



Soo Line Railroad Company
records.

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Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

THOMAS M. BECKLEY
President

February 4, 1983

Mr. Melvin Jessup
N M N Transco, Inc.
P.O. Box 307
Cedar Springs, Michigan 49319

Dear Mr. Jessup:

This will acknowledge your letter of January 3, concerning the possibility of operation of the Kansas City-Minneapolis lines should the Soo be successful in its negotiations with the Rock Island Trustee.

I have referred your letter to the committee handling this project and should we have further interest, we will be in touch with you.

Sincerely,

✓cc: J. D. Darling



TRANSCO, INC.

P.O. Box 307

Cedar Springs, Mich. 49319

OPERATORS, EQUIPMENT, CONSULTANTS

January 3, 1983

Mr. Thomas M. Beckley, President
The Soo Line Railroad Company
800 Soo Line Building
P.O. Box 530
Minneapolis, Minnesota 55440

Dear Sir:

I represent a group interested in the operation of the Chicago & Northwestern Railroad Norwood to Madison, Minnesota line. This line also has trackage rights, via the Milwaukee Road, to St. Paul. This line is subject to abandonment by the C & N W (AB-1, Sub. No. 142). If we are successful, we are interested in interchanging of freight cars with the Soo Line.

We also are interested in discussing the possibility of operation of your Kansas City - Minneapolis lines, should your company be successful in negotiations with the Rock Island Trustee.

Since we would be a new rail carrier, we would not be saddled with the present labor and operating agreements, which the Soo Line will inherit from the Rock Island estate. We believe this could benefit both the Soo Line and ourselves through improved productivity and reduced cost.

If the Soo Line is interested in further discussions, we would gladly supply resumes, pertinent data, and meet with you in the near future.

Yours,

A handwritten signature in cursive script that reads 'Melvin Jessup'.

Melvin Jessup,
Operations Manager
N M N Transco, Inc.

February 28, 1983

FILE: Rock Island Acquisition

TO: T. M. Beckley
D. M. Cavanaugh
D. J. Boyer✓

FROM: J. D. Darling *JDD*

RE: Rock Island Study

On Thursday, February 24, 1983, I had a call from Mr. Gene Schwab, President, Iowa Railroad, (515)243-7552. Mr. Schwab is the principal stockholder of the Iowa Railroad.

Mr. Schwab had asked first for Mr. Beckley and then Mr. Cavanaugh. His interest was in our acquisition and subsequent resale of the East to West Des Moines segment of the former Rock Island. He is not in a position to assist us in our cash offer and will be dependent on the Iowa DOT and IRFA for funding. I told Mr. Schwab that I thought the Iowa DOT was working diligently on his behalf.

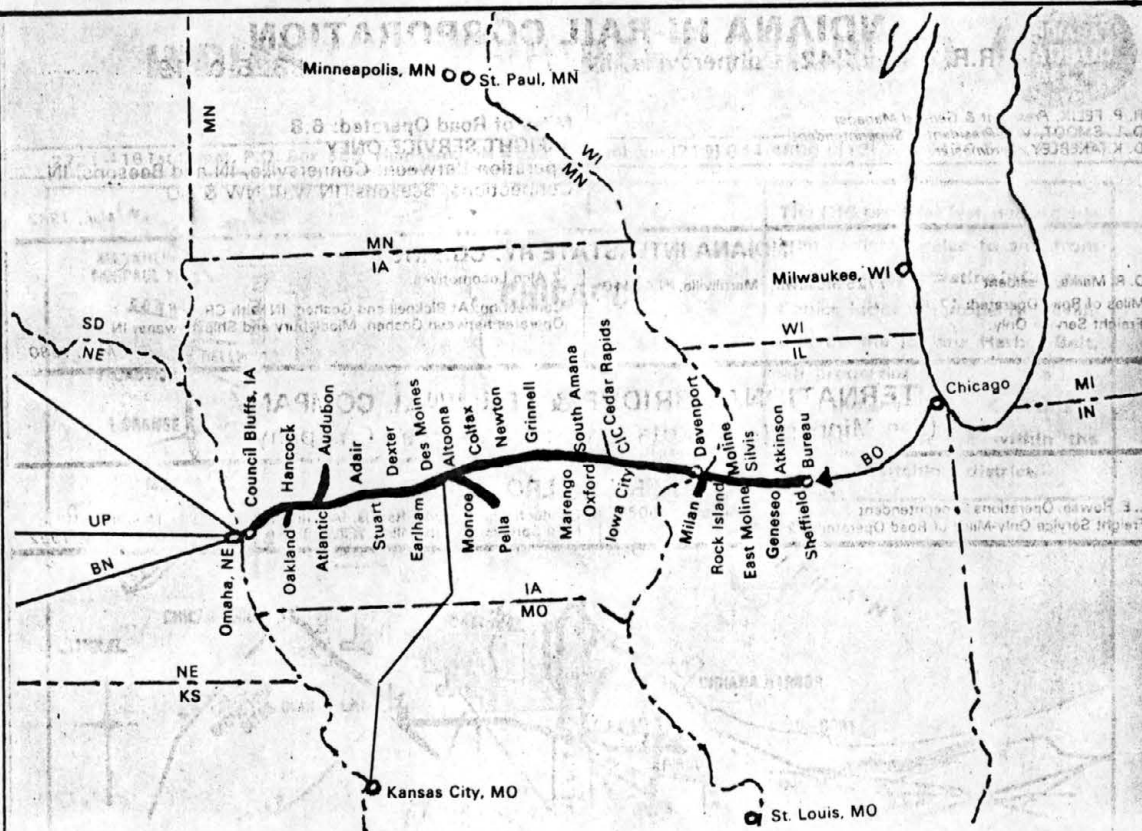
I tried to get a feel for his level of interest in the movement of limestone from Earlham, west of Des Moines, to Monarch Cement, located on the Hollingsworth Spur in Des Moines. This traffic is a natural for a shortline operation such as the IRRC. Mr. Schwab indicated he had worked out an arrangement with the CNW. I believe this is a switch charge, but last I had heard when in Des Moines with Jim Hartnett, was too high to allow IRRC to recapture the traffic from trucks.

I asked if IRRC was in a position to make an offer on the entire line they are operating. He said they were not and would again be dependent on the Iowa DOT and IRFA funding. Mr. Schwab did state that while the Trustee had retained overhead rights on the portion leased to Chessie, acquisition of additional Rock Island trackage in Chicago would be required to justify acquiring these overhead rights. Presumably, this would be trackage in the Blue Island, South Chicago, Calumet area currently operated by LSBC, NW and CWP under lease.

In any event, Mr. Schwab seemed concerned to make contact with us.

JDD/jmz

IOWA RAILROAD CO.



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 M. R. ALLEN (712) 243-2806 P.O. Box 518, Atlantic, IA 50022
 J. W. SINNOTT (712) 323-8728 P.O. Box 647, Council Bluffs, IA 51502
 R. R. WOLFE (319) 354-8182 P.O. Box 2311, Iowa City, IA 52240

Table 1 MAIN LINE BUREAU- COUNCIL BLUFFS	
Mis	STATIONS
.0	Bureau, IL
8.2	Tiskilwa
14.4	Wyand
22.3	Sheffield
27.7	Mineral
31.4	Annawan
37.3	Atkinson
44.9	Geneseo
55.4	Colona
59.5	Silvis
60.9	East Moline
64.7	Moline
66.9	Rock Island, IL
69.5	Davenport, IA
122.7	Iowa City
130.6	Tiffin
137.4	Oxford
153.2	Marengo
159.8	Ladora
165.8	Victor
173.6	Brooklyn
179.6	Malcom

Table 1 MAIN LINE (Continued)	
Mis	STATIONS
188.6	Grinnell
199.7	Kellogg
208.4	Newton
220.6	Colfax
226.5	Mitchellville
232.8	Altoona
243.7	Des Moines
258.7	Booneville
262.5	Van Meter
265.7	De Soto
273.3	Earlham
278.9	Dexter
284.1	Menlo
289.0	Casey
296.0	Adair
302.7	Anita
310.5	Wota
317.5	Atlantic
324.9	Audubon Junction
325.7	Hancock Junction
344.2	McClelland
361.5	Council Bluffs, IA
375.1	

Table 2-MILAN BRANCH	
Mis	STATIONS
.0	Rock Island, IL
5.5	Milan
10.5	end of branch, IL

Table 3-PELLA BRANCH	
Mis	STATIONS
.0	Altoona, IA
13.2	Prairie City
22.4	Monroe
27.9	Otley
35.9	Pella, IA

Table 4 AUDUBON BRANCH	
Mis	STATIONS
.0	Audubon Junction, IA
11.3	Brayton
15.0	Exira
20.3	Hamlin
24.4	Audubon, IA

Table 5 HANCOCK BRANCH	
Mis	STATIONS
.0	Hancock Junction, IA
0.4	Hancock, IA

Table 6 OAKLAND BRANCH	
Mis	STATIONS
.0	Hancock Junction, IA
5.5	Oakland, IA

FREIGHT CONNECTIONS AND JUNCTION POINTS:
 at Council Bluffs, IA with BN, CNW, ICG, N&W, UP
 at Des Moines, IA with BN, DMU, CNW, N&W
 at Grinnell, IA with CNW
 at Iowa City, IA with CR&IC, MILW
 at Rock Island, IL with BN, DRI&NW, MILW
 at Bureau, IL with B&O.

IOWA

R. W. CORNER, President
 C. F. BECK, Secretary
 H. J. WILSON, Vice-President
 Treasurer

HOCKADAY FREIGHT

Mis	STATIONS
0	Walle
2.1	North
2.6	Charle
4.6	West
10.2	Oakw
11.7	Rosev
15.7	Merb

W. F. BANNON, President
 Interchange yard provided

A. L. Dahmen, Superintendent
 Total trackage-5.57. 2 Loc

F. R. ORR, President & Chairman

KANSAS
 D. C. RICHMOND, Secretary

Arthur W. Letzig, Jr., President
 730 Live Stock Exchange

James G. Ashley, Jr. General
 Performs carload switching at

R. J. JAMISON, Secretary

2/28/83 DMC, BDO, RLM, HSN, BJB, RLS, JDD

1. Fuel Tax Suit
2. Constitutionality of favoring Soo over CNW
3. Loan repayment plan \$10,000,000 for use in purchase, repaid on carloads over 15,000 carloads/year \$10/car, no interest, cut off, some repayment, first position grant.

2-28-82 Meeting Des Moines 3/1

- (1) Status Fuel Tax Litigation
- (2) Legality of IDOT favor See over CNW.
- (3) Rough cut loan repayment plan to IDOT.
Surcharge on Ch's over 15th/year. (70⁰⁰ per car)

Les Holland, RR Div.

Dick Barr - Iowa RR Lobbyist
"Equal ear of CNW"

Don Franklin Adv Mgr IDOT

Harvey Sims, RR Mgr IDOT

Stephen H. Roberts - atty IDOT

Ian MacGillivray, Dir Planning IDOT

① Roberts - reviewed Diesel Tax (8¢) in Iowa - present status in Courts.

(a) Jurisdiction - R.R.s.

(b) Iowa District ^{trial court} favorable IDOT. Good judicial review.

(c) Iowa Supr Court due 3/10. decision due fall '83.

(d) ? 4 R Act RR defense - poses concern to IDOT

② Branch Line Cost Program - funded legs, adv IDOT

IRFA - independent auth., same staff, Secy IRFA Board is Denham
Director of IDOT.

(Iowa has constitutional prohibition against full faith & credit
of state being extended to Bonds.)

Rev Sources: Diesel Tax, Wheel tax, delinq. rail property tax
Federal court challenge - US ^{2nd} Dist Court - Judge held in
abeyance because of 4 R Act.

③ Bond Test Case - T.R.A.I.N. (This RR Across Iowa Is Necessary)
 Lee Hayes - VP Maytag. Plaintiff in case. Friendly.
 RR intervened upon loss in diesel fuel case.
 Decision district court level this summer, Supreme Court
 this fall or early 84

④ wheelbar tax - Pending Admin Proceeds Dept Rev.
 Private Leasing Cos. only.
 Operating eq is included in assessed value - property tax thus
 escapes the wheelbar tax.

Les Halland

① Fed Funds (505) (17)
 \$15 mil RI Lines Spine
 2 mil ✓ ✓

Reese
 Brian Hankinson
 (2.8) (Rehob only)
 ④ State Appropriation (Gen Fund)
 \$1.8 mil In bank - earmarked for RI Gateway
 1 mil Pending Stat leg (asked 3 mil)

(Rehob only) (803) (3.2+)
 ② Iowa 12% Natl Pot (Grant to 50% project)
 Future approp. Not Made
 \$2.1 mil Approp. Is Not yet obligated
 1.1 mil Royal-Mansion Is Funds

⑤ Leqs appropriation
 would consider funding
 the bonds for 2 yrs.
 Repay from fuel tx

③ IRFA-DOT (8.1)
 (a) \$6.5 mil Back Tx
 (b) Cost of Admin (DOT-RI) 1.6 mil
 (c) ~~1.6 mil~~ 29,000 in bank today

Thurs DM Chambers office
 3pm - E-WML
 Preservation

Lat wed $\frac{2}{23}$ Mtg full Transp Com. Hse.

Spent mtg time on RT Lines and disappointment at
CNCW — what can IRFA do?

Several members look stone aside & asked?

Short term bonding \$20 mil?

Must be tested before issue bonds!

Can do contingent agreements by IRFA!

3/24/83

Gene Schwab

President, Iowa Railroad

14 east-west offer

515-243-7552

February 24, 1983

TO: B. D. Olsen
FROM: M. M. Mullins ^N ^M
RE: Milwaukee Purchase of Rock Island Tracks -
West Davenport to Washington, Iowa

Last summer the Milwaukee offered to purchase the West Davenport-Washington, Iowa line from the Rock Island. The North Western made a counter offer which was then matched by the Milwaukee. You have asked me to review our Milwaukee and Rock Island files to see if it could be determined when the North Western offer was made and in what forum, and how the Milwaukee made its counter offer and in what forum.

Other than some of the news releases which you already had in your file, there was nothing in the Milwaukee bankruptcy file shedding any light on the matter.

The Rock Island bankruptcy file offers little more information. We have a copy of the Trustee's petition to sell part of the line between Culver and Washington, Iowa dated May 17, 1982. We have no other documents reflecting the court proceedings involving the offer and counter offer. We do have two Trustee's progress report for liquidation which shed some light. The report for the period ending June 30, 1982, pp. 3-4, states:

"During the current period the Court preliminarily approved a \$17 million transaction with the reorganization trustee of the Milwaukee Railroad involving the line segment between Clinton and Washington, Iowa, via Davenport and Muscantine, and including the Trustee's trackage rights between Clinton and Davenport. Agreements had previously been reached with the Milwaukee on sales of three separate segments within this territory totaling \$14.7 million. The CNW, however, made a competing offer for the same property for a sum of \$16.5 million. At hearing on June 4 the Court authorized your Trustee to accept the CNW's offer unless it was bettered by a new Milwaukee offer within a specified period. Milwaukee's improved offer of \$17 million in cash was preliminarily approved by the Court on July 14, 1982 and hearing for final approval is scheduled for August 23 to allow the ICC to conduct its proceeding on approval. This transaction was significant for Rock Island's estate since it demonstrated that a competitive market can produce enhanced values for an estate in liquidation."

The report for the period ending August 31, 1982, pp. 3-4, states:

"High-lighting the July-August period, from a Rail Assets Disposition standpoint, was the final Court approval and closing on August 23 of a \$17 million transaction with the Trustee of the Milwaukee Railroad involving the line segment between Clinton and Washington, Iowa, via Davenport and Muscantine, and including the Trustee's trackage rights between Clinton and Davenport. The most significant aspect of this sale was the demonstration of the value to the estate of the ability to negotiate or achieve values in a competitive open market under court supervision as distinguished from the establishment of such values by administrative agencies as was recently proposed in certain legislation. Agreements had initially been reached involving three separate sales to the Milwaukee within this territory for a total of \$14.7 million, the largest portion of the purchase price to have been deferred. Entry of a competitive bidder before those sales were finalized, however, resulted in the 16% increase in the final return to the Estate with all funds being received up front."

Sidley & Austin should have any court documents containing this information. Should they be approached for it?

MMM/sjp

February 23, 1983

TO: T. M. Beckley
D. M. Cavanaugh
C. H. Clay
R. H. Smith
R. L. Murlowski
D. J. Boyer
~~J. D. Darling~~

FROM: B. D. Olsen

RE: Rock Island Reorganization

A status hearing has been set by the bankruptcy court for March 28, 1983. It seems probable that the North Western purchase agreement might be presented at that time, although we have no definite information as yet. At that time, a proposed settlement of the Trustee's dispute with the Kansas City Terminal will be presented for approval.

We have also been advised that the ICC has told the Rock Island bankruptcy court that it will not assert any jurisdiction over the Trustee's plan of liquidation but would continue to approve sales of railroad operating properties. Until I have seen a copy of the Commission order, I can't be sure exactly what that means.

BDO/sjp

February 23, 1983

CONFIDENTIAL

TO: D. J. Boyer
FROM: B. D. Olsen *BDO*
RE: Rock Island Acquisition

As a result of a meeting here February 22, I have arranged a meeting with Les Holland in Des Moines Tuesday, March 1, 1983. The purpose of the meeting will be to review with DOT counsel the status of the fuel tax litigation and then to attempt to work out some draft agreements for acquisition and repurchase of the Des Moines property as well as a separate arrangement by which additional DOT funding could be repaid, based in part upon traffic volume reaching certain threshold levels. Mr. Murlowski is currently developing some new numbers for us to work with.

I have arranged airline tickets for you. It might be well for Joe Darling to accompany us. I am going to be prepared to stay over, should that be desirable.

BDO/sjp

cc: T. M. Beckley
D. M. Cavanaugh
R. L. Murlowski
J. D. Darling

*Airport @ Des Moines
Ozark ticket area
Steve Roberts - Bond Counsel IDOT
\$ Road - 45 years
4.8 mil x 90% = \$4.320 mil*

B. D. Olsen
D. J. Boyer

Minneapolis to Des Moines, Tuesday, March 1

Leave Minneapolis	8:00 a.m.	Ozark #673
Arrive Des Moines	8:47 a.m.	

Des Moines to Minneapolis, Tuesday, March 1


Leave Des Moines	4:05 p.m.	Ozark #668
Arrive Minneapolis	4:51 p.m.	

Les Hubbard - DOT (Ames)

February 23, 1983

FILE: Rock Island Acquisition

TO: T. M. Beckley
D. M. Cavanaugh
D. J. Boyer

FROM: J. D. Darling 

RE: Rock Island Study

Reference the attached letter from C. J. Stoffer.

