

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Relations Department
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December 3, 1984

To All Milwaukee Road Employees:

Checks totalling more than \$20 million could be mailed to employees before the end of the year if Trustee Ogilvie's application for authority to pay to present and former Milwaukee Road employees all wages deferred during the period of August, 1980, through December 31, 1981, is approved by the Reorganization Court.

Under the Wage Deferral Agreement, affected employees, which include members of 14 labor unions and all management personnel, had 10% of wages deferred from August 1, 1980, through December 31, 1980, and 7% of wages deferred during the year 1981. The deferral of these wages was critical to our continuing efforts to reorganize the railroad and provided essential cash flow at the time.

The Wage Deferral Agreement contemplated repayment under two circumstances; preference stock in a reorganized successor to the Milwaukee Road equal to 1.3 times the amount of deferred wages, or a cash payment in the amount of wages deferred in the event the railroad was not reorganized in that manner.

Pending a resolution in the future of the proper interpretation of the agreement with respect to the issuance of stock or payment of cash, Trustee Ogilvie proposed that he be authorized to offer an election to current and former employees to receive cash in full settlement of their deferred wage claims.

In requesting authority to allow employees to elect an early settlement at this time, Trustee Ogilvie pointed out that effective January 1, 1985, railroad retirement taxes on these payments will be increased for both employees and employer.

Under existing 1984 law, if the deferred wages are paid prior to December 31, 1984, an employee can elect to have his deferred wages treated as though earned in 1980 and 1981 and thus be subject to the lower tax rate and base applicable for those years. However, if the deferred wages are paid after January 1, 1985, the employee can no longer make this election but will be forced to have deferred wages taxed as 1985 earnings. The railroad retirement tax rate for 1985 and the wage base against which it applies is significantly higher for both employer and employee.

This adverse tax impact of waiting until 1985 for repayment of the deferred wages would likely be applicable whether the deferred wages were to be paid in preferred stock or in cash.

Under the program any employee or former employee who believes that he or she is entitled to preferred stock under the Wage Deferral Agreement can choose to await the determination of that issue later in the reorganization, presumably in 1985. The Railway Labor Executives Association has asserted that under the Wage Deferral Agreement, repayment in stock is proper.

In the application, Trustee Ogilvie has also sought authority to pay to employees represented by certain labor organizations their back pay for 1981 which was deferred in early 1982.

If approved by the Court, Trustee Ogilvie intends to send on approximately December 17, 1984, election forms and settlement checks to all employees who had wages deferred. Each employee will receive important information concerning the election with this mailing. You are urged to read that information carefully before making any choice.

Saying that Trustee Ogilvie's application is a "meritorious suggestion" and subject to receipt of written assurances of reimbursement by the acquiring carrier, Judge McMillen indicated he will rule on the matter Monday, December 10.

If approved, the schedule as outlined above will be followed as closely as possible.

* * *

We have been informed by Amtrak that approximately 242,000 Rail Travel Privilege Cards are due for renewal next year. Previous experience indicates that approximately ten percent of these renewals will be returned to the Pass Bureau by the Post Office as undeliverable.

To insure continued pass privileges, any pass holder who has moved since his or her last pass was issued and has not completed NRPC form 91 should contact their local personnel office. I would like to remind all employees who are entitled to Amtrak privileges that it is their responsibility to see that their pass records are maintained current. All inquiries regarding Amtrak passes should be directed to your local personnel office.

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One of the largest track construction projects we've undertaken in some time is being completed this month.

As part of an agreement with the Black Beauty Coal Company and the Rogers Group, a spur track of almost 10,000 feet was built to serve a new rail coal loading facility being constructed adjacent to our line near Odon, Indiana.

Work on the project began last July. We agreed to construct 185 feet of track, including one turnout, relocate an existing turnout and to install a bituminous grade crossing. We also agreed to furnish track material - rail, new crossties, joint bars, bolts, nutlocks, anchors, switches, spikes, rail oilers and tie plates - for the construction of a 9,950-foot spur loop.

When the new coal loading facility is finished early next year, the spur will be used primarily for the loading of coal unit trains. A unit train generally consists of not less than 100 cars and 9,500 tons moving on a single bill of lading, contract or mine manifest to a single destination.

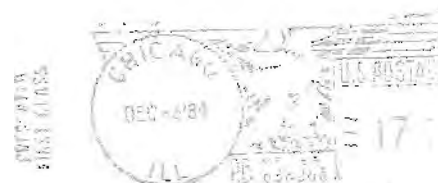
Our Marketing department has done an outstanding job in working with customers to develop markets for Southern Indiana coal.

This new facility alone will generate over 10,000 carloads annually when fully operational. We have in place a contract to handle one million tons of coal a year from this operation to a power plant in Wisconsin.

A handwritten signature in dark ink, appearing to read 'W. L. Smith', with a stylized, flowing script.

W. L. Smith
President

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