 miles of Rock Island-owned line between West Davenport and Washington, Iowa, as well as 33 miles of trackage rights over the DRI Line (Davenport, Rock Island & North Western) and Milwaukee Road between Clinton and Davenport and certain yard and industrial lead trackage in Clinton and West Davenport.

Following a June 24 hearing on this subject, Special Master Gray issued a strong recommendation that Trustee Ogilvie be authorized to execute and implement an agreement with the Rock Island trustee to purchase approximately 98 miles of Rock Island line as described above. Yesterday, Judge McMillen accepted the Special Master's report in its entirety and a purchase agreement was signed by the Rock Island trustee and Trustee Ogilvie. This will be presented to the Rock Island Reorganization Court July 14 for approval and an appropriate application will be filed July 16 with the Interstate Commerce Commission for authority to purchase those properties using funds currently held in escrow accounts.

The Master's report pointed out that the Milwaukee has for more than 80 years operated between Washington and Clinton, Iowa as part of its main line service between Kansas City and Chicago. This operation has been: (1) over our own line between Washington and Culver; (2) over our trackage rights on the Rock Island between Culver and West Davenport; and (3) over our own trackage rights on the DRI&NW between Davenport and Clinton. In addition, since the Rock Island ceased operation in 1980, the Milwaukee has, under an agreement with the trustee of the Rock Island and several ICC service orders, operated on certain segments of the Rock Island which we seek to acquire. Even though we have our own trackage rights over the DRI Line between Clinton and Davenport, we are purchasing the Rock Island's trackage rights over the DRI Line because the Rock Island Reorganization Court required that the rights and properties be sold as a package. The yard and industrial lead trackage in Clinton and West Davenport included in the package will benefit our operations in those areas.

The purchase will permit us to serve the new coal-fired electric power plant being constructed at Fruitland, Iowa and to handle the unit coal trains consigned to the plant from Ottumwa, Iowa to Fruitland this fall.

Acquisition of the Rock Island line is an important part of Trustee Ogilvie's Revised Plan of Reorganization, and we are anxious to conclude this transaction promptly so upgrading of the line can begin during the current work season.

Turning to property sales in the State of Wisconsin, two transactions were completed today.

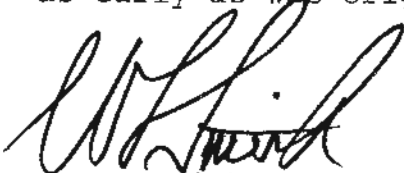
5139 N. BAY RIDGE
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WI 53217

The sale of approximately 91 miles of our line between Green Bay, Wisconsin, and Iron Mountain, Michigan, to the Escanaba & Lake Superior Railroad for a cash consideration of \$2,250,000 was closed this morning. On June 1, Judge McMillen signed an order authorizing this sale which had been scheduled to close last week. We will retain trackage rights between Green Bay and Crivitz to protect access to industries located at Marinette, Wisconsin, and Menominee, Michigan.

In a separate action, the sale to the State of Wisconsin of our line between Middleton and Richland Center - which includes the Badger Ordnance branch - and the line between Lone Rock and Prairie du Chien was closed today for \$2,944,000. The Reorganization Court had approved this transaction June 7. Wisconsin Western Railroad is the designated operator for the State, and we understand certain operations are being initiated by that carrier today.

Finally, FM/TM dated May 28 said that a definitive agreement concerning the acquisition of the Milwaukee Road into the Grand Trunk Corporation system of railroads would be completed by July 1. It now appears this document will not be accomplished until mid-August. This in no way suggests any change in Trustee Ogilvie's plans to proceed with his ultimate goal of seeing this natural alliance between Milwaukee and GTC become a reality. Time has simply not permitted the preparation of the definitive agreement as early as was originally anticipated.

A handwritten signature in dark ink, appearing to read 'W. L. Smith', is written over the typed name and title.

W. L. Smith
President