I have not conveyed any of our operating plans to C. J. Initially, I had assumed we would acquire the Manly Yard and, for reasons of operating convenience, use it as the base for two road switcher crews serving Mason City and Albert Lea. The Manly Yard is however a CNW carve-out. If not acquired, it would be possible to base the operation of the two crews at Albert Lea. There might be some problem with blocking street crossings when road trains are setting out and picking up, but the yard itself would be adequate for the anticipated needs.

The two-stall metal engine house has been removed and the concrete block yard office has apparently had its heating system removed, making it unusable and probably damaged beyond economical repair.

JDD/jmz

Att. (1)

Joe

Attached is a couple of articles you might like to see. Also I talked to Tom Macy President of the First State Bank in Manly concerning a letter he recieved from Mr. Beckley thanking the City of Manly for the offer of cash to help the Soo Line secure the spine line. The people of Manly are more than willing to help the Soo in any way possible. Manly has always been a railroad center and the people are proud of it and would like to see it as a major terminal again. Mr. Macy feels Manly would consider issuing \$500,000. in Industrial bonds or some sort of secured loan for the construction of a railroad office building in Manly should the Soo Line purchase the spine line and locate their offices in Manly. He also informed me that if \$500,000. would not build the type of facility you need they might be able to come up with some more low cost money. You might want to contact Tom about this idea his phone number is 1-515-454-2255.

Also rumor has it the C&NW signal department has been working on a plan to move the CTC board out of Des Moines to Mason City and relocate the signals from the spine line to their own line and abandon the spine line from Albert Lea to Comus. I think from what we can find out what ever happens CTC and Dispatchers will be moved out of the 4th & Vine St. office in Des Moines to the C&NW dispr office in Mason City, if the C&NW purchases the ROCK track. Also I think a movement is in the making from various shipper groups, to show their support of the Soo acquiring the ROCK. Give me a call if anything interesting turns up or if you need any help.

C J

The Des Moines
Register

AN INDEPENDENT NEWSPAPER

OPINION

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THE REGISTER'S EDITORIALS

Public vs. private good

Railroads in the United States (unlike those in the rest of the world) are private businesses that have often produced conflicts between private rights and the public interest (or should that be private interest and public rights?). Several such conflicts have resulted from disposition of the tracks of the bankrupt Rock Island system.

Last week the Chicago & North Western outbid the Soo Line for 720 miles of Rock Island track, mostly the Minneapolis-Des Moines-Kansas City mainline and feeder branches in the northern Iowa grain area. Iowa officials and legislators plan to try to block the sale, because it would eliminate substantial rail competition.

The North Western says there is not enough business to support another railroad company. It also argues that truck competition would keep freight rates in line. To a degree, this is true, but the inherent higher cost of truck hauling could keep the rates in line at a higher level than if two railroads were available. (The North Western has its own Minneapolis-Des Moines-Kansas City line and northern Iowa grain branches. It also is operating, under lease, the Rock Island lines in question.)

A potentially more serious conflict between the North Western's and Iowa's interests is that the deal includes a segment of the old Chicago-Omaha

mainline in the Des Moines area. The North Western, with its own east-west line through Ames, is anxious to prevent any major east-west service through Des Moines. (The Rock Island line now is being operated under lease by the Iowa Railroad Co.).

With North Western ownership of a middle segment, it would be difficult or impossible to find a buyer for the rest of the line; portions of it probably would be operated locally, but the chances would be poor of Des Moines' ever again having real east-west freight (or passenger) service.

The track sale is subject to approval of the Interstate Commerce Commission and of the federal judge supervising the Rock Island bankruptcy. The bankruptcy trustee will press the judge for the best deal possible for the creditors, so, unless the Soo Line weighs in with a second, better offer, the judge is likely to OK the North Western's bid.

The ICC is charged with protecting the public interest. It might plausibly conclude that, since the North Western would operate the north-south line and the grain branches, and since a financially strong North Western would be good for Iowa, the public interest would be secured. But the ICC should either exclude the segment of the east-west line from the deal or require its resale at a fair price to anyone later buying the rest of the line.

Rail purchase 'despicable act'

By RANDY EVANS

Register Staff Writer

A member of the Iowa House blasted the North Western Railway on Wednesday, saying the railroad's pending purchase of hundreds of miles of track in Iowa is a "despicable act," planned only so the company can make "a fast buck" from shippers.

Representative William Harbor (Rep., Henderson) made the comments during a meeting of the House Transportation Committee. The meeting was called to discuss the tentative agreement, announced last week, for the North Western to buy 720 miles of track from the defunct Rock Island Lines in Iowa, Minnesota and Missouri.

Iowa officials have expressed concern about the purchase because the North Western already is the largest railroad in Iowa. The deal will give the railroad access to nearly three-fourths of the giant grain elevators in northwest and north central Iowa, where the bulk of the state's crops are produced.

Officials are worried that the railroad will raise its freight rates to capitalize on its increased dominance.

Harbor said the state should find a way to block the transaction. Because the North Western is also buying a short segment of the east-west line within Des Moines, Harbor fears that the remainder of the vital east-west line will not be attractive to any other potential buyer.

The east-west line is being operated by the Iowa Railroad under a lease with the Rock Island's bankruptcy trustee. Harbor said there are "grave concerns" that the North Western deal will leave the Iowa Railroad unable to profitably operate the remainder.

Representative Jean Lloyd-Jones (Dem., Iowa City) warned that the purchase of the Des Moines track is a North Western tactic to "strangle out any other railroad that is trying to do business."

Lawmakers hope another railroad will out-bid the North Western for the lines, providing Iowa shippers with better competition from railroads.

The Legislature created the Iowa Railway Finance Authority several years ago and gave it the power to sell \$200 million in state bonds to finance the purchase of important Rock Island lines, such as the ones the North Western is buying. But the authority's powers have been tied up by a number of lawsuits.

February 22, 1983

TO: T. M. Beckley
D. M. Cavanaugh

FROM: J. D. Darling JDD/

RE: ~~Rock Island Study~~


Harvey Sims called to say no letter of agreement has been signed as of 10:30 a.m. today and is not anticipated today.

JDD/jmz

February 22, 1983

FILE: Rock Island Acquisition

TO: T. M. Beckley
D. M. Cavanaugh
D. J. Boyer

FROM: J. D. Darling 

RE: Rock Island Study

On Thursday, February 17, 1983, I talked with Mr. J. E. Martin, Senior Vice President Operations, ICG. Mr. Martin was quite candid in response to my inquiries.

The ICG was to be the operator, both for maintenance and train operation. FRA funding, in the form of preference shares, was to be provided to the shipper group for acquisition. Initial rehabilitation was also to be FRA funding, as opposed to funding by or through the Iowa DOT. I suspect my question may have been misunderstood here. Redemption of preference share financing was to begin in the eleventh year with a 2.3 percent effective rate of interest. The ICG would contribute welded rail, which they have paid for and in inventory, as a contribution to the rehabilitation. The ICG would also pay rental, calculated to service the preference share debt. The shippers would own the line with no buy-out provisions to the ICG. The ICG had a guaranteed volume commitment from the shippers. The ICG was prepared to offer trackage rights to the CNW to permit shippers the option of the Kansas City gateway.

The CNW has gone to the FRA (and possibly the shippers) and stated that public funding and shipper participation is not required, that they will buy, rehabilitate and operate the line. At this point in time, the ICG considers this has frozen them out of the proposed deal with the shippers.

In response to my questions, Mr. Martin said there was nothing that we could do that would complicate their situation. I asked should we acquire the line as part of an attempt to make a more attractive offer to the Trustee, would the ICG consider granting us access from Iowa Falls. Mr. Martin said that he could not make a commitment but that they would certainly work with us. I took this as a positive and friendly response.

Messrs. Beckley, Cavanaugh and Boyer
Page Two
February 22, 1983

Mr. Martin stated that should we wish to do anything, we should contact Mr. W. J. Taylor, President and Chief Executive Officer. I did not press on this comment, but the implication that was conveyed to me was that they might have something further they want to talk about. Mr. Martin mentioned his first choice would have been to acquire the Iowa Falls Gateway Lines. He also mentioned they didn't have any cash. Perhaps they want to talk about traffic agreements, as they do not feel they serve the Kansas City-Houston market, but do serve Mississippi River points and New Orleans.

JDD/jmz

February 22, 1983

To: Thomas M. Beckley

From: D. J. Boyer

Re: Scenario for Soo Acquisition Rock Island Trackage
as to Source of Finance Funds and Participation
Funds

- (A) \$60 Million (\$20 Million - Omaha Bank for Cooperatives,
(10 years, 11.25%. Direct loan
(to IFG Shippers Consortium
(supported by leverage lease
(to Soo as operator covering
(loan period with annual lease
(rental payments equivalent to
(loan debt service. Purchase
(option at maturity by Soo
(representing real estate value.
(May embody shipper consortium
(CL volume guarantee.
(
- (\$40 Million - Participation Loan by Iowa Banks
in Des Moines, Mason City and
others, or - Participation Loan
by Bank for Cooperatives in Omaha,
St. Paul and St. Louis. 10 years,
11.25%, covering main line (Rock
Island) Northfield, MN to Kansas
City, MO.
- (B) \$10 Million Iowa-Des Moines National Bank or -
other local bank loan secured by
real estate acquired with Rock
Island trackage east to west
Des Moines. Soo to be direct on
loan for not more than two years
with removal by Iowa or Des Moines
interest group by real estate
purchases. Soo to recover including
carrying and other related costs
attributed to this loan. 2 years,
prime rate.

Thomas M. Beckley
February 22, 1983
Page Two

(C) \$11 Million (\$7 Million - Funds held in escrow representing various Iowa community delinquent tax from Rock Island Trustee. April 1983 will determine disposition to IDOT.
(\$2 Million - Federal 505 Funds earmarked Iowa.
(\$2 Million - Funds due IDOT from Rock Island Trustee representing Branch Line Improvement Program.

(D) \$10 Million Potential Iowa legislative action this session to provide via IRFA Funding. Disposition of funds must be in accordance IRFA.

Comments: In a period of falling interest rates it may be a very definite advantage for Soo to finance all of (A) with the Bank for Cooperatives. The reason being a loan of \$25-50 million will allow the bank to go to the market place for a special 10 year issue bond the yield of which will pretty well be the Soo loan rate plus bank costs. This rate would compare with a blend of old and new fund costs to conventional banks which would be higher. Also the Bank for Cooperatives can "tailor make" loans with less restriction than conventional banks.

Reliance on funds from (C) carry the risk of being not available because of legal restriction. Soo may decide to rely on (C) funds with their risk inasmuch as IDOT will find some manner in which it will eventually "makeup" funds through a proper source and channel to Soo.

In the event (D) does materialize it will issue funding via IRFA.

An \$81 million offer is available to Trustee by Soo with Soo liability for \$60 million in (A) and a risk of unknown proportion in funds from (C) and (D). Soo should attempt to determine that risk by meeting with IDOT personnel, general counsel, bond counsel and bankers as soon as possible.

Scenario For Soo Acquisition RI Trackage As To Source of Finance Funds and Participation Funds

- (A) \$60 Million (\$20 Million - Omaha Bank For Cooperatives, 10 year, 11.25%
(Direct loan to IFG Shippers Consortium
(Supported by leverage lease to Soo as operator
(covering loan period with annual lease rental
(payments equivalent to loan debt service.
(Purchase option at maturity by Soo representing
(RE value. May embody shipper consortium
(CH volume guarantee.
(\$40 Million - Participation loan by Iowa Banks in Des Moines,
Mason City and others. or —
Participation loan by Bank For Cooperatives
in Omaha, St Paul and St Louis.
10 year, 11.25%, covering main line (RI)
Northfield, Mn to Kansas City, Mo.
- (B) \$10 Million
Iowa-Des Moines National Bank or —
Other local bank loan secured by
RE acquired with RI trackage E-W
Des Moines. Soo to be direct on
loan for not more than two years
with removal by Iowa or Des Moines
interest group by RE purchase.
Soo to recover including carrying
and other related costs attributed to
this loan. 2 years, prime rate.
- (C) \$11 Million (\$7 Million - Funds held in escrow representing various
(Iowa Community delinquent tax from RI
(Trustee. April 1983 will determine
(disposition to IDOT.
(\$2 Million - Federal 505 Funds earmarked Iowa.
(\$2 Million - Funds due IDOT from RI Trustee representing
(Branch line Improvement Program

Scenario - Page 2

(D) \$10 Million

Potential Iowa Legislative Action this session to provide via IRFA Funding. Disposition of funds must be in accordance IRFA.

Comments: In a period of falling interest rates it may be a very definite advantage for Soo to finance all of (A) with the Bank for Cooperatives. The reason being a loan of \$25-50 million will allow the Bank to go to the market place for a special 10 year issue bond the yield of which will pretty well be the Soo loan rate plus bank costs. This rate would compare with a blend of old and new fund costs to conventional banks which would be higher. Also the Bank for Cooperatives can "tailor-make" loans with less restriction than conventional banks.

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3/22/83 TMB, CHC, BDO, RLM, DMC, RWS, HSN, JBJ

Dunham, Holland, McMillan, Thursday,
TMB, DDB
Carlin - CW

2nd mortgage on entire CW

22,000,000 1st mortgage

Chgo + Mpls Banks

Wednesday, legislatures pressing IADOT
\$60,000,000

8% inflation

\$10,000,000 prepayment of IRFA
legislation.

Payback per car in excess of base's
10 years rail and tie replacement.

Operating lease
Lease paid down at end of 10
years to value of land with
option to buy

Bank for Cognatives

So owners ties a rail

ITC, AGRS

DDB, BDO - meet with IADOT, prospects
on IRFA legislation, IADOT Council
funding council, legal opinions on IRFA
funding.

(2)

Agreement with IADOT

a. Destines land transaction

b. Additional \$10,000,000 repaid
by excess traffic

KCS Mike McGinn

In touch with Hockaday

This weekend through Revenue

Division on Iowa com

Reduced agency costs

KCT stock

Exemption from property taxes - \$500,000

IADOT owner of line, \$500,000

annual tax relief

CNW agreement not signed last Friday

10 notice for public hearing

March 14, 1983 earliest hearing

3/22/83 Harvey Sims

No letter of agreement as of today.

Trustee going on vacation March 24, 1983

Dick Lane on vacation

February 22, 1983

CONFIDENTIAL

Memorandum to File

From: Thomas M. Beckley

Re: Rock Island Acquisition

On February 18, 1983, I telephoned Mr. W. M. Gibbons, Trustee of the Rock Island, to inquire as to the time frame for the execution of the purchase agreement with the North Western. Mr. Gibbons stated that it would not be possible to have the documents executed on that date as had been originally planned. He stated that there were some minor modifications which were being exchanged between the parties and that he expected to have the execution completed by February 24. His vacation plans call for him to leave on the morning of the 25th, and he will be gone for a period of two weeks.

I indicated to Mr. Gibbons that I assumed that a copy of the purchase agreement would be filed with the petition for its approval and was assured that the Soo would receive a copy directly.

I indicated to Mr. Gibbons that there was considerable sentiment in Iowa opposed to the North Western acquisition and the Soo might be in the position of submitting a revised offer. Mr. Gibbons stated that the agreement with the North Western would provide for a sharply increased rental rate to reflect the purchase price agreed upon after a relatively short period. He stated that it would be necessary for the Soo to bid a substantially higher amount than the North Western had in view of their paying rents over an extended period of time and investing in other Rock Island property.

The earliest date on which the contract might be submitted for preliminary approval would be March 14. I sensed that the trustee might be willing to defer this date if there were some likelihood that the Soo would come in with a bona fide offer.

cc: D. M. Cavanaugh
B. D. Olsen
✓ J. D. Darling
D. J. Boyer

February 18, 1983

By D. J. Boyer
To T. M. Buckley

Re Scenario For Soo Acquisition RI Trackage As To Source of Finance Funds and Participation Funds

- (A) \$60 Million
- (\$20 Million - Omaha Bank For Cooperatives, 10 years, 11.25 %
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Northfield, Mn to Kansas city, Mo.
- (B) \$10 Million
- Iowa-Des Moines National Bank or —
Other local bank loan secured by
RE acquired with RI trackage E-W
Des Moines. Soo to be direct on
loan for not more than two years
with renewal by Iowa or Des Moines
interest group by RE purchase.
Soo to recover including carrying
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Scenario - Page 2

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Soo Line Railroad Company



TO

JDD

TIME

2:30

DATE

2/18

IMPORTANT MESSAGE**WHILE YOU WERE OUT**

M

C.S.

OF

Iowa Northern Railroad

PHONE NO

(515) 823-5870



Telephoned



Please call back



Called to see you



Will call again



Left the following message: - - - -

1st Thing Tuesday

Marilyn D. Rev B. B. B.
for office building.
B.B.B.

2/22/83 C.J. Stoffen

Albion Sea to Canas

Rosemont to Silver Grove

2 tracks at Manly

CTC from Des Moines to Mason City

Meeting in Waterloo Monday with Harvey
Juno

(Jim)
3/1/83 J.E. Martin Sr. V. Pres. Opers.

ICG

312-555-1600

Operator, M+O

Traffic guarantee volume

Rental offer rehab

CNW went to FRA

CNW trackage rights to Kansas City
Would work with Soo

ICG welded rail as participation,
on bond and paid for

Tom Berkeley - Bill Taylor

11th year, 2.3% effective

Rental would service debt

3/6/83 DMC, TMB, RAS, WED, GWS, JDD

Loan \$9,500,000 - Dist Maine

Property

Loan \$10,000,000 - Legislature

carland repayment, loan without
interest.

2/16/83 Cndr Don Farran

Iowa State Legislature

~~Final~~
No. and to ideas
DRE

Will Jones
be the neutral
party
10/2
AB

Michael N. Jones
5716 Burnet Rd.
Austin, Texas 78756
February 16, 1983

Dennis Cavanaugh
President
Soo Line Railroad Company
P.O. Box 530
Minneapolis, Mn. 55440

Dear Sir:

I am a businessman in Austin, Texas.....engaged in retailing. I have never worked for a railroad, but I majored in transportation at the University of Texas. For nearly twenty years, I have studied the operations of the Missouri-Kansas-Texas Railroad Co. I am not an expert on the Katy, but I am quite knowledgeable!

It is my belief that Katy Industries, Inc. must sell M-K-T before the mega-mergers deal it a death blow. Consequently, I am offering to you and Mr. John Burdakin a simple and reasonable proposal. I suggest that Soo Line and Grand Trunk jointly purchase the M-K-T.

Under such an arrangement, each company would own 49.5% of the common shares of M-K-T (with a neutral trustee owning the remaining one percent). Soo and Grand Trunk would swap top level management every three years. M-K-T would continue to have its own President and Vice Presidents.

This arrangement would be comparable to the arrangement Burlington and Rock Island had for over fifty years between Dallas and Houston.....one that was quite successful! Joint ownership of the Katy makes good economic sense, for Soo and Grand Trunk could feed the Katy more traffic at Kansas City than it ever has been able to solicit on its own.

