

# 1st MONDAY 3rd MONDAY

Prepared for employees by the  
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February 25, 1980  
(Delayed issue of February 18)

## Managers and Supervisors:

By the time this letter reaches you, the information that Judge McMillen has authorized the embargo of non-"Milwaukee II" lines will have been transmitted in a "To All Concerned" wire and a news release. Over the next few days, we shall be implementing the embargo as we did last October. Furlough notices are going out today. We shall establish an embargo control office to coordinate activities and answer questions. Further information on that office and its telephone numbers will be made available soon.

The hearings on Trustee Ogilvie's petition for the partial embargo, and on his request for authority to borrow up to \$50 million to get "Milwaukee II" rolling, began last Tuesday afternoon. The most strenuous opposition to the embargo came from the Railway Labor Executives Association. Labor's position is that full statutory labor protection is due affected employees immediately. The Trustee's position is that employees who elect to seek full statutory protection must, as must any creditors, wait to see what is available through the implementation of the reorganization plan. Judge McMillen overruled the objection voiced by the RLEA's attorney.

The ICC did not oppose the partial embargo so long as the Trustee operates "Milwaukee II" plus any other lines contained in the New Milwaukee Lines plan of reorganization at least until the Commission has decided which if any plan it regards as feasible. The U. S. Department of Transportation indicated that, for a month, it would provide ERSA loans, with repayment subordinated to the claims of the secured creditors, for lines which Trustee Ogilvie designated as being subject to "sincere bids" for purchase. The month would give more time for interim operators to take over portions of the noncore lines.

Initially, the Iowa Department of Transportation had some disagreement with the embargo of lines in that state, although it didn't question the need. Iowa wanted the Trustee to continue to operate some 312 miles until they could be sold to someone else. The state argued that because most of these lines were the subject of sale bids their continued operation would be funded by the FRA.

The hearing continued Thursday afternoon. The Trustee's officers introduced a proposal responsive to the FRA's offer. We would, they said, agree to operate an additional 1,400 miles, for a month, in return for low-priority ERSA loans to cover those miles' pro-rata share of total system losses. The mileage included everything in Montana between Miles City and Missoula; most of the "Northern Division" and the Durand-Chippewa Falls line in Wisconsin; the Ontonagon line north of Green Bay; and -- separated from the remainder of the system -- the Othello-Moses Lake and Bellingham-Lynden segments in Washington. We cannot operate any mileage in South Dakota other than the main line to Miles City. The state's legislature didn't enact the laws necessary to establish the rail authority which was to buy the lines the state needs.

Virgil Fairchild identified several segments, chiefly in Iowa and Washington, which other railroads will seek to operate under ICC service orders while they prepare purchase applications. The Ontonagon line may also be operated by its prospective purchasers instead of by us. Paul Cruikshank recommended a two-stage embargo: on inbound traffic 48 hours after the court's order, on all traffic at 11:59 p.m. Friday, February 29. He pointed out that post-embargo cleanup would be different this time: We wouldn't be leaving equipment for directed carriers; we'd bring our locomotives and cars back to the core on our own lines; it'd take up to three weeks in some cases to clear out and shut down the embargoed lines.

John Rowe told the court that we're close to finalizing the \$75 million loan which will permit the Trustee to implement the labor-protection agreement worked out with the RLEA under the Milwaukee Railroad Restructuring Act. Trustee Ogilvie expects to offer this agreement as an option to affected employees at the time of the embargo.

The hearing was concluded Friday afternoon. Iowa withdrew its opposition to the embargo after Rowe outlined for the court an agreement by which the Trustee -- with the assent of the FRA -- had added about 100 miles of Iowa line to that portion of the noncore territory which he would agree to operate with subordinated ERSA loans. The added mileage is composed of the lines from Manilla to Slater, Herndon to Adel, and Woodward to Des Moines.

After listening to closing arguments, Judge McMillen said that he was convinced that the embargo should be initiated as the Trustee had proposed it, as quickly as is feasible, and that the borrowing should be authorized on the best terms which can be arranged for the estate and the creditors. He asked the Trustee's attorneys to draft a proposed order to be considered in court at 3 p.m. today.