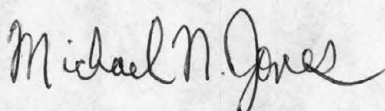
The parent companies of Soo and Grand Trunk are direct competitors, but Soo and Grand Trunk are not. Consequently, they could function cooperatively between Kansas City and the Gulf.

Joint purchase of the M-K-T would be more profitable than a unilateral purchase by either company. Furthermore, Katy Industries, Inc. could sell M-K-T for slightly more than would be possible if either Soo or Grand Trunk were to act on its own (while the cost to each party would actually be less). Under such a scenario, the sellers and buyers would benefit equally.

I have suggested this proposal to Mr. Harold Gastler, President of M-K-T, but have not yet received a reply. I believe Mr. Gastler and his executives will see this proposal as a way for M-K-T to survive (and a way for Katy's management to survive).

This proposal is eminently feasible and would be accepted by the F.R.A. and I.C.C. as a means of "escape" for a small carrier.....threatened by the mega-mergers. I hope you'll consider its merits!

Sincerely yours,

A handwritten signature in cursive script, reading "Michael N. Jones". The signature is fluid and written in dark ink.

Michael N. Jones

2/15/83

Harold Starks

Packard Elevator

Soo Line Railroad Company

D.M.C.
Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

THOMAS M. BECKLEY
Chairman
and
Chief Executive Officer

February 15, 1983

Mr. Tom W. Masey
President
First State Bank
Manley, IA 50456

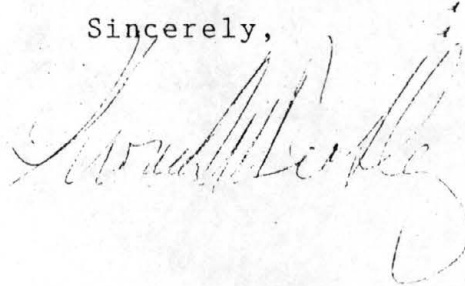
Dear Mr. Masey:

I appreciate very much your letter of February 8, expressing the willingness of the Manly Development Committee to cooperate with the Soo in acquiring the Rock Island line between the Twin Cities and Kansas City.

Yours was the first offer we have received so far that coupled financial assistance with an expression of cooperation.

We are still negotiating with other interested groups in an effort to come up with an offer which would beat the North Western.

Sincerely,





First State Bank

Serving North Central Iowa

Main Bank - Manly, Iowa 50456

Offices in Hanlontown, Kensett and Plymouth, Iowa

TOM W. MASEY

President and Chief Executive Officer

FEB. 8, 1983

Mr. Thomas M. Beckley
President
Soo Line Railroad Co.
Soo Line Building
Box 530
Minneapolis, Minn. 55440

Dear Mr. Beckley:

As Chairman of the Manly Development Committee, I have been authorized to pledge to your company \$2,000.00 to assist your company if you would buy the Rock Island Line.

The Manly Development Committee and the First State Bank are very willing to work with your organization in any way we can to bring the Soo Line Railroad to Iowa and to Manly.

Sincerely,

Tom W. Masey
Chairman, Manly Development Committee
President, First State Bank

2/14/83

CS Slaffin

Iowa DOT seeks to block sale to CKW.

Des Moines IA Register 2-13-83

3/14/83

Dick Farrell, RI Trustee Office

February 14, 1983

Mr. G.E. Warner
Director Labor Relations
Soo Line Railroad
Minneapolis, Minnesota

SOO LINE RAILROAD
RECEIVED

FEB 16 1983

Dear Sir:

DIRECTOR OF LABOR RELATIONS

I have enclosed for your inspection and use if possible, information obtained while BLE Local Chairman, Rock Island Railroad during their bankruptcy proceedings.

Please forward to interested people on your railroad and I hope it may be of use in acquiring the portion of the Rock Island Railroad that your Company has been bidding on.

I would appreciate your returning these copies when finished with your inspection and use.

Yours Truly,

D.L. Diltz
D.L. Diltz
Route 1 Box 73
Elkhart, Iowa 50073

#1.
Div. 525

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In Proceedings for the Reorganization
Of a Railroad
Docket No. 75B2697

Before The
Interstate Commerce Commission
Docket No. _____

PLAN OF REORGANIZATION
FOR
CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

Submitted by:

William M. Gibbons,
Trustee of the Property of
Chicago, Rock Island and Pacific
Railroad Company, Debtor

December 28, 1979



IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In the Matter of)	
)	In Proceedings for the
CHICAGO, ROCK ISLAND AND)	Reorganization of a
PACIFIC RAILROAD COMPANY,)	Railroad
)	
Debtor.)	No. 75 B 2697

Plan of Reorganization Submitted by
William M. Gibbons
Trustee of the Property of the Debtor

Introduction

The Chicago, Rock Island and Pacific Railroad Company (the "Debtor") commenced the present proceedings on March 17, 1975 to effect a reorganization pursuant to Section 77 of the Bankruptcy Act. The reorganization was the third for the railroad which was originally chartered in 1847. The present reorganization proceeding commenced in 1975 was necessitated by a combination of circumstances which included the longest railroad merger battle in American history during which the railroad suffered a deterioration of its physical plant, a decline in business, and inability to raise capital to meet its cash requirements for continued operation.

The Trustee reversed the negative cash flow early in the reorganization proceedings and continued the operations of the Debtor railroad through rigid cost control and an improvement of revenues combined with state and shipper car and track repair programs and limited government borrowings. Simultaneously, the Trustee negotiated the leasing of rolling stock and locomotives to bolster the power and car capacity of a deteriorating fleet.

Commencing in April 1975, the Trustee sought prospective purchasers for the entire system or for any of its segments in an effort to reduce the railroad's size. Southern Pacific Railroad was the only railroad that demonstrated serious interest in any acquisition, and a sale to it of the 965 mile Tucumcari-St. Louis via Kansas City line for \$57 million is pending before the Interstate Commerce Commission (the "Commission") and the Court for approval.

Despite all of the Trustee's best efforts and the encouragement and support of the railroad's shippers and many of the thirteen states in the central region of the United States which the railroad serves on 7025 route miles, the railroad's operations were seriously impaired in late 1978 and during 1979 due to the worst winter in 100 years, doubled fuel prices, double digit inflation and a flattening economy. On August 28th and 29th, 1979, the railroad was struck by the employees of the Brotherhood of Railway and Airline Clerks (BRAC) and United Transportation Union (UTU). Operations were conducted on a severely reduced level with supervisory personnel as all union employees honored the picket lines.

Acting upon its statutory authority, the Commission ordered directed service over the railroad's system by another carrier (Kansas City Terminal Railway Company) commencing on October 5, 1979, upon the Commission's finding that the railroad was cashless and unable to render service to the public.

On October 10, 1979, the Court ordered the Trustee to file a plan of reorganization for the Debtor which would encompass a proposal for either total liquidation, or alternatively, a partial liquidation of assets with the retention of a potentially viable core as preliminarily identified by the Trustee.

This Plan is filed pursuant to the Court's mandate of October 10th.

Summary of the Trustee's Plan

The Plan provides that the existing corporate entity of the Chicago, Rock Island and Pacific Railroad Company, with appropriate amendments to its articles of incorporation and by-laws, will function as the Reorganized Company.

On the Consummation Date, the Reorganized Company will be vested with title to all of the assets, claims and rights to which the Debtor or its Trustee holds title, certain contracts and liabilities will be assumed, and cash and securities of the Reorganized Company will be distributed in full compensation for, satisfaction and discharge of all Claims and interests, as classified, and in the order of priority established in this Plan, or as shall be modified by the Court prior to its approval of the Plan.

The Plan and its supporting exhibits must be examined for a full understanding of the treatment of the various Claims and interests. In essence, however, the Plan provides that the cash requirement for the treatment of certain Claims will be satisfied by the liquidation of a substantial portion of the Non-Core assets of the Debtor pursuant to the Asset Disposition Program which is presently under way by the Trustee and which will be continued by the Reorganized Company. The Plan also contemplates that a reduced railroad core system (the "Core") be retained by the Reorganized Company as its Rail Operating Subsidiary, owning assets essential to its operation, and assuming certain Administration Claims as classified and treated under the Plan. All other Administration Claims (except those assumed by the Core) and tax Claims will be compensated in full out of the proceeds of the Asset Disposition Program, either in cash as shall be authorized prior to the Consummation Date by the Court, or following the Consummation Date by the redemption of non-interest bearing Certificates of Beneficial Interest which shall be issued to claimants by the Reorganized Company at the Consummation Date.

The claims of the secured bondholders will be satisfied by non-interest bearing Certificates of Beneficial Interest equal to 50% of their Claims issued at the Consummation Date, and by the further issuance to them of New Class A Preferred Stock of the Reorganized Company having first call on the liquidation of the assets of the company and having a redemption value equal to 50% of their claim. The New Class A Preferred Stock shall upon the Consummation Date be entitled to elect a majority of the Board of Directors for the Reorganized Company.

Claims of unsecured creditors for the Pre-Bankruptcy Period, (except for tax claims) including the Claims of income debenture bondholders, will be satisfied

in full by the issuance to them at Consummation Date of non-interest bearing Certificates of Beneficial Interest equal to 50% of their Claims and New Class B Preferred Stock of the Reorganized Company having a redemption value equal to 50% of their Claims.

The interests of the Stockholders will be satisfied by the issuance to them of New Common Stock of the Reorganized Company.

For the purpose of treatment of all Claims and interests under the Plan, the assets of the Reorganized Company are valued at a total of \$530.5 million. This total includes a valuation of \$220.6 million for the assets of the proposed Core subsidiary (ICC basis net book values as of September 30, 1979) and \$309.9 million estimated as the net liquidation proceeds of the Non-Core Assets pursuant to the Asset Disposition Program. The total Claims of creditors to be treated under this Plan is estimated at \$386.6 million but may be revised by any final settlement or adjudication of Claims either prior to or following the Consummation Date. For the reasons stated in Section 5 below, the Reorganized Company's equity cannot be determined at this time. The Reorganized Company may have available to it under the tax laws of the United States net operating carry forward losses estimated at over \$175 million.

Any claim for labor protection may be adequately satisfied by the absorption of labor into other railroad systems which have evidenced interest in an on-going operation of the Debtor's non-core rail properties. An estimate of any labor protection will emerge from the Trustee's on-going negotiations with interested railroads during January and February, 1980. Any claims by labor will be determined and treated in modifications to the Plan prior to Court's approval of the Plan. In the opinion of the Trustee, however, if a total liquidation of the Debtor's assets shall be approved and confirmed by the Court either under this Plan as modified or in any other plan which shall be confirmed, and no rail operations of the Debtor's properties shall have been initiated by the Reorganized Company, in such event there would be no claim for labor protection against the estate of the Debtor or the Reorganized Company.

The Trustee has concluded a study of a potentially viable Core. The results of the study are described in Appendix "A" to the Plan. Supporting financial data and work papers are separately bound as Appendix "B".* The Core is confined to the Debtor's rail system in Iowa with extensions to Chicago, Minneapolis, St. Paul, Omaha and Kansas City which includes 1934 road miles or approximately 27.6% of the present system.** The study indicates that the reduced system would operate over lines having the highest density of traffic when compared to the existing system and would employ a labor force of approximately 3200 or approximately 35% of the present system's labor force. It can be operated by the Trustee on an interim basis and on Consummation Date by a rail subsidiary of the Reorganized Company at a profit in its initial forecasted years of operation. It has favorable long term prospects as profitability increases in the forecast period and the reduced system achieves greater equipment utilization and balanced traffic flow. The Core has the ability to meet all of its expenses and fixed charges while substantially rebuilding its physical plant out of its self generated earnings.

**Appendix "B" accompanies the Plan and is filed with the Court. Copies will be made available to interested parties only upon request.*

***Commuter operations are not to be undertaken by the Core. Negotiations are on-going for the sale of the commuter properties to the Regional Transportation Authority.*

The attainable value of the Core as a rail operating subsidiary of the Reorganized Company depends, however, upon the ability of the Trustee to commence interim operations over the Core on March 3, 1980, the deadline set by the Interstate Commerce Commission for the end of directed service. The Core's earning potential as described in the Trustee's study and consequent on-going value to the Reorganized Company may only be realized so long as the Core's integrity is preserved for its operation as an integral unit. Fractionalization of the Core after March 3rd to other railroads for interim service could result in a decision under this Plan by its amendment to liquidate the separate Core parts for the account of the Reorganized Company. The alternatives to fractional sales of the Core assets are: (1) either an immediate sale of the Core as an integral unit to a single railroad desirous of making such an acquisition, or (2) interim service by the Trustee pending transfer of the Core to a rail subsidiary of the Reorganized Company. In the latter event, the Reorganized Company would have the flexibility of either continuing the rail operations of its subsidiary or liquidating its interest in that entity. An extension of directed service on the Core for its operation as a unit may be in the best public interest for a limited period after March 3, 1980 should additional time be needed to accomplish either a sale of the integral Core and interim service by the purchaser, or performance of interim service by the Trustee.

If the Trustee is to initiate service on the Core on the March 3rd cut-off of directed service, start-up capital of \$20 million will be required (see Appendix "A"). The only source of funding for such purpose would be under existing or emergency federal legislation with the Trustee to issue a certificate to the United States for such borrowing. The United States would acquire a first lien on all physical assets of the Core. This borrowing would be the exclusive obligation of the Core subsidiary of the Reorganized Company, repayable only out of the subsidiary's revenues from operations and with no charge or burden against any other asset of the Debtor, its Trustee or the Reorganized Company. The United States (Department of Transportation) may require a finding that the Core's assets and their potential earning power would be adequate to satisfy the limited proposed borrowing and that the public interest warrants the Core's operation in the Midwest rail system as a subsidiary of the Reorganized Company. This borrowing when approved by the Court would be treated as a Claim under the Plan.

The Trustee recognizes that the settlement of a retroactive pay issue aggregating an estimated \$11 million must be reached with his employees before any operation of the Core can be initiated by the Trustee. If the Plan as modified or amended shall include the operation of the Core as a subsidiary of the Reorganized Company, the Trustee proposes that the subsidiary shall pay the retroactive wages exclusively out of its revenues to all employees entitled thereto at August 28, 1979, under the formula established in the Core study. The obligation to pay retroactive pay, if any, shall be the exclusive obligation of the Core subsidiary of the Reorganized Company and shall not constitute a charge or claim against any other assets of the Debtor, its Trustee or the Reorganized Company. This obligation shall not be incurred, however, if a Plan or any other plan presented shall have been confirmed which does not include operation of the Core by a subsidiary of the Reorganized Company and the Core operations shall have been assumed partially or totally by other railroads. This contingent obligation is not included in the total of creditor Claims treated under this Plan.

The Trustee's Plan presents a flexible vehicle for reorganization encompassing either total or partial liquidation of the properties of the Chicago, Rock Island and Pacific Railroad Company. The direction which the proceedings will take shall

be determined by the Commission and the Court following comments to be made by public and private interests, at the earliest possible date preceding the Commission's March 3rd directed service deadline.

SECTION I

DEFINITIONS

For all purposes hereof, the following terms will have the meanings respectively set forth, unless a different meaning in a specific instance is clearly required by the context:

1.1 "Administration Claims": all Claims pertaining to the administration or operation of the Debtor's estate on and after March 17, 1975, or otherwise determined by the Court to be properly classifiable as administration claims.

1.2 "Asset Disposition Proceeds": the net cash proceeds received by the Reorganized Company as a result of the Asset Disposition Program, including, without limitation, all proceeds received from the operation (including, without limitation, lease) of the properties which are included within the Asset Disposition Program prior to such disposition after deducting costs associated therewith, proceeds from earnings on or sale of notes, bonds or other consideration received by the Reorganized Company upon such disposition or as a result of reinvestment of such proceeds, and net cash or cash equivalents, including accrued interest thereon, received by the Reorganized Company from the Trustee, whether on or after the Consummation Date.

1.3 "Asset Disposition Program": the program of the Trustee and the Reorganized Company to dispose of real estate, coal, rail and other properties.

1.4 "Bankruptcy Act": the Bankruptcy Statute of 1898, as amended to the date of the filing of the Plan with the Court.

1.5 "Certificates of Beneficial Interest": the Certificates of Beneficial Interest of the Reorganized Company described in Section 4.3 of the Plan.

1.6 "Claim(s)": claims against the estate of the Debtor as defined in Section 77(b) of the Bankruptcy Act.

1.7 "Claims for Equipment Rehabilitation": claims for repayment of funds advanced under equipment rehabilitation sponsorship programs.

1.8 "Claims for Track Work": claims for funds advanced under track work programs.

1.9 "Confirmation Date": the date fixed by order of the Court, as provided in Section 77(e) of the Bankruptcy Act, confirming the Plan.

1.10 "Consummation Date": the date on which legal title to the assets, claims and rights of the Debtor and the Trustee will be vested in or transferred to the Reorganized Company and the Rail Operating Subsidiary and the Reorganized Company will commence issuing or reserving for issuance the securities to be issued to creditors, claimants and the Stockholders of the Debtor as set forth in the Plan.

1.11 "Consummation of the Plan": the carrying out of all acts and procedures contemplated by the Plan, commencing with the Confirmation Dates.

1.12 "Core": the railroad system described in Appendix A hereto.

1.13 "Core Assets": all assets of the Core essential to operations of the Rail Operating Subsidiary.

1.14 "Court": the United States District Court for the Northern District of Illinois having jurisdiction in the reorganization proceedings of the Debtor.

1.15 "Debtor": Chicago, Rock Island and Pacific Railroad Company, a corporation organized under the laws of Delaware, in reorganization under Section 77 of the Bankruptcy Act in Docket No. 75 B 2697, pending in the United States District Court for the Northern District of Illinois, Eastern Division.

1.16 "Equipment Obligations": obligations secured by liens or encumbrances, in respect of equipment, including, but not limited to rolling stock under purchase order agreements, equipments trusts, conditional sale contracts and equipment leases or other similar agreements.

1.17 "New Common Stock": the common stock of the Reorganized Company described in Section 4.5 of the Plan.

1.18 "New Preferred Stock": the new preferred stock of the Reorganized Company described in Section 4.4 of the Plan.

1.19 "Non-Core Assets": all assets other than the Core Assets.

1.20 "Other Source Funds": any cash and cash equivalents available to the Reorganized Company from any sources other than Asset Disposition Proceeds.

1.21 "Other Trustee's Certificates": Any Trustee's Certificate hereafter issued.

1.22 "Plan" or Trustee's Plan": this Plan, filed with the Court by the Trustee pursuant to Section 77(d) of the Bankruptcy Act as it may from time to time be amended, modified or supplemented prior to the Confirmation Date.

1.23 "Pre-Bankruptcy Period": the period prior to the filing on March 17, 1975 of the petition for reorganization of the Debtor.

1.24 "Rail Operating Subsidiary": a Subsidiary which is vested with the Core Assets and shall operate the Core.

1.25 "Reorganized Company": the corporation (the present Chicago, Rock Island and Pacific Railroad Company with appropriate amendments to its articles of incorporation and bylaws) which is vested with all assets of the Debtor and its Trustee and which is the issuer of and obligor under the securities to be issued as provided by the Plan.

1.26 "Secured Debt": indebtedness of the Debtor secured by the liens provided for in the instruments referred to or otherwise described in Exhibit 3.

1.27 "Six-Months' Claims": all Claims, if any, as to which preferential treatment, as six-months creditors' claims, is claimed and as to which entitlement to priority status is established.

1.28 "Stockholder": the owner or owners at any time of the capital stock of the Debtor.

1.29 "Subsidiaries": companies in which more than 50% of the outstanding capital stock is owned by the Debtor's Trustee.

1.30 "Trustee" or "Debtor's Trustee": William M. Gibbons, as trustee, and not individually, of the property of the Debtor and any person or persons appointed or continued by the Court as successor to or in substitution of him or any of them.

1.31 "Trustee's Certificate due 1991": the debt instrument issued by the Trustee pursuant to Order No. 63 of the Court.

1.32 "Trustee's Certificate due 1993": the debt instrument issued by the Trustee pursuant to Order No. 162 of the Court.

1.33 "Trustee's Certificate due 1994": the debt instrument issued by the Trustee pursuant to Order No. 204 of the Court.

1.34 "Trustee's Certificates": Any debt instrument issued by the Trustee with the Court's authority pursuant to Section 77(c)(2) of the Bankruptcy Act.

SECTION 2

CLASSIFICATION OF CLAIMS AND OF STOCKHOLDER INTERESTS

For the purposes of the Plan, the classification of Claims and of the Stockholder interest in the Debtor is as follows, subject to such amendments respecting such classification as may be directed by the Court.

2.1 Administration Claims

Class A: Claims in respect of costs and expenses incurred in connection with the reorganization proceedings and the Plan, as may be allowed by the Court in accordance with the provisions of Sections 77(c) (2) and 77(c) (12) of the Bankruptcy Act.

Class B: Claims arising out of the Trustee's Certificate due 1991, including the Claim of the United States as guarantor.

Class C: Claims arising out of the Trustee's Certificate due 1993, including the Claim of the United States as guarantor.

Class D: Claims arising out of the Trustee's Certificate due 1994.

Class E: Claims arising out of Other Trustee's Certificates.

Class F: Claims arising out of the operation of the Debtor's estate on and after March 17, 1975, as set forth in Exhibit 1.

Class G: Claims of state and local authorities for taxes and related charges applicable to the period subsequent to the filing of the petition for reorganization of the Debtor as shown in Exhibit 2.

Class H: Claims of holders of Equipment Obligations.

Class I: Claims for Equipment Rehabilitation programs.

Class J: Claims for Track Work programs.

Class K: Claims for personal injury to or death of any individual and any other Claims found by the Court to be entitled to treatment as Administration Claims.

2.2 Pre-Bankruptcy Claims

Class L: Unsecured Claims entitled to priority, if any, other than those of the United States.

Class M: Claims of state and local authorities for taxes and related charges which became legally due and owing in respect of the Pre-Bankruptcy Period as shown in Exhibit 2.

Class N: Claims of holders of Secured Debt, as described in Exhibit 3.

Class O: Claims, if any, applicable to the Pre-Bankruptcy Period, other than Class M and N Claims, found by the Court to be secured.

Class P: Unsecured Claims of the United States, if any, entitled to priority.

Class Q: General unsecured Pre-Bankruptcy Period Claims as shown in Exhibit 4 hereto.

Class R: Claim of the Stockholder, as such.

SECTION 3

DESCRIPTION OF THE REORGANIZED COMPANY

For the purposes of convenience, simplicity and economy in carrying out the Plan and of continuity in the operations of the Debtor, the determination has been made to continue the existence of the Debtor as the Reorganized Company and the continued ownership of its Subsidiaries, one of which shall be the Rail Operating Subsidiary. It is intended that the present consolidated group will continue in existence with the Reorganized Company as the parent company. Dividend restriction provisions will be included in the articles of incorporation and by-laws of the Reorganized Company and the Rail Operating Subsidiary prior to Consummation Date. With respect to the Reorganized Company, the restrictive provisions will protect the redemption of the Certificates of Beneficial Interest and the New Preferred Stock provided for in the Plan. The provisions with respect to the Rail Operating Subsidiary will assure the adequate rehabilitation of the rail properties of the Rail Operating Subsidiary as outlined in the Core study (Appendices "A" and "B") and the payment by the subsidiary of obligations which it will assume.

Appropriate steps will be taken on or after Consummation Date to effect the transition to the Reorganized Company.

3.1 Capitalization of the Reorganized Company. The estimated equity capitalization of the Reorganized Company will consist of New Preferred Stock with a stated value of \$90.6 million and New Common Stock with a stated value of \$143.9 million. The Reorganized Company will also issue Certificates of Beneficial Interest as provided in the Plan equivalent in value to \$247.0 million. The Core subsidiary will assume obligations of \$49.0 million and its equity will be represented by common stock owned by the Reorganized Company.

The maximum amount of New Preferred Stock, New Common Stock and Certificates of Beneficial Interest to be issued in Consummation of the Plan will be determined at the Consummation Date or thereafter as shall be ordered by the Court.

3.2 Assets of the Reorganized Company. The Reorganized Company will be deemed vested with, and the beneficial owner of, all assets and claims of the Debtor and the Trustee existing as of the Consummation Date. All cash or other property held under instruments securing obligations of the Debtor, all collateral securing obligations of the Debtor and all segregated or special deposits or funds of any type held by the Debtor, by the Trustee, by The First National Bank of Chicago, as Indenture Trustee, or by any other person or in the registry of the Court will be delivered to the Reorganized Company on or as soon as practicable after the Consummation Date, free and clear of all liens and encumbrances of any kind or character, except as otherwise provided by order of the Court.

3.3 Discharge of Claims. All obligations incurred by the Trustee and all obligations of and Claims against the Debtor that are outstanding as of the Consummation Date and not otherwise provided for in this Plan, will be discharged.

SECTION 4

DESCRIPTION OF SECURITIES TO BE ISSUED BY THE REORGANIZED COMPANY

A distribution of cash and securities of the Reorganized Company will be made and certain claims assumed by its Rail Operating Subsidiary in full satisfaction and discharge of all Claims and Stockholder interests, as provided under Section 5 of the Plan.

The securities to be issued by the Reorganized Company and the debt instruments which will constitute obligations assumed by the Rail Operating Subsidiary will have the following general terms and provisions, the specific form and terms thereof (including security instruments and other applicable instruments) and the articles of incorporation (and other applicable corporate instruments) being such as may be approved by the Court prior to the Consummation Date.

4.1 Trustee's Certificates due 1993 and 1994 and Other Trustee Certificates. The Trustee's Certificate due 1993, the Trustee's Certificate due 1994, Other Trustee Certificates and all obligations relating to such certificates outstanding at the Consummation Date will be assumed as obligations of the Rail Operating Subsidiary only and will mature in accordance with their terms. Current interest

will continue to be paid as due and the principal as well as any accrued interest will be paid at or before maturity.

4.2 Claims for Equipment Obligations, Equipment Rehabilitation and Track Work. The Claims for Equipment Obligations, Equipment Rehabilitation and Track Work will continue as obligations of the Rail Operating Subsidiary only (except for those claims attributable to the non-core operations).

4.3 Certificates of Beneficial Interest. The Reorganized Company will issue in denominations of \$10, \$100, \$500, \$1000 and integral multiples of \$1,000, non-interest bearing Certificates of Beneficial Interest in six series: A through F as follows:

<u>Certificates</u>	<u>Class of Claim</u>	<u>Percent of Claim</u>
Series A	Classes B, F, G and K	100%
Series B	Class L	100%
Series C	Class M	100%
Series D	Classes N and O	50%
Series E	Class P	100%
Series F	Class Q	50%

The Certificates of Beneficial Interest will be payable pro rata and in alphabetical order of priority out of the Asset Disposition Proceeds and the Other Source Funds.

4.4 Preferred Stock. The Reorganized Company's articles of incorporation will authorize two classes of New Preferred Stock A and B. The two classes of Preferred Stock will be identical except that Class A will have preferential redemption, liquidation and voting rights as provided in Subsections (b), (d) and (e) below. The New Preferred Stock will have the following characteristics, rights and privileges, among others:

- (a) No dividends will be payable or will accrue on the New Preferred Stock;
- (b) The Class A New Preferred Stock will be redeemed in whole or in part at such time(s) as the Series D Certificates of Beneficial Interest become payable. Redemption shall be made out of the Asset Disposition Proceeds and the Other Source Funds in an amount equal to that payable with respect to Series D Certificates of Beneficial Interest.
- (c) The Class B New Preferred Stock will be redeemed in whole or in part at such time(s) as the Series F Certificates of Beneficial Interest become payable. Redemption shall be made out of the Asset Disposition Proceeds and the Other Source Funds in an amount equal to that payable with respect to Series D Certificates of Beneficial Interest.
- (d) The New Preferred Stock will not have a par value but will have a stated value. The Class A New Preferred Stock will have a liquidation preference and liquidation value equal to the liquidation preference and liquidation value of the Series D Certificates of Beneficial Interest. The Class B New Preferred Stock will have a liquidation

preference and liquidation value equal to the liquidation preference and liquidation value of the Series F Certificates of Beneficial Interest;

- (e) The Class A New Preferred Stock will have the right to elect a majority (six members) of the Board of Directors of the Reorganized Company until the mandatory redemptions required by Subsection (b) have been completed hereof. Thereafter the Class B New Preferred Stock will have the right to elect a majority (six members) of the Board of Directors of the Reorganized Company until the mandatory redemptions required by Subsection (c) have been completed. The Board of Directors shall thereafter be elected by the New Common Stock.
- (f) The New Preferred Stock will be convertible on a share-for-share basis at anytime into the New Common Stock at the option of the holder.

4.5 New Common Stock. The Reorganized Company's articles of incorporation will authorize one class of New Common Stock,

SECTION 5

TREATMENT OF CLAIMS AND OF STOCKHOLDER INTERESTS

The treatment of Claims and Stockholder interests will be as set forth in this Section 5, as recapitulated in the Summary of Exhibits (p. 19). For the purpose of such treatment, the assets of the Debtor (property dealt with by the Plan) are valued at a total of \$530.5 million. This includes a valuation of \$220.6 million for the assets of the Core subsidiary (ICC basis net book values at September 30, 1979) and \$309.9 million estimated as the net liquidation proceeds of the Non-Core Assets pursuant to the Asset Disposition Program which is presently under way by the Trustee. The total Claims of creditors are estimated at \$386.6 million but may be revised by updated information and by their final settlement or adjudication either prior to or following the Consummation Date. No accurate computation of the Reorganized Company's equity can be made at this time since it will be affected by various indeterminate factors such as the final results of the Asset Disposition Program, the final determination of Claims, the costs to the estate of directed service, and expenses incidental to the maintenance and preservation of the Non-Core Assets prior to their disposition.

5.1 Class A: Claims for Costs of Administration. These Claims will be paid in cash as provided by order of the Court.

5.2 Class B: Trustee's Certificate due 1991. This Claim will be satisfied both as to principal and any accrued interest by the issuance of one Series A Certificate of Beneficial Interest in a principal amount equal to 100% of the Claim.

5.3 Class C: Trustee's Certificate due 1993. The Rail Operating Subsidiary will assume the obligation of the Trustee's Certificate due 1993 and all obligations relating thereto as set forth in Section 4.1.

5.4 Class D: Trustee's Certificate due 1994. The Rail Operating Subsidiary will assume the obligation of the Trustee's Certificate due 1994 and all obligations relating thereto as set forth in Section 4.1.

5.5 Class E: Other Trustee's Certificates. The Rail Operating Subsidiary will be obligated on the Other Trustee's Certificates and all obligations relating thereto as set forth in Section 4.1.

5.6 Class F: Claims for Costs of Operation. These Claims will be satisfied in cash as shall be authorized by the Court prior to the Consummation Date, or upon the Consummation Date by the issuance of Series A Certificates of Beneficial Interest in a principal amount equal to 100% of the Claims. Any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series A Certificates will be cancelled, except that, if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series A Certificate.

5.7 Class G: State and Local Property Taxes. These Claims including any accrued interest will be satisfied in cash as shall be authorized by the Court prior to the Consummation Date, or upon the Consummation Date by the issuance of Series A Certificates of Beneficial Interest in a principal amount equal to 100% of the Claims. Any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series A Certificates will be cancelled, except that if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series A Certificate.

5.8 Class H: Equipment Obligations. The Rail Operating Subsidiary will be obligated on the Equipment Obligations as set forth in Section 4.2.

5.9 Class I: Claims for Equipment Rehabilitation. The Rail Operating Subsidiary will be obligated in respect to the Claims for Equipment Rehabilitation as set forth in Section 4.2 (except for those obligations attributable to the Trustee's non-core operations which are treated as Class F Claims).

5.10 Class J: Claims for Track Work. The Rail Operating Subsidiary will be obligated in respect to the Claims for Track Work as set forth in Section 4.2 (except for those obligations attributable to the Trustee's non-core operations which are treated as Class F Claims).

5.11 Class K: Other Administration Claims. These Claims will be satisfied in cash as shall be authorized by the Court prior to Consummation Date, or upon the Consummation Date by the issuance of Series A Certificates of Beneficial Interest in a principal amount equal to 100% of the Claims. Any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series A Certificates will be cancelled except that if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series A Certificate.

5.12 Class L: Unsecured Pre-Bankruptcy Claims Entitled to Priority These Claims will be satisfied by the issuance of Series B Certificates of Beneficial Interest in a principal amount equal to 100% of the Claims. Any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series B Certificates will be cancelled except that, if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series B Certificate.

5.13 Class M: State and Local Property Taxes. These Claims including any accrued interest will be satisfied by the issuance of Series C Certificates of Beneficial Interest in a principal amount equal to 100% of the Claims. Any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series C Certificates will be cancelled except that, if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series C Certificate of Beneficial Interest.

5.14 Class N: Secured Debt. These Claims including principal and any accrued interest will be satisfied by the issuance of Series D Certificates of Beneficial Interest in a principal amount equal to 50% of the Claims and by the issuance of Class A New Preferred Stock having a redemption value equal to 50% of the Claims. With respect to the issuance of Certificates hereunder, any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series D Certificates will be cancelled except that, if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series D Certificate.

5.15 Class O: Other Secured Claims. These Claims will be treated in the same manner as Class N Claims.

5.16 Class P: Unsecured Priority Claims of United States. These Claims will be satisfied by the issuance of Series E Certificates of Beneficial Interest in a principal amount equal to 100% of the Claims. Any remainder of less than \$10 of Series E Certificates will be cancelled except that, if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series E Certificate.

5.17 Class Q: General Unsecured Pre-Bankruptcy Period Claims. These Claims will be satisfied by the issuance of Series F Certificates of Beneficial Interest in a principal amount equal to 50% of the Claims and by issuance of Class B New Preferred Stock having a redemption value equal to 50% of the Claims. With respect to the issuance of Certificates hereunder, any remainder of less than \$10 of this amount which cannot be satisfied by issuance of Series F Certificates will be cancelled except that, if such remainder is \$5 or more, it will be satisfied by issuance of one \$10 Series F Certificate.

5.18 Class R: Stockholders of Debtor. The Stockholders interest will be treated by New Common Stock to be issued and delivered on the Consummation Date.

SECTION 6

EXECUTORY CONTRACTS

6.1 Assumption of Certain Executory Contracts. Certain executory contracts, described in an exhibit which will be filed with the Court prior to its approval of this Plan, will be assumed by the Reorganized Company or by the Rail Operating Subsidiary subject in each instance to the terms and conditions, if any, of any affirmation by the Trustee.

6.2 Treatment of other Executory Contracts. In accordance with the provisions of Section 77(b) of the Bankruptcy Act, all executory contracts of the Debtor, with the exception of those assumed in accordance with Section 6.1 of the Plan, are rejected as of the date of filing of the petition for reorganization by the Debtor.

SECTION 7

RESERVATION OF CLAIMS

All claims in favor of the Debtor and the Trustee not settled or determined prior to the Consummation Date will be assumed and enforced by the Reorganized Company. Any Claim against the Debtor or the Trustee included in a class provided

for in the Plan, which was not finally settled or adjudicated prior to the Consummation date and which is thereafter settled, determined, or adjudicated to be valid, will participate under the Plan in the same manner as if it had been finally adjudicated or otherwise liquidated prior to the Consummation Date. The obligation of the Reorganized Company to such claimants will be limited to their participation under the Plan. Such Claims against the Debtor or the Trustee will be defended, settled or compromised by the Reorganized Company as determined by its Board of Directors, subject to the continuing jurisdiction of the Court. Obligations which result from any such actions and which are not treated in the Plan will be obligations of the Reorganized Company.

SECTION 8

MANAGEMENT

8.1 Board of Directors. The Board of Directors will consist of eleven members as chosen from among the classes of new shareholders as indicated below.

	<u>No. of Directors</u>
Class A New Preferred Stock.....	6
Class B New Preferred Stock.....	3
New Common Stock.....	<u>2</u>
Total	11

The Court will on the Consummation Date select eleven directors in the above proportions from nominations submitted on behalf of the Class A New Preferred Stock by The First National Bank of Chicago, as Indenture Trustee of the Debtor's First Mortgage dated January 1, 1950, joined by the Intervenor Crown Interests; on behalf of the Class B New Preferred Stock by Continental Illinois National Bank and Trust Company of Chicago, as Indenture Trustee of the Indenture dated March 1, 1955, joined by the Intervenor Crown Interests; and on behalf of the New Common Stock by the Debtor's Board of Directors.

Until the Series D Certificates of Beneficial Interest have been paid, the directors of the Board shall following the Consummation Date continue to be chosen from among the new classes of shareholders as set forth in the above table. When such Certificates have been paid the directors of the Board shall be chosen from among the classes of new shareholders as follows:

	<u>No. of Directors</u>
Class B New Preferred Stock	6
New Common Stock	<u>5</u>
Total	11

Until the Series F Certificates of Beneficial Interest have been paid the directors of the Board shall continue to be chosen in this manner. Upon the payment of such Certificates the directors of the Board shall be chosen by the holders of the New Common Stock.

8.2 Board Committees. The Reorganized Company's by-laws will provide for standing committees of the Board of Directors.

8.3 Officers and Staff. The principal officers of the Reorganized Company will be full-time employees of the company, drawing their compensation from, and devoting their business energies to the Reorganized Company.

The staff of the Trustee will be available for employment with the Reorganized Company to assure no interruption of operations on the Consummation Date.