The detailed description of which lines we shall embargo will be contained in the actual embargo notice, which we shall file promptly with the AAR and the ICC. Which line segments and stations other railroads will operate, and under what conditions, will be revealed as those railroads pursue their applications for temporary authority from the ICC. We shall embargo our service on these lines.

At the moment, it's difficult to say how many employees, and of course who, will be affected by our embargo and associated actions. It's altogether likely that some of the furlough notices which are being posted today can be taken down as the picture of continued operations by other railroads comes into better focus. I suggest that you keep in close touch with your immediate superior and with the Labor Relations and Personnel Department. The Corporate Communications Department will keep you abreast of the latest developments as they occur.

An important event in the effort to reorganize the Milwaukee will take place tomorrow in Washington, D.C. The ICC will hear oral arguments in support of -- and in opposition to, because we have our opponents -- the four competing plans of reorganization for the Milwaukee which are before it. The Commission has been expected to make its finding on the reorganization plans by March 1. However, an ICC attorney told the court last week that it might not be possible for the Commission to hit that target. He said that the ICC will report to the court at least on those lines outside "Milwaukee II" and within the NewMil proposal by March 15.

In this connection, there have been persistent rumors that the ICC is planning to recommend liquidation of the Milwaukee -- or that it already has. We have been told -- unofficially -- that a staff report to the Commission may have identified what the staff believes to be certain problems with the Trustee's reorganization plan, but the report allegedly stops well short of recommending liquidation. Independently of the staff study, the DOT -- and the Rail Services Planning Office of the Commission itself -- have found the Trustee's plan to be feasible. In any event, the ICC clearly isn't ready to announce its decision and apparently won't be until mid-March.

Special Master Gray has recommended to Judge McMillen that the 18 lines which are before the court for abandonment be abandoned on 10 days' notice. He has recommended that the labor-protection conditions spelled out in the Restructuring Act be applied to affected employees who don't select the optional settlement, but that the Trustee be authorized to defer payment of these benefits. The Trustee should set up procedures through which employees may file their claims, Master Gray recommended. He concluded that the court should reserve jurisdiction so that it may determine the priority of these claims at a future date, and determine the rights of employees covered by the protective conditions to continue to obtain benefits should the Milwaukee be totally liquidated.

Judge McMillen must now rule on the abandonment of these 18 lines, which total some 880 miles mainly in "Milwaukee II" territory. Judge McMillen had already authorized, subject to Master Gray's recommendations, the abandonment and transfer to the State of Wisconsin of six of the lines totaling 158 miles. Master Gray will be issuing his report on the abandonment of the 2,500 miles lying west of Miles City early in March. In the meantime, attorneys for the Trustee have filed with the ICC the abandonment case covering 1,573 miles mainly in Iowa and South Dakota.

While it does appear that -- this time -- we may have a somewhat better chance of achieving the physical restructuring which is essential if any part of the Milwaukee is to survive, I want to emphasize to you the fact that we are by no means in the clear yet as far as our future goes. We must anticipate the possibility of appeals of the court's rulings. We know that the funds which we shall have to spend will be extremely limited for a long time to come -- and that we'll have to learn to get along on less than we'd like to have. Confidence we can have and should show. But complacency, no. We'll never be at the point where we can afford that.

I've commented about the proposal which Trustee Ogilvie has been advancing, as part of the plan of reorganization, that he be authorized to seek "tender offers" through which he would retire the mortgage bonds of the railroad early in the five-year implementation period of the proposed plan -- during 1980, in fact. If we didn't have to be concerned with the mortgages and the restrictions they impose, we'd have freer access to funds from property sales and Milwaukee Land Company earnings, and the entire reorganization process would be easier. It is therefore highly significant that, on February 13, the trustees of the First Mortgage on the railroad, the Continental Illinois National Bank, withdrew their opposition to our reorganization plan in return for a suggestion from Trustee Ogilvie that, with proper regulatory approval, bondholders who haven't been receiving interest on their investments be paid the accrued interest as well as a sum in return for the surrender of their bonds.

There are other mortgages on the railroad's properties, including one held by the federal government. The withdrawal of opposition to our plan of reorganization comes only from the trustees of the First Mortgage and one of the separate mortgages on the "Terre Haute" line. But up until February 13 -- two years to the day on which Trustee Hillman began working on the financial reorganization of the Milwaukee -- we didn't even have that.



Worthington L. Smith  
President