SECTION 9

PAYMENT OF EXPENSES AND OTHER ALLOWANCES

Prior to the Consummation Date, expenses of the Debtor's estate and allowances to the Trustee, his attorney and experts, and all other expenses of Consummation of the Plan, will continue to be paid in cash in the manner heretofore followed for payment of such expenses and compensation. All final expenses and allowances as may be allowed by the Court in accordance with the provisions of Sections 77(c) (2) and 77(c) (12) of the Bankruptcy Act will be paid by the Reorganized Company as provided by order of the Court.

SECTION 10

EXECUTION OF THE PLAN

10.1 Confirmation of the Plan. After approval by the Court of all provisions of the Plan, it will be submitted for acceptance or rejection in accordance with Section 77(e) of the Bankruptcy Act to the claimants in each class whose Claims (whether liquidated or unliquidated) have been filed and not disallowed, except that no such submission shall be made to the claimants in those classes found not entitled to vote by the Commission and affirmed by the Court.

If the Court finds that the Plan has been accepted in accordance with Section 77(e) of the Bankruptcy Act, or if the Court does not so find, the Trustee will request the entry by the Court of supplemental orders confirming the Plan and directing it to be consummated.

With respect to any class of claimants which is affected by and does not accept the Plan by the two-thirds majority in amount required by Section 77(e) of the Bankruptcy Act, adequate provision for fair and equitable treatment for the interests or Claims of the members of such class will be provided in the order of the Court confirming the Plan in accordance with the provisions of Section 77(e).

10.2 Reservation and issuance of securities. At the Consummation Date, the Reorganized Company will reserve for issuance, in accordance with the terms of the Plan, the maximum amounts of securities required to be issued by the Reorganized Company in accordance with such terms. Issuance and delivery of such securities will take place, from time to time, as soon as practicable after the Consummation Date upon the determination of the aggregate amount of Claims in the affected classes which are to receive such securities of the Reorganized Company. With respect to those securities which will be issued to claimants based upon the amount of the Claim, those securities will be issued on the Consummation Date to those claimants whose Claims have been finally adjudicated or otherwise determined and, from time to time thereafter to those claimants whose Claims are thereafter finally adjudicated or otherwise determined.

10.3 Consummation of the Plan. Upon entry by the Court of the order confirming the Plan, the Debtor will have the full power and authority to and will put into effect and thus carry out the Plan and the orders of the Court relative thereto, under and subject to the provision and control of the Court, the laws of any state or the decision or order of any state authority to the contrary notwithstanding. In the Consummation of the Plan and putting it into effect, the Trustee will act for the Debtor and the Reorganized Company until relieved of such functions by the Court. Following entry by the Court of the order confirming the Plan, the Trustee will take all steps as promptly as possible to complete the Consummation of the Plan and generally to wind up the reorganization proceedings. The Trustee will have full power and authority to take any and all steps deemed necessary or appropriate to effectuate or consummate the Plan, including, subject to the approval of the Court, sale of the assets of the Debtor and its Trustee or such other action as may be considered necessary or appropriate, to insure that all cash required for purposes of consummation of the Plan will be available when required. Subject to the terms of the Plan, and any applicable provisions of law, and the approval of the Court, the Trustee will determine provisions, covenants and terms to be omitted, added, changed, retained or substituted in the articles of incorporation and the by-laws of the Reorganized Company and the Rail Operating Subsidiary, all indentures, instruments and documents relating to securities to be issued in accordance with the Plan and all other papers, certificates and other instruments of whatever nature necessary or deemed by the Trustee appropriate to the Consummation of the Plan and any of the provisions thereof; and the Trustee will determine all forms, instructions, letters of transmittal and similar instruments to be employed in carrying out distributions under the Plan.

10.4 Employment of agents, etc. In the Consummation of the Plan, the Trustee may employ such agents, transfer agents, registrars, trustees, depositories, scrip agents, accountants, attorneys and others as he may deem necessary or desirable. The Trustee may from time to time delegate to others any power or discretion conferred upon him by the Plan.

10.5 Retention of jurisdiction by Court. The Court will retain jurisdiction over the assets dealt with by the Plan, and over any persons appearing in the reorganization proceedings, for the purposes of: determining any claims asserted by or against the Debtor or the Trustee; construing any order or the Plan; and carrying out and giving effect to any and all provisions of the Plan and the orders confirming the Plan, fixing terms of Consummation of the Plan and entering the final decree. The Court may cure any defect, supply any omission or reconcile any inconsistency

in such manner or to such extent as may be necessary or expedient in order to carry out the Plan effectively. On the Consummation Date, the reorganization proceedings will be terminated, and a final decree will be entered by the Court pursuant to Section 77(f) of the Bankruptcy Act discharging the Trustee and making such provisions as may be equitable, by way of injunction or otherwise, closing the case subject to the reservation of jurisdiction by the Court as provided in the Plan.

SECTION 11

MISCELLANEOUS

11.1 Property to be transferred free and clear of Claims. The property dealt with by the Plan, when transferred and conveyed to the Reorganized Company and the Rail Operating Subsidiary, shall be free and clear of all claims of the Debtor, its creditors and Stockholders and all other persons, unless otherwise specifically provided in the Plan, and the Debtor will be discharged from its debts and liabilities. The Court may require the Trustee, the Debtor, the trustees under any instruments securing an obligation of the Debtor, any mortgagee and all other proper and necessary parties, to make such transfers, releases or conveyances, and may require the Debtor to join in any such transfer, release or conveyance made by the Trustee, as may be necessary or expedient in the Consummation of the Plan.

11.2 Giving of notice. Whenever notice is to be given under the Plan, the Court will designate the time within which, the persons to whom, and the form and manner in which, such notice will be given. All such notices, unless otherwise specified, will be given by the Trustee.

11.3 Statement or explanation not warranty or representation. No statement or explanation contained in the Plan is to be considered as a warranty or representation or as a condition of acceptance of the Plan. Except with approval of the Court, no defect or error in the Plan will release any person accepting the Plan or affect or release any acceptance thereof or any action taken pursuant thereto.

11.4 Classification conditional on confirmation of Plan. The classification of claimants in the Plan and all statements contained in the Plan as to such classification are conditioned upon the approval and confirmation of the Plan. If the Plan is not approved or, if approved, is not confirmed, such classification and the proposed treatment will not be binding upon the Debtor or the Trustee and will be without prejudice to the rights of any third party in interest and of the Trustee; and no statement contained in the Plan will be deemed to be an admission as to the relative rights or interests of any claimant.

11.5 Books, Files, etc. The property to be transferred to the Reorganized Company and the Rail Operating Subsidiary under the Plan will include all books, files, records and other papers of the Debtor and the Trustee.

11.6 Issuance of securities. Upon entry of an order confirming the Plan, the Court will, without further proceedings, grant authority for the issuance of securities and the assumption of obligations to the extent contemplated by the Plan. The provisions of Title I and of Section 5 of the Securities Act of 1933, as amended, will not apply to the issuance, sale or exchange of the securities issued pursuant to the Plan.

11.7 Table of contents and section headings not controlling. The table of contents and the section headings contained in the Plan are for convenience only and will not control or affect the meaning or interpretation of the Plan or any of its provisions.

Dated: December 28, 1979

WILLIAM M. GIBBONS
Trustee of the Property of
Chicago, Rock Island and Pacific
Railroad Company, Debtor

NICHOLAS G. MANOS
Attorney for the Trustee
72 West Adams Street
Chicago, Illinois 60603

332 South Michigan Avenue
Chicago, Illinois 60604

SUMMARY OF EXHIBITS*

CLASSIFICATION OF CLAIMS AND OF STOCKHOLDER INTERESTS

Estimated to September 30, 1979

Class	Description	Supporting Exhibit	Estimated Liability	Estimated Interest	Estimated Total Claims	Treatment of Claims and Interests
Administration Claims						
A	Claims for Costs of Reorganization . . .		\$ 200,000	\$ -	\$ 200,000	To be paid as provided by order of the Court.
B	Trustee's Certificate due 1991		17,319,682	332,817	17,652,499	Series A Certificate of Beneficial Interest.
C	Trustee's Certificate due 1993		20,250,310	911,351	21,161,661	To be an obligation of the Core
D	Trustee's Certificate due 1994		1,780,000	6,138	1,786,138	To be an obligation of the Core.
E	Other Trustee's Certificates		-	-	-	To be an obligation of the Core.
F	Claims for Costs of Operation	1	113,896,054	-	113,896,054	Series A Certificates of Beneficial Interest.
G	State and Local Taxes - Property . . .	2	11,447,000	3,245,000	14,692,000	Series A Certificates of Beneficial Interest.
H	Equipment Obligations		6,244,460	-	6,244,460	To be an obligation of the Core.
** I	Claims for Equipment Rehabilitation . .		9,029,867	-	9,029,867	To be an obligation of the Core.
** J	Claims for Track Work		10,810,546	-	10,810,546	To be an obligation of the Core.
K	Other Administration Claims			(Unknown)		Series A Certificates of Beneficial Interest.
Pre-Bankruptcy Claims						
L	Unsecured Pre-Bankruptcy Claims Entitled to Priority			(None)		Series B Certificates of Beneficial Interest.
M	State and Local Taxes - Property . . .	2	6,650,000	3,274,000	9,924,000	Series C Certificates of Beneficial Interest.
N	Secured Debt	3	50,124,028	9,355,617	59,479,645	Series D Certificates of Beneficial Interest and New Class A Preferred Stock.
O	Other Secured Claims			(Unknown)		Series D Certificates of Beneficial Interest and New Class A Preferred Stock.
P	Unsecured Claims of U.S. Govt. - Priority			(None)		Series E Certificates of Beneficial Interest.
Q	General Unsecured Pre-Bankruptcy Period Claims	4	121,761,746	-	121,761,746	Series F Certificates of Beneficial Interest and New Class B Preferred Stock.
R	Stockholders of Debtor					New Common Stock
TOTAL			<u>\$369,513,693</u>	<u>\$17,124,923</u>	<u>\$386,638,616</u>	

* The figures stated in this Summary and in Exhibits 1 through 4 are based on the best information presently available to the Trustee. He reserves the right to revise any figures as to which new information becomes available.

**Claims in these Classes attributable to the Trustee's non-core operation will upon adjustment be included in Class F Claims.

CLAIMS FOR COSTS OF OPERATION
Estimated to September 30, 1979

Accounts payable - Interline	\$ 8,100,267
Wages	4,475,205
Vouchers	1,584,281
Unvouchered invoices	24,545,171
Payroll taxes, withholding and other deductions	1,887,847
Miscellaneous and unpaid drafts	198,720
Accrued Accounts Payable:	
Car repairs	5,600,000
Destroyed foreign equipment and wreck related expense	5,400,000
Material purchased but not invoiced	1,300,000
Joint facilities	4,600,000
Association expenses	200,000
Agents drafts - utilities, etc.	300,000
Destroyed leased equipment	300,000
Per diem mileage and other equipment hire costs	8,142,593
Accrued freight revenues payable	649,651
Casualty losses	25,902,909
Employees vacation liability	14,103,420
Miscellaneous	285,952
Prepaid freight charges	2,733,667
Other current liabilities	205,000
Accounts payable to affiliated companies	286,094
Pension and welfare liability	899,245
Deferred railroad per diem	904,418
Retained percentage due contractors	8,946
Deferred FRA claim payments	250,000
Unusual portion of cash advanced from the Cotton Belt	1,032,968
	<u>\$113,896,054</u>

Cl.

ESTIMATED STATE AND LOCAL PROPERTY TAXES
Estimated to September 30, 1979
(Dollars in Thousands)

<u>State</u>	<u>Class M</u> <u>(Pre Bankruptcy)</u>	<u>Interest *</u>	<u>Total</u>	<u>Class G</u> <u>(Post Bankruptcy)</u>	<u>Interest *</u>	<u>Total</u>
Arkansas	\$ 403	\$ 143	\$ 546	\$ 175	\$ 35	\$ 210
Colorado	198	67	265	194	35	229
Illinois	1,130	530	1,660	546	168	714
Iowa	1,684	1,018	2,702	1,500	582	2,082
Kansas	879	424	1,303	3,101	852	3,953
Louisiana	109	46	155	113	25	138
Minnesota	171	77	248	1,138	133	1,271
Missouri	454	258	712	1,561	520	2,081
Nebraska	36	14	50	142	38	180
Oklahoma	725	413	1,138	1,808	605	2,413
New Mexico	61	30	91	65	18	83
Tennessee	30	14	44	45	11	56
Texas	770	240	1,010	1,059	223	1,282
Totals	\$6,650	\$3,274	\$9,924	\$11,447	\$3,245	\$14,692

* The interest calculations are estimates based on the average interest rates used by major taxing entities in the various states.

SECURED DEBT
Estimated to September 30, 1979

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
First Mortgage Bonds ⁽¹⁾ , Series A, 2-7/8% Fixed, Due 1980	\$32,739,000	\$4,549,412 ⁽²⁾	\$37,388,412
First Mortgage Bonds, Series C, 5-1/2% Fixed, Due 1983	14,798,000	3,865,977 ⁽²⁾	18,663,977
Note Payable, Small Business Administration secured by pledge of First Mortgage Bonds, Series G, Due 1993	305,000	15,250	320,250
Note Payable, Union Pacific Railroad Company secured by pledge of First Mortgage Bonds, Series I, Due 2004	<u>2,282,028</u>	<u>924,978</u>	<u>3,207,006</u>
Total	<u>\$50,124,028</u>	<u>\$9,355,617</u>	<u>\$59,479,645</u>

(1) The First National Bank of Chicago,
Indenture Trustee.

(2) Motion for Declaratory Relief by the Indenture
Trustee seeking the accrual of additional inter-
est is pending before the Court.

**SCHEDULE OF TIMELY-FILED (1) GENERAL UNSECURED
PRE-BANKRUPTCY PERIOD CLAIMS PARTICIPATING IN
PROOFS OF CLAIM PROGRAM**

<u>Description</u>	<u>Net Claimed Amount (2)(3)</u>	<u>Estimated Net Claimed Amount in Dispute</u>
Material & Services	\$ 21,511,905	\$ -
Interline Freight Claims	1,172,135	34,842
Shipper Loss & Damage	3,370,697	332,740
Interline Overcharge	358,534	14,930
Shipper Overcharge Claims	1,693,253	-
Personal Injuries (4)	24,993,220	23,677,563
Property Damage	4,363,652	1,680,127
Taxes-State	238,072	-
Taxes-Local	128,917	38,396
Federal Taxes	2,486,390	3,083
Interline Switching	877,865	-
Per Diem & Mileage	2,634,475	1,326,054
Private Car Line Mileage	672,520	-
AAR Car & Trailer Repair	6,543,741	-
Junction Settlements	80,370	52,512
Income Bonds	50,636,000	-
TOTALS	\$121,761,746 (5)	\$27,160,247

- (1) Late filed claims are not shown on this schedule.
- (2) The category Net Claimed Amount is adjusted to eliminate certain foreign Claims (Canadian) that were satisfied, Claims voluntarily or involuntarily withdrawn, certain duplicative Claims, and certain guarantee Claims where disaffirmance of a contingent liability is deemed to result in no liability for damages.
- (3) Excludes any interest claimed.
- (4) These claims were not afforded a cost of administration status at the March 17, 1975 filing date of these reorganization proceedings and were included as general unsecured claims under the proofs of claim program approved by the Court. The Bankruptcy Reform Act of 1978 now expressly affords such claims cost of administration standing. The Trustee will initiate a petition for the Court's instruction relative to the final classification of these claims.
- (5) Includes \$19,663,906 Class L Claims which the Trustee does not acknowledge as being entitled to priority. Six Months' Claims are included in Class L.

#2-525
Dis.

Appendix "A"

TRUSTEE'S CORE STUDY

Dated: December 21, 1979

"APPENDIX A"
TRUSTEE'S CORE STUDY

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TRUSTEE'S CORE STUDY

I

INTRODUCTION

Line segment studies by the Trustee and Peat, Marwick Mitchell and Company ("PMM") had been in progress at the date the Interstate Commerce Commission ("ICC") ordered directed service. The objective was to determine the identity, if possible, of a viable core within the Debtor's ("Rock Island") system. Time and financial constraints rendered completion of the studies unfeasible and PMM as the Court's independent witness was ordered to confine its study to the Core which the Trustee on October 10, 1979 had preliminarily identified as having the greatest earnings potential.

Among the factors that went into the selection of the Core were:

- Traffic density
- Unsatisfied demand
- Rehabilitation costs
- Previous studies of other lines and cores
- Industrial development potential
- Divisions of revenue
- Major traffic corridors

One of the major problems involved in the operation of the entire Rock Island system has been a lack of sufficient overall traffic density. The higher density lines subsidized the lower density segments. The Core minimizes this problem by including most of the highest density segments. For example, the Chicago to Quad Cities (Moline, East Moline, Rock Island and Davenport) segment handles approximately 20 million gross tons per mile ("GTM") annually. Conversely, the lines south of Herington handle only 13 million GTM and the Denver line handles only about 7 million GTM.

Of additional importance is the fact that the tonnage flows on the Core are more evenly balanced than they are on the non-Core lines. The most unfavorable imbalance on the Core occurs north of Des Moines where approximately 57 percent of the tonnage moves south with only 43 percent moving north. The non-Core lines have a much greater imbalance. For example, south of El Reno 70 percent of the tonnage moves south versus only 30 percent northbound. This imbalance significantly increases costs by creating crew imbalances and poor utilization of locomotives.

Also of importance is the high volume of unsatisfied demand on the Core. There exists in the Core territory a large demand for jumbo covered hoppers, gondolas, fifty foot boxcars and flat cars. Because of equipment shortages in the Core, the Trustee has never been able to fully satisfy customer demands. The Core was chosen with the objective of maximizing the earnings of the equipment presently allocated to the non-Core lines, i.e., this equipment will be used to satisfy the unfulfilled demand on the Core and thus increase its traffic density. The Core concentrates its assets to the maximum extent possible thereby increasing density

and exploiting economies of scale.

The selection of this Core maximizes the return on each rehabilitation dollar considering the fact that 47 percent of the entire 1978 revenue is generated in the operation of 27.5 percent of the system's route miles.

Previous studies made of the Rock Island system had a significant influence on the determination of the Core. These studies indicated that a core railroad which included the lines to Houston and Denver in addition to the present Core would barely break even under the most optimistic assumptions. The reasons for this lack of profitability included insufficient freed up equipment to increase significantly traffic density, continued imbalance of traffic flows and a high rehabilitation cost relative to the level of traffic.

While the factors discussed above played the dominant role in the selection of the Core, other factors were pertinent. The industrial development potential of the Quad Cities area, Des Moines and along the Illinois River were an important consideration. While this territory has not generated the publicity and does not have the climatic advantages of the "Sunbelt" area, nonetheless it has shown impressive growth over the last few years.

Another consideration was the revenue division north of Kansas City on through movements. Divisions on grain are significantly higher north of Kansas City than they are to the south. The northern carrier earns more revenue per mile than the carrier which handles grain south of Kansas City. This same disparity does not exist on merchandise traffic, divisional arrangements slightly favoring the southern carrier. In the aggregate, however, given the dominance of grain moving over Kansas City, the balance in divisional arrangements favors the Core.

Lastly, the Core includes three major traffic corridors:

- Chicago to Omaha.
- Chicago to Kansas City
- Twin Cities to Kansas City.

Large volumes of traffic flow over each of these corridors annually giving the Core an important opportunity to compete for this business.

II THE STUDY ANALYSIS

A. Description of the Core

The Core consists of the following lines as shown in Exhibit "A":

- Chicago to Omaha.
- Twin Cities to Kansas City.
- Bureau to Peoria.
- Major branch lines in Iowa, Minnesota, Kansas, and Illinois.

Certain lines in the territory served by the Core have been omitted primarily because the traffic level is not high enough to justify the rehabilitation cost. Lines that have been excluded from the Core for this reason are:

- Cedar Falls to Manly.
- Columbus Junction to Centerville.
- Pella to Keokuk.
- Certain small branch lines.

The Core consists of 1,934 miles of road or 28 percent of the present 7025 route mile Rock Island system. The mileage is broken down as follows:

Solely-owned miles of road	=	1,695
Trackage rights miles of road	=	180
Jointly-owned miles of road	=	59
Total		<u>1,934</u>

B. Revenue Forecast

The revenues and expenses of the Core were analyzed and profit and loss statements prepared as shown in Exhibit "E".

The methodology used a base period, 1978, adjusted to Core operations in 1980 and to forecasted levels for 1985. The base year 1978 is the most recent year for which a full year's traffic data are available. All revenues and expenses in Exhibit "E" are expressed in 1978 dollars.

This method used to develop the base year carload, revenue, and density data is one that the Trustee has used extensively in prior line analysis studies and in the preparation of testimony for ICC hearings on the sale of the Tucumcari and St. Louis lines to the Southern Pacific. The first step involves the segmentation of the 1978 traffic data into a number of homogeneous traffic flows. In this study the Rock Island system was divided into 26 segments, 18 of which are on the Core. The flows between each of these segments were sorted into over 100 reports which showed for each movement: origin and destination city and state, commodity, on and off junctions, origin and destination railroads, total revenue, Rock Island revenue, tonnage, carloads, transit and TOFC plan indicators. (see p. 45)

The second step was a review of each movement by the Regional Sales Managers ("RSM") to determine whether it would be kept by the Core and, if so, how much would be retained and over which gateway. A copy of the instructions given to the RSM's is included as Exhibit "B" (consisting of 12 pages). Each RSM evaluated the traffic which originated in his territory. In cases where the consignee controlled the routing the destination RSM was consulted.

All the decisions made by the RSM's were reviewed by the Trustee's General Sales Manager ("GSM"). He checked for consistency, completeness and coding errors, and initialed his review.

The third step was to compute the divisions over the Core gateways. This was necessary since the Core is substantially smaller than the present Rock Island system and will make greater use of the Kansas City and Omaha gateways as opposed to Tucumcari and Denver. The revised divisions were calculated by the Trustee's Pricing Department personnel and this information was then processed to produce the revenues of the Core.

The fourth step was the demand traffic analysis process. It was necessary for two reasons. First, there has been a substantial unfulfilled demand on the Core

due to car shortages. Second, the non-Core portions of the Rock Island system load a significant number of freight cars which the Core will no longer be obligated to furnish. The equipment freed from the non-Core lines would be used to satisfy the demand on the Core and for off-line pools in which the Core would participate.

The demand and potential uses for this equipment were developed through an equipment pool questionnaire. Each RSM was asked to estimate:

- the number of cars bad order in each pool assignment.
- the continued need for such an assignment.
- the potential added traffic that could be developed if more cars were assigned.
- the desirability of establishing new pools not presently existing.

For each new or added car assignment the RSM showed the potential origins and destinations, commodity, route information and an estimated annual volume of carloads. The Pricing Department took this information and when necessary developed the Core revenue. The demand traffic analysis produced an additional 45399 carloads a year which were added to the previous retained traffic data base to determine the total number of carloads for 1980.

The 1985 traffic level is based on a forecast prepared by PMM as part of the study of the Core it is conducting for the Court. The PMM forecast is based on U.S. Government OBERS Projections which are produced by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce and the Economic Research Service (ERS) of the U.S. Department of Agriculture. PMM has estimated that the base level retained traffic will increase 21 per cent by 1985 and the demand analysis traffic will increase 8 per-cent. The Trustee used these projections without modification.

Both PMM and the Trustee made one addition to the 1985 traffic level. Beginning in 1982, a new coal-burning electric utility will begin operation on the Core near Muscatine, Iowa. The traffic level in 1985 was increased by 14,286 cars as a result of this new plant. Both PMM and Trustee agree that the traffic volume of this plant should be added to the normal coal growth contained in the base projection.

The table below compares the carloads and freight revenue of the 1978 Rock Island system with the Core in 1980 and 1985. The revenue shown is that used in the ICC Quarterly Commodity Statistics (QCS) which are reported on a quarterly and annual basis. The freight revenue shown on the income statements (Exhibit "E") is lower because certain expenses such as absorbed switching and piggyback pickup and delivery charges are deducted from the QCS revenue to conform with ICC income statement reporting requirements. All revenue and expense figures used in this study are expressed in 1978 dollars. No attempt was made to use current dollars since this would require forecasts not only of changes in operating costs but also in freight rates.

Comparison of Carloads and Freight Revenue

	<u>Rock Island System 1978</u>	<u>1980</u>	<u>Core 1985</u>
Carloads	715,301	415,115	509,282
QCS Revenue	\$381,844,989	\$177,883,340	\$217,048,866
Revenue Per Car	\$ 534	\$ 429	\$ 426

In 1980 the Core will retain 58 per cent of the carloads handled in 1978 and 47 per cent of the revenue. The revenue retention is lower because the average haul decreases from 410 miles in 1978 to 282 miles in 1980. By 1985 the carloads will increase by 94,167 to 509,282. This is an annual growth rate of 4.17 per cent. By 1985 Core freight revenue will be \$217,048,866, an increase over 1980 of \$39,165,526 or 22 per cent. This produces an annual growth rate of 4.06 per cent.

The table below shows the traffic density for the Core in 1978, 1980, and 1985. For all segments except Des Moines to Council Bluffs there is a decrease in density for 1980 reflecting the diversion of traffic away from the Core but all cases the density in 1985 exceeds 1978 levels, in some cases by a very significant margin. The Des Moines-Council Bluffs segment does not show a decrease in 1980 because the RSM's expected to divert tonnage over this gateway in lieu of other gateways.

Gross Ton Miles for Major Segments

	(000)			
	<u>1978</u>	<u>1980</u>	<u>1985</u>	
Chicago-Silvis	22,580	22,322	26,812	
Des Moines-Council Bluffs	8,756	9,288	11,555	
Des Moines-Iowa Falls	7,950	6,839	8,007	
Trenton-Kansas City	13,632	11,835	13,633	
				1980 1985
				= 4.85 5.28

C. Equipment Requirements

The table below compares the present freight car and locomotive fleets with the Core requirements in 1980 and 1985. Exhibit "C" provides a summary of the freight car requirements by car type.

	<u>Present Fleet 1978</u>	<u>Core Fleet 1980</u>	<u>1985</u>
Freight Cars	27,139	23,609	17,146
Road Locomotives	463	166	157
Switch Locomotives	143	69	69

The freight car fleet of the Core will decline from 23,609 cars in 1980 to 17,146 cars at the end of 1985. The Core will assume all of the freight car leases of the Trustee. In the early years of operation, this results in a sizeable surplus of equipment that is not needed for loading on the Core or for assignment to off-line pools. This surplus equipment will either be used by those carriers who take over the non-Core lines and who are expected to have a significant demand for equipment or it will be used in the general freight car fleet. In the pro forma income statements it has been assumed that these cars will generate their normal per diem revenue. This is a conservative assumption because the rapid escalation of new freight car prices has made it possible to sublease used freight cars at rates that are above their per diem earnings.

The decline in the freight car fleet from 1980 to 1985 reflects both the expiration of leases during this period and the attrition rate of cars due to age and unreparable damage. By the end of 1985, over 50 percent of current freight car leases will have expired which causes a significant reduction in the fleet size. The annual attrition rate is expected to be 2.5 percent.

The large number of lease expirations results in shortages of certain types of cars during the period. By the end of 1985 the Core will have to acquire 3,356 cars, primarily small and jumbo covered hoppers to satisfy the demand for on-line loadings. The study assumed that these cars will be leased rather than purchased. Exhibit "D" shows the type and quantity of cars that will be needed in 1985.

D. Operating Plan

The operating plan of the Core was based on the traffic projections discussed previously. When the traffic projections are summarized, the outputs include estimates of the number of loaded and empty cars, gross tons, and gross ton miles over each subdivision. Using these data, each segment of the Core was analyzed to determine the number of through trains and the level of local and yard services required to handle that volume. Through train requirements were based upon an optimum train size of 75 cars in most instances, with the maximum train length over each segment varying according to siding capacities, frequency of meets required and other operating conditions.

Train running times were based upon track conditions that will exist at the commencement of Core operations with improvements to be made over a 5-year period consistent with the track upgrading program. For all main-line segments except between Peoria and Bureau there are at least two trains a day in each direction.

Locomotive requirements were based upon a horsepower per ton ratio of 1.0 over all segments except Silvis to Council Bluffs where a ratio of 1.5 was used. These are conservative H.P./T ratios based upon our plan to operate basically a 40 MPH railroad with the most efficient practicable fuel usage. In each case where application of the desired HP/T ratio produced a fractional number of units over .3, the next higher whole number of units was utilized in determining power requirements. Excess units required to cover units in shop were estimated based in part on the layover time available in each cycle.

Yard service requirements were based upon significant changes in blocking permitted by the restructuring of the Rock Island system. It is apparent that the compact Core permits a substantial reduction in yards at which blocking must be performed while simultaneously allowing more efficient blocking with a consequent reduction in delays to traffic at intermediate terminals.

The number of locomotives required for yard and local services was based on the requirements to handle the anticipated volume of traffic plus an adequate surplus to cover units in shop. The Core includes a number of locations which require one-trick switch engine service detracting from efficient locomotive utilization but necessary for adequate service.

Transportation expense estimates were developed using cost factors and ratios developed from the Trustee's responsibility accounting system applied to the predicted units of production, such as train miles and switch engine hours. Detailed yard studies were made at Des Moines, Silvis, and Blue Island. Core station clerical expense was assumed constant at the 1978 level.

E. Rehabilitation Requirements

Rehabilitation expenses fall into three major categories:

Track	- \$ 91.5 million
Freight Cars	- 8.5 million
Locomotives	- 25.3 million
	<u>\$125.3 million</u>

1. Engineering

The rehabilitation requirements for the track structure and the normalized maintenance expenditures shown in the income statements are based on certain key assumptions:

- Mainlines will be operated at 40 MPH. (50 MPH Chicago - Omaha)
- Branch lines will be operated at 25 MPH.
- Tie life is at estimated - 35 years.
- Rail life is at estimated - 60 years.
- 25% of the yard tracks will not be necessary because of reduced blocking requirements.
- Double track will be eliminated wherever possible.

Given these assumptions, the normal track maintenance program must first be treated. The reason for this is that a defective tie or rail that is replaced as part of normal maintenance will last its standard lifetime and reduce the amount of work that must be done under a rehabilitation program. One cannot be treated without the other.

The annual track maintenance program is designed to accomplish the following:

- Install 175,000 cross ties.
- Install 160,000 cubic yards of ballast.
- Install 60 new turnouts per year.
- Install 36 miles of new welded rail per year.
- Cascade at least an additional 70 miles of relay and second-hand rail per year.
- Maintain signals, control weeds, etc.

The normalized maintenance budget of \$24.4 million provides for all of the above-mentioned work on an annual basis and thus will take care of a substantial portion of the deferred maintenance. The Trustee estimates that \$4 million per year of the normal maintenance program will be applied to rehabilitation work.

The total rehabilitation estimate for the Core is \$91.5 million. Of this, approximately \$19.6 million will be included in the normal track maintenance program. The balance of \$71.9 million will be expended in special programs. The major components of this program are:

Tie, surfacing, and rehabilitation-mainline:	\$42.0 million
Yard Rehabilitation:	18.4 "
Rail laying:	8.6 "
Second-hand rail recovery:	2.9 "
Total	\$71.9 million

During the five-year rehabilitation period, segments which now include two main tracks will be reduced to single track with adequate siding and auxiliary trackage. No plans have been made for modifying the existing segments of CTC (Centralized Train Control) other than is necessary for the conversion from double to single track. Several segments of non-Core track are equipped with CTC and depending upon the final disposition of such segments it may be possible to use that material for additional CTC installations on the Core.

2. Mechanical

As in the case of engineering, the normal mechanical budget relative to the rehabilitation of freight cars and locomotives must first be treated. This annual budget includes: repair of an estimated 675 heavy bad order cars (generated in the first year); 14 locomotive heavy overhauls per year; and the day-to-day running and light bad order repairs. The annual budget reduces from \$35.0 million in 1980 to \$27.5 million in 1985, reflecting the effect of the track rehabilitation program on derailments and accident damages as well as the reduction in the size of the car fleet. The budget is geared to a level that should preclude the freight car heavy bad order ratio from exceeding 5 percent.

Normal locomotive repairs and the heavy overhauls will be handled at the Silvis shop. The out-of-service rate should not exceed 12 percent.

As part of the rehabilitation program, an estimated 1375 currently bad order freight cars will be repaired. The estimated cost of these repairs is \$8.5 million based upon the repairs being done at the Little Rock and El Reno facilities. Should this work be done elsewhere, adjustments to cost may be made.

The locomotive rehabilitation program involves the rebuilding of 42 switch engines and 41 road units at a cost of \$25.3 million. This work will be performed at the Silvis locomotive shops.

F. Labor

The Core will employ 3209 employees of which 437 will be management personnel and 2772 contract. This does not include labor for rehabilitation programs which may require several hundred additional people.

If the Core is operated as the Rail Operating Subsidiary of the Reorganized Company as provided under the Trustee's Plan, the Core will pay the retroactive wage increases estimated to be \$11 million as hereinafter described. The Core, however, cannot bear the burden of these payments at the onset of operations since it will be utilizing its internally generated funds to eliminate critical slow orders and to begin the rehabilitation programs so as to enable the Core to reach its earning potential.

The Trustee therefore proposes that the Core pay the retroactive wages based on the following formula. No payments will be made for the first twenty-four months of operation. Commencing with the twenty-fifth month, in any month where the net income before taxes exceeds \$500,000 (ICC accounting basis), the Core will apply earnings in excess of \$500,000 and up to a maximum monthly payment of \$500,000 in reduction of the estimated \$11 million retroactivity. No interest shall be payable with respect to retroactivity. Based on the earnings projections for the Core, this formula could result in the complete payment of the retroactive wages, by the end of the fifth year.

III

RESULTS OF THE STUDY

The study reaches the conclusion that the Core is viable, projecting a net income of \$6.7 million and a cash flow of \$18.7 million in 1980. In 1985, the net income will be \$27.3 million and the cash flow is \$38.5 million. Exhibit "E" is the pro forma income statement for the years 1980 and 1985. The notes and work papers supporting the income statements are included in Volumes I and II of separately bound Appendix "B". Time constraints have prevented the preparation of income statements for the intervening years 1981-1984 but it is expected that they will reflect profitability. These will be developed at a later date but will not affect the results.

In 1980, the net income is derived principally from per diem earnings. The net revenue from operations is only \$3.1 million and the Net Railway Operating Income is \$21 million. This latter figure reflects the excess of per diem earnings over the lease expense of the freight car fleet.

By 1985, the character of the Core changes substantially. Operating revenues increase by \$38 million, or 20 percent. Operating expenses increase only \$2.8 million, or 1.6 percent. The Net Revenue from Operations, however, increases from \$2.8 million to \$39.3 million. The decline in the freight car fleet caused by lease expirations and attrition coupled with the need to lease new equipment at current market prices reduces significantly the influence of off line per diem earnings as net income. The Core in 1985 generates substantially all of its income from operations.

The following major assumptions were used in the development of the income statement.

- All revenue and expense figures are expressed in constant 1978 dollars.
- Passenger revenues, expenses, grants and subsidies have been included because of the difficulty of separating certain joint costs. This does not affect the income statement because the passenger service operates at a break-even level.
- All present Rock Island system freight car leases will be assumed by the Core.
- The Core will pay property taxes on all Core properties.
- The Southern Pacific will own and operate Armourdale Yard at Kansas City. The Core will be a tenant of the SP.
- The earnings from the affiliated companies as shown in the 1978 R-1 Statement have been included in "Earnings of Affiliated Companies".
- Trustee's Certificates due 1993 and 1994 have been assumed as obligations of the Core and their debt service is included in fixed charges. Debt service on the \$17.3 million in the Trustee's Certificate due 1991 for track work is not included since that obligation is not assumed by the Core as is discussed in more detail in the Trustee's Plan.
- No provision is made for debt service on any start-up capital requirement.
- No provision is made for labor protection since no significant claim is anticipated relative to the Core's operations. (The Trustee's Plan addresses labor protection in its Introduction at Page 3).
- No provision is made for the payment of retroactive wages that may be due certain employees. Retroactivity, if any, will be paid according to the formula discussed earlier.

The total rehabilitation expense is estimated at \$125.3 million. Of this total, \$19.6 million will be spent over the first five years as part of the normal engineering expenses. The balance must be either generated internally or provided from an outside source. In 1980, the study indicates a cash flow of \$18.7 and in 1985, \$38.5 million. It is reasonable to expect that the rehabilitation program can be funded from the internally generated cash flow within the forecast period.

Due to revenue lag, the Core will require funds for start-up costs. This is estimated to be \$20 million which will cover five weeks of operation.

#

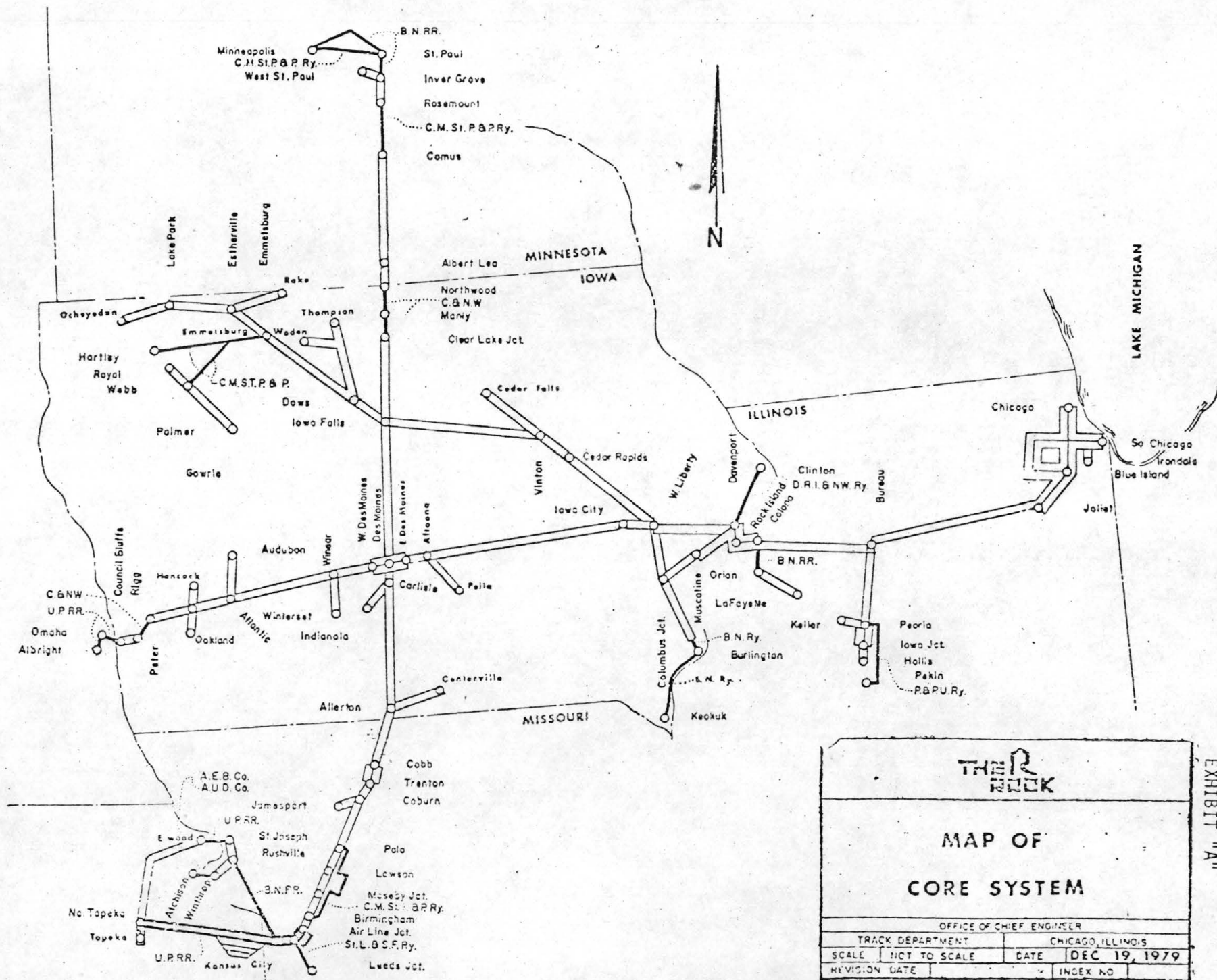


EXHIBIT "A"

TRUSTEE'S CORE STUDY
TRAFFIC DIVERSION ANALYSIS
REGIONAL SALES MANAGERS' INSTRUCTIONS

PREFACE

The instructions contained in this booklet must be studied and followed meticulously so that the information and evaluations will be accurate, complete, consistent and suitable for submission to the Federal District Court.

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I - Introduction

II - Diversion Coding Instruction

operating requirements, provide the fundamental data for the budgetary process, and create an operating plan. Mechanical and Engineering will also use the results of the analysis to develop their projected activities. The information will also be used in developing the financial statements and equipment requirements.

II - DIVERSION CODING INSTRUCTIONS

All instructions must be strictly followed to insure complete and proper data compilation. Since your diversion decision will be keypunched directly from the evaluation report, legibility is paramount. Sample of the evaluation report format is attached as Exhibit III.

For all diverted movements, the following items must be completed:

1. Reason Code - Determine the reason for the diversion from the list provided in Exhibit II. For records which are subject to a diversion, enter the appropriate two-digit reason code, i.e., 01-99, to the right of the word CODE on the sequence number line. The Standardized Merger Information System allows flexibility in the assignment of reason codes. The system has the capability of assigning unique reason codes for any diversion analysis. If the person performing the evaluation deems that a condition merits a new reason, the associated code must be approved and assigned.
2. Diversion Code - Determine the degree of diversion based on the codes listed in Exhibit II. Immediately to the right of the reason code and to the left of the sequence number, enter the appropriate one-letter diversion code.
3. Rte. Information - Enter on the sequence number line directly under the appropriate route heading any changes in the route. The route changes must be coded in accordance with the Rule 260 Junction and Railroad abbreviations which will be furnished separately.
4. R.S.M. Initials - Any diversion or route change must be initialed by the

On October 10, the Federal District Court ordered the Trustee to prepare a plan of reorganization. This study will form the cornerstone in the evaluation being made to determine the viability of the core system proposed by the Trustee on October 10. Exhibit I is a map which defines the lines and facilities encompassed by the proposed core system.

For the purposes of your evaluation, assume the following dispositions with regard to noncore lines:

- . Tucumcari to St. Louis - Sale to the Southern Pacific
- . Denver - Colorado Springs to Council Bluffs and McFarland - Sale to the
DRGW
- . Lines Herington and South - to be sold to undefined third parties or abandoned.

Portions of the core may be operated by the states or local short-line operators.

The lines which are included in this category are:

- . Stations between Columbus Junction and Centerville
- . Pella to Keokuk
- . Vinton to Manly

Assume the following operating conditions:

- . Main through routes to be maintained at at least a 40-MPH standard (Class 3).
- . Branches and feeder routes to be maintained at at least a 25-MPH standard (Class 2).
- . Yard to be maintained at at least a 10-MPH standard (Class 1).

This evaluation is based on the total 1978 Freight Revenue Settlement File. The results of your analysis will be used to determine the traffic composition of the residual ROCK. The information will then be used by Operations to project

party making the evaluation to comply with ICC Ex Prte 282 Railroad Consolidation Procedure. Enter your initials to the right of the the number of miles (MLS).

Upon completion of each individual's review of the particular report, the checkoff procedure form should be filled out (Exhibit IV). All participants must sign each checkoff form. The checkoff form is located at the beginning of the report. When all individuals have signed the form, the report will then be approved by a designated traffic officer.

EXHIBIT I

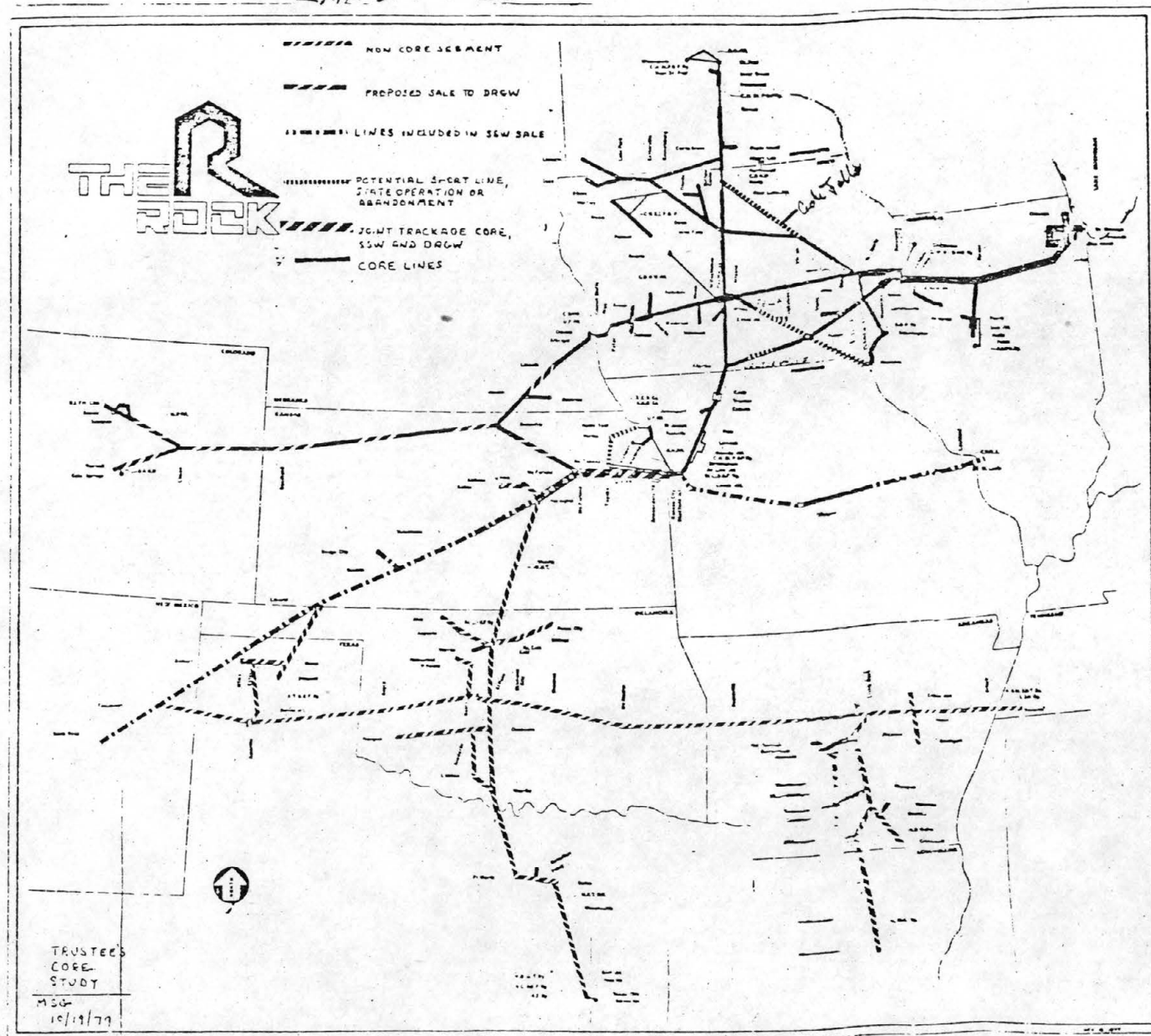


EXHIBIT II

DIVERSION REASON CRITERIA AND PERCENTAGE LOSS

Regional Sales Managers' Evaluation of Traffic
Affected by SP Proposal 1/3/77

If routing is changed but ROCK is retained in portion of route:

Reason Code.	Reason
02	Origin Routing Control
03	Destination Routing Control
04	Potential Single Line Haul
05	Improved Car Supply
06	Creation of New Interchange Junctions
07	Loss of Transit Control
08	Increased Solicitation
09	Corporate Routing Control
10	Improved Service

If routing is changed but ROCK is complete out of route:

22	Origin Routing Control
23	Destination Routing Control
24	Potential Single Line Haul
25	Improved Car Supply
26	Creation of New Interchange Junctions
27	Loss of Transit Control
28	Increased Solicitation
29	Corporate Routing Control
30	Improved Service

Diversion Code	Percentage Lost
A	100% Loss
B	75% Loss
C	50% Loss
D	25% Loss
E	0% Loss

EXHIBIT II (Continued)

DIVERSION REASONING

Reason Code	Reason
02	Origin Routing Control
03	Destination Routing Control <p>There is more opportunity to influence traffic if the shipper or receiver routing the traffic is located on the study lines or at local station on study lines.</p> <p>Traffic originating on one of the study lines can be influenced more easily than terminating traffic.</p> <p>Both originating and terminating traffic can be influenced more easily than overhead traffic.</p> <p>Traffic originating or terminating on other roads at points served by one of the study lines would be subject to such solicitation if the industry is also served by one of the study lines and to a lesser degree if the industry is only reached through reciprocal switching.</p>
04	Potential Single Line Haul <p>When geographic location of origin and destination station or interchange points would create a single line haul for one of the study lines.</p>
05	Improved Car Supply <p>Availability of equipment, particularly of specialized equipment would aid solicitation in some instances.</p>
06	Creation of New Interchange Junctions <p>The loss of traffic can be greater when a new interchange junction becomes available to the study line, making other carriers accessible to study line.</p>
07	Loss of Transit Control <p>Can be effected by study line no longer serving station or station can be a rate break point and also served by both study lines.</p>
08	Increased Solicitation <p>Study line will have greater budget for large sales force than other study line.</p>

EXHIBIT II (Continued)

- 2 -

<u>Reason Code</u>	<u>Reason</u>
09	<p>Corporate Routing Control</p> <p>Some shippers follow the practice of dividing traffic on a pro-rata basis among lines serving a specific plant, while others allocate revenue on a regional or national basis. These policies could result in changes in the amount of traffic handled under control with the advent of an additional carrier to a station or region.</p>
10	<p>Improved Service</p> <p>Primary consideration should be whether improved service to the shipper would permit the traffic to be solicited for a longer haul over the study line.</p>

EXHIBIT III

EXHIBIT "B"

Page 11 of 12 pages 746

REGIONAL SALES MANAGERS EVALUATION OF TRAFFIC AFFECTED BY POTENTIAL TRUSTEE'S CORE STUDY
 REPORT JJ0 INTERLINED FORWARDED TRAFFIC DIVERSION ZONE19-ZONE19

ORIGIN CITY	OR ST	TERMINATING CITY	TR ST	COMM GROUP	COMMODITY	ORGN ROAD	RECD JUNCT	DELD ROAD	DELD JUNCT	DELD ROAD	TERM ROAD	CARS	TRKRS	P L T	TONS	TOTAL FREIGHT REVENUE	FUCK REVENUE	N	ALS
GOODLAND	KS	LASALLE	CO	02	CORN	RI		DENVR	UP	UP		103			10515	80,475	52,309	8	290
CODE		SEQUENCE	4JJ000091																
GOODLAND	KS	MONFORT	CO	02	CORN	RI		DENVR	UP	UP		56			5913	44,744	27,064	3	190
CODE		SEQUENCE	4JJ000092																
GOODLAND	KS	BENICIA	CA	25	OTHER	RI		PULLM	UP	SP		1			23	900	100	0	140
CODE		SEQUENCE	4JJ000093																
GOODLAND	KS	JOHNSTOWN	CO	07	PKFOOD	RI		PULLM	UP	GWR		4			377	5,355	1,235	0	170
CODE		SEQUENCE	4JJ000094																
GOODLAND	KS	LASALLE	CO	02	CORN	RI		PULLM	UP	UP		1			101	770	504	8	190
CODE		SEQUENCE	4JJ000095																
KANDRADO	KS	MINNEQUA	CO	25	OTHER	RI		CLSPG	DRGW	CW		1			30	560	172	0	360
CODE		SEQUENCE	4JJ000096																
LEVANT	KS	HQAG	NE	14	CHEMS	RI		NORTO	BN	BN		1			25	525	205	0	70
CODE		SEQUENCE	4JJ000097																
NORTON	KS	MINNEQUA	CO	25	OTHER	RI		CLSPG	CS	CW		1			32	770	570	0	191
CODE		SEQUENCE	4JJ000098																
PHILLIPSB	KS	PUEBLO	CO	25	OTHER	RI		CLSPG	ATSF	ATSF		14			600	10,037	7,065	0	300
CODE		SEQUENCE	4JJ000099																

EXHIBIT III IS SAMPLE ONLY OF A COMPUTER RUNOFF SHEET.

EXHIBIT "B"

Pabe 12 of 12 pages

[illegible]

DATE: _____

EXHIBIT "C"SUMMARY OF FREIGHT CAR REQUIREMENTS

<u>Car Type</u>	<u>1980</u>	<u>No. of Cars</u>	<u>1985</u>
40' Box	2,725		1,307
50' Box	1,967		1,142
Eq. Box	4,503		3,070
Small Cov. Hop.	1,588		1,443
Jumbo Cov. Hop.	4,770		4,041
Insul. Box	894		349
Gons (under 61')	1,732		1,218
Gons (over 61')	256		135
Eq. Gonds	233		141
Open Hoppers	2,805		1,779
Spec. Hoppers	52		26
Flats-Gen. Serv.	701		462
Flats-Multi-Lev.	266		594
Flats-TOFC	182		127
Flats-Spec.	295		847
Other	640		465
	23,609		17,146

Freight Car Acquisition Program

<u>Car Type</u>	<u>Number</u>
Small Covered Hoppers	770
Jumbo Covered Hoppers	1,463
Insulated Box Cars	20
Flats - Multi-Level	336
Flats - Special Service	<u>767</u>
	3,356

CORE INCOME STATEMENT
- 1978 DOLLARS
(000's)

	<u>1980</u>	<u>1985</u>
Revenue Cars	415,115	509,282
Revenue Per Car - QCS	\$ 429	\$ 426
<u>Operating Revenues</u>		
Freight	\$ 168,621	\$ 205,958
Passenger	5,042	5,042
Switching	4,427	4,427
Demurrage	2,799	3,352
Grants and Subsidies	5,109	5,109
Other	843	1,030
Total	\$ 186,841	\$ 224,918
<u>Operating Expenses</u>		
Engineering	12,888	12,575
Mechanical	34,962	27,486
Operations:		
Transportation	48,071	50,434
Diesel Fuel	12,496	15,626
Joint Facilities	3,775	4,512
Loss and Damage	3,234	3,615
Operating Staff	4,655	4,692
FGN Car Hire 1/	21,227	23,631
Subtotal Operations	\$ 93,458	\$ 102,510
Marketing	6,071	6,071
Finance	5,313	5,794
General - Staff	11,108	12,049
Depreciation	10,631	9,776
The Little Rock	-	-
Passenger Service	8,017	8,017
Other	1,314	1,326
Total	\$ 182,762	\$ 185,604
Net Revenue From Operations	\$ 3,079	\$ 39,314
Railway Tax Accruals	\$ 1,035	\$ 1,035

1/ Incl. Pvt. Mileage & TTX Cars

CORE INCOME STATEMENT
- 1978 DOLLARS
(000's)

	<u>1980</u>	<u>1985</u>
<u>Rents</u>		
Time/Mileage Receivable	(59,034)	(43,923)
Trailer Per Diem	(1,919)	(84)
Trailer Leases	2,091	1,264
Freight Car Leases	33,550	35,118
Locomotives Leases	5,184	4,829
Joint Facility and Other	1,066	1,066
Total	\$ (19,062)	\$ (1,730)
Net Railway Operating Income	21,106	40,009
Scrap Sales	-0-	-0-
Other Income and (Expenses) Net	-0-	-0-
Fixed Charges	(2,221)	(504)
Income Before Programs	18,885	39,505
Engineering Programs	(11,471)	(11,471)
Mechanical Programs	-0-	-0-
Other Programs	-0-	-0-
Program Advances, Billings, etc.	-0-	-0-
Income After Programs	7,414	28,034
Earnings of Affiliated Companies	681	681
Income Before Effect of Capitalized Leases	8,095	28,715
Effect of Capitalized Leases	(1,425)	(1,425)
Net Income	\$ 6,670	\$ 27,290

3/11/83 TMB, DMC, RWS, HJN, DJS, BAO, JDD

Sense of Bond outside. Only to Add down
investment

Mainly \$2000
Development

8% inflation

Recalculate on $3\frac{1}{2}\%$ and 6%

Take out day

Interest at 11%

\$7,000,000 RI taxes

\$2,000,000 uncommitted funds

State legislation to appropriate

\$10,000,000 to be paid

back from taxes and elsewhere.

\$20,000,000 against Diesel tax

case, advance, ~~total~~

KCS, Tom Carter

Mike Madain KCS

Wockaday KCSI Deramus

ATSF 18 hrs

MILW 24 hrs

ANW 48 hrs

(2)

ICG Jim Martin VPO - DMC

RHS call MacLain

3/1/83

Harold Stark, President

Packard Elevator

Clarksville

~~Renegotiating~~ annual contract.

~~Northwest~~ Land Shipper Association

515-823-4807

February 10, 1983

To: DMC.

From: JDD

Re: RI

This is what I think is going to happen:

1. We make offer of \$80M cash

a. Trustee favors Soo offer and we go to court.

1. CNW offers \$85-88M in court.

a. Judge gives Soo last bid.

b. Soo bids \$90-100M

b. Trustee favors CNW offer and they go to court

1. Soo makes offer of \$85-88M in court.

a. Judge gives CNW last bid

b. CNW bids \$90-100M

2. Soo bids \$125M for larger package. CNW wills.

February 10, 1983

To: DMC.

From: JDB

Re: RI

Reference letter of February 2, 1983 from
J.T. McGuire, MILW to Mr. Beckley.

Everyone at MILW may not be in
concord on this.

NW reported to have made firm offer
for MILW interest in DMU and additional
MILW property by Bill Barron, GM of
DMU.

Interest in DMU of some value for
customer solicitation. Would also
facilitate incorporation of East-West
Des Moines rail facilities into DMU.

Acquiring MILW interest and folding
in RI should make us majority
partner.

MILW access to Des Moines would
not appear too critical from

②
Mason City. If we should acquire and
operate the RI from Des Moines to
Chicago we would compete with any
entry into Des Moines by the MILW.
We would also have the MILW as
tenant between Iowa City and
Davenport.

February 10, 1983

TO: D. M. Cavanaugh

FROM: J. D. Darling *JDD*

RE: Routes to Kansas City

There are a number of possible routes between the Twin Cities and Kansas City, but generally the routes operated by a single carrier are representative, with routes comprised of segments from several carriers offering no significant alternatives in terms of route mileage.

The basic possibilities, with mileages from the Rand McNally Railroad Atlas, are:

RI	483 miles via Albert Lea, Mason City and Des Moines.
CNW	538 miles via Waseca, Albert Lea, Mason City, Marshalltown, Des Moines and Leavenworth.
CNW	567 miles via Mankato and Omaha.
MILW	648 miles via La Crosse, Savanna, Davenport and Ottumwa.
BN	664 miles via Wilmar and Lincoln.
BN	680 miles via La Crosse, Galesburg and Quincy.

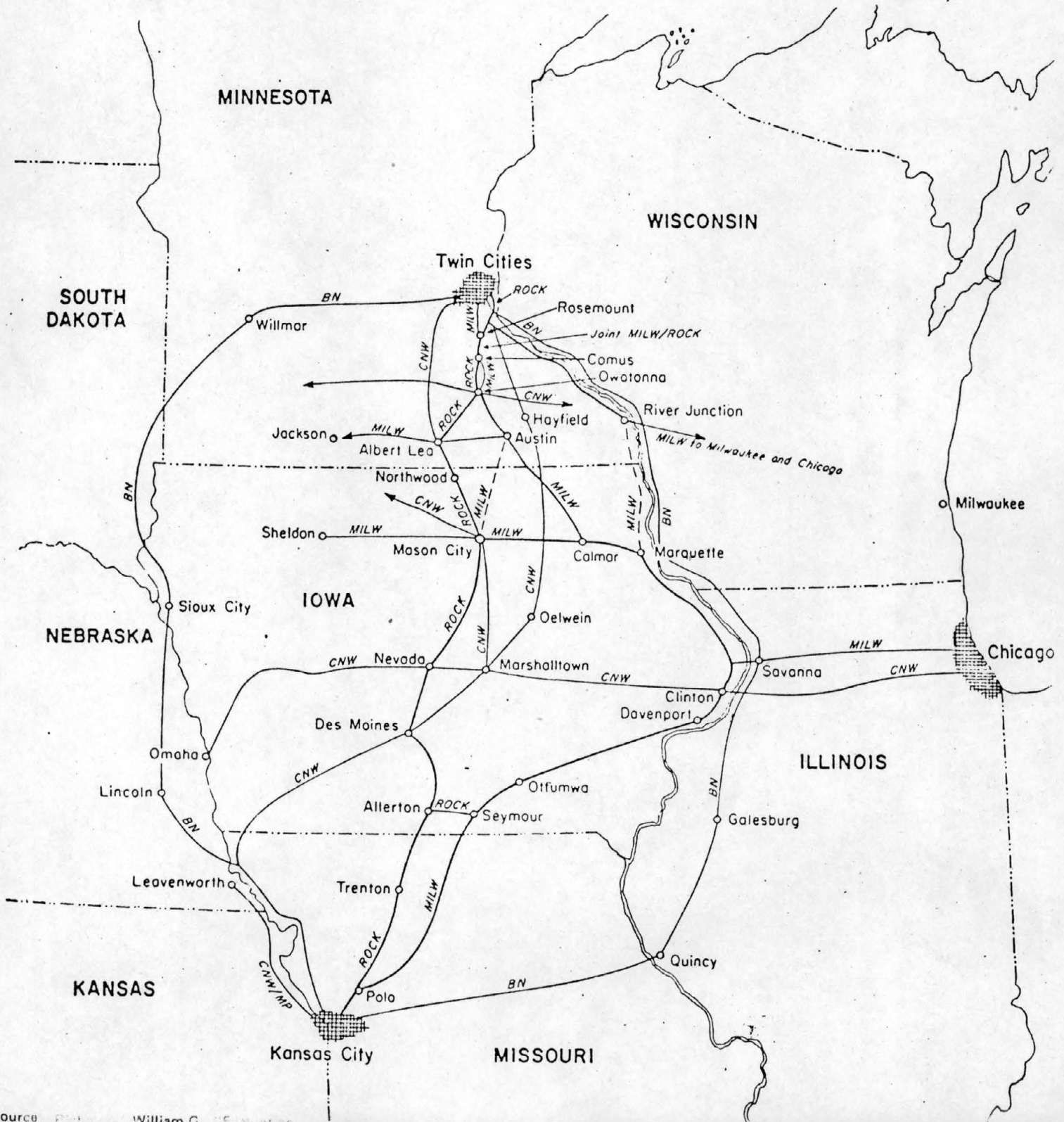
As can be seen, the Rock Island route is significantly shorter than any other route with the next two shortest routes also controlled by the CNW. The two CNW routes also involve MP trackage rights the CNW may not be able to offer without MP concurrence.

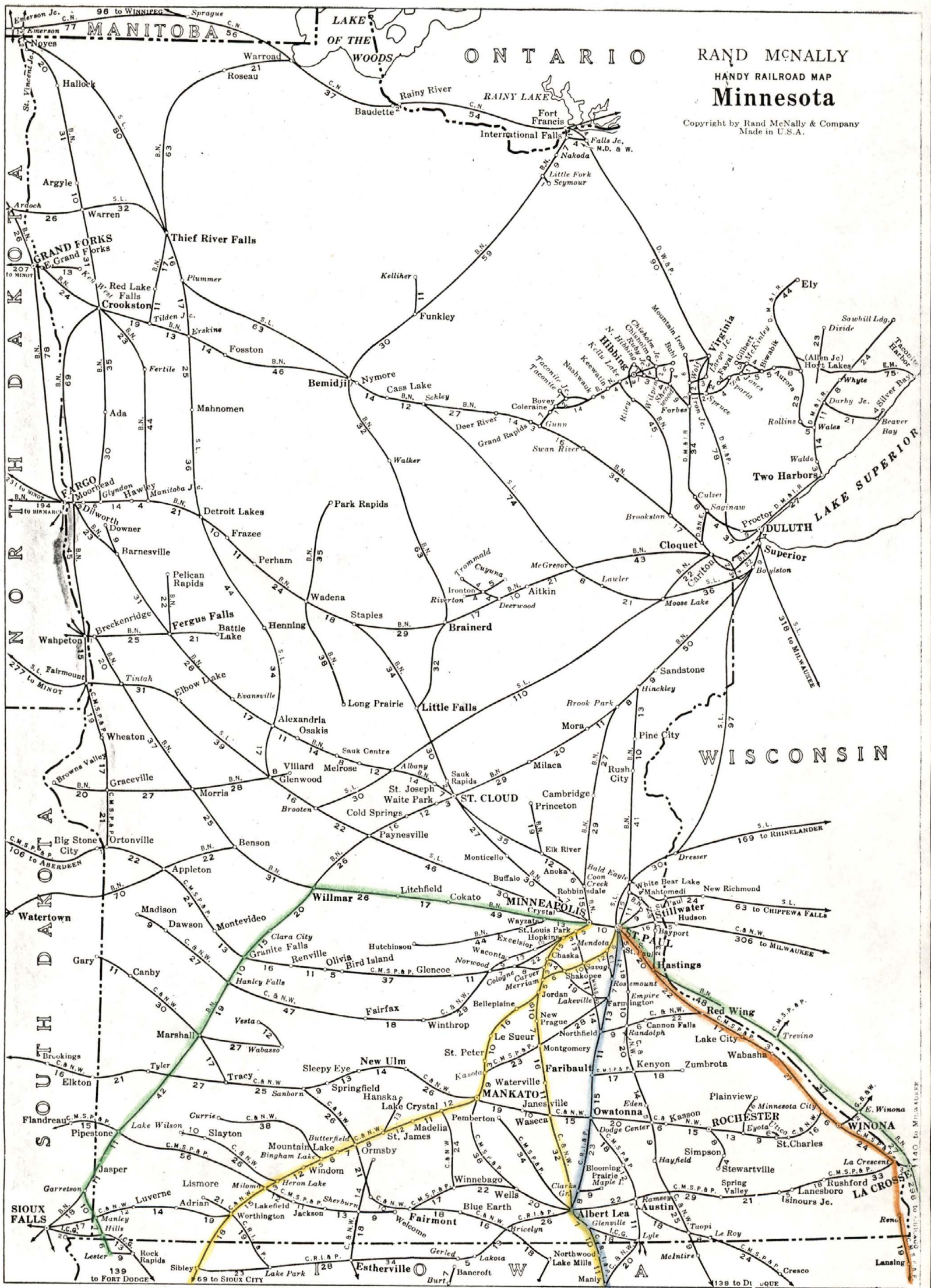
JDD/jmz

Attachments

BN, MILW and CNW/ROCK Mainline Trackage Between the Twin Cities and Kansas City

----- Existing Lines Currently Embargoed (Not Operated)





RAND McNALLY
HANDY RAILROAD MAP
Minnesota

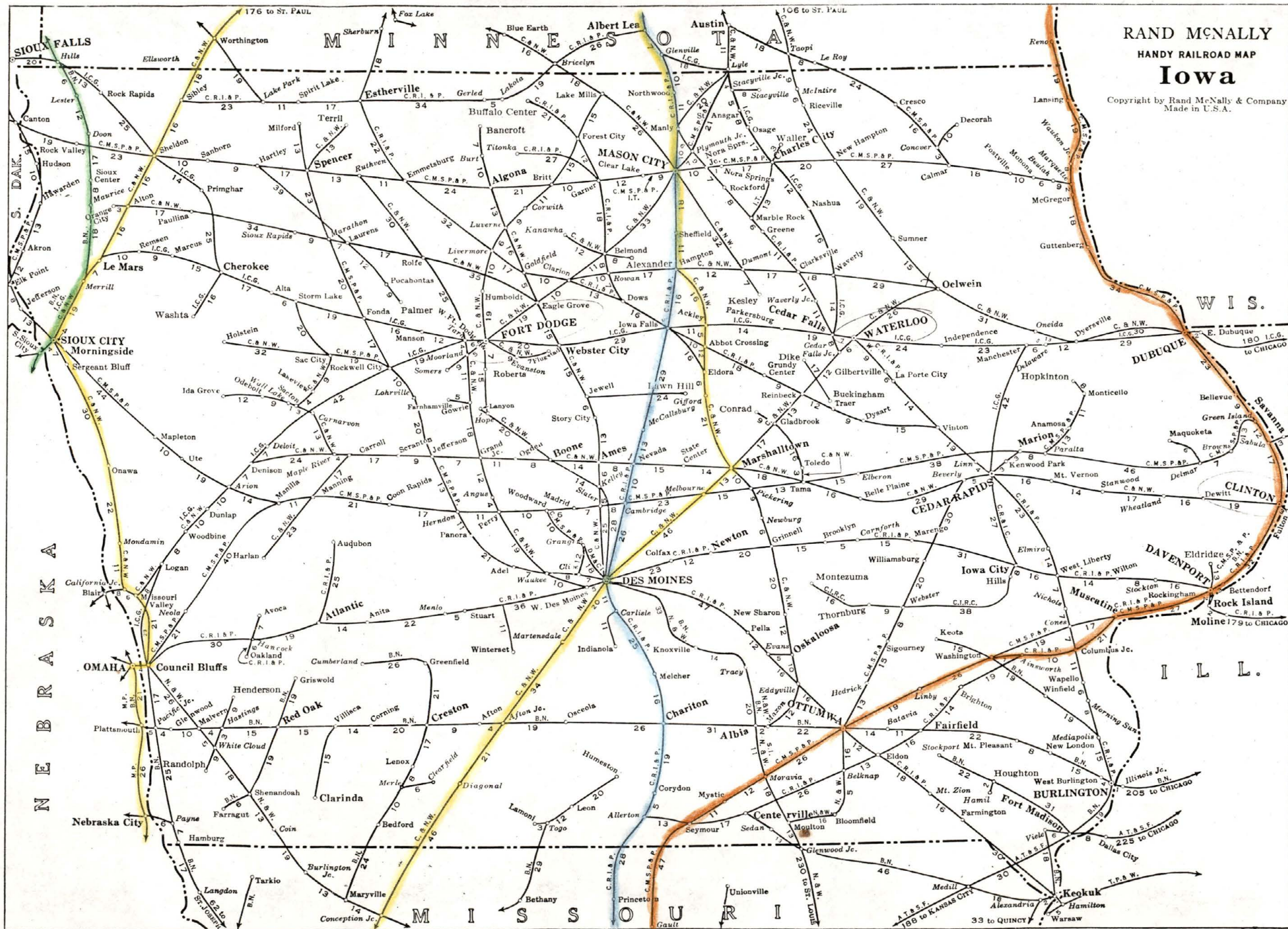
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Made in U.S.A.

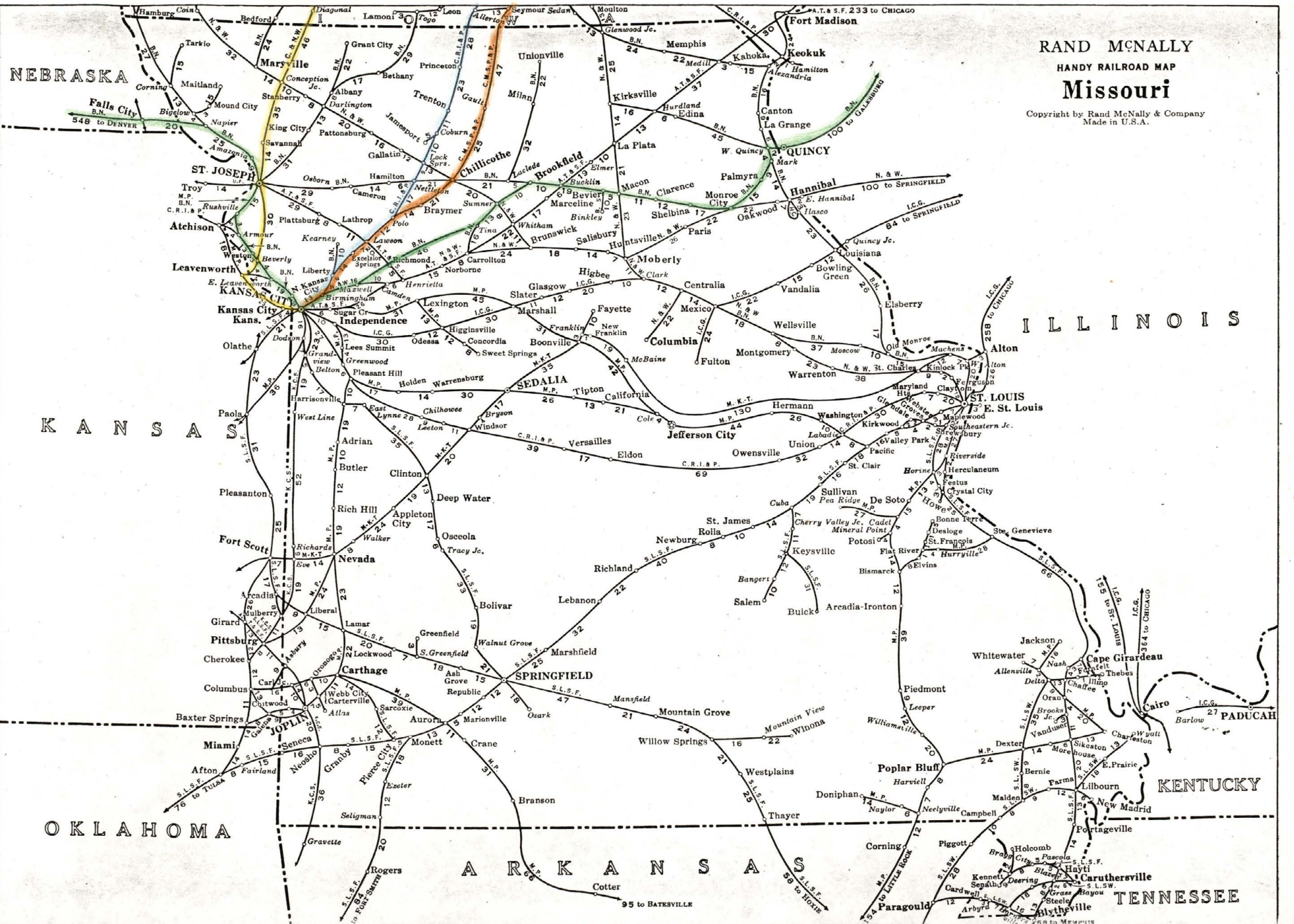
RAND McNALLY

HANDY RAILROAD MAP

Iowa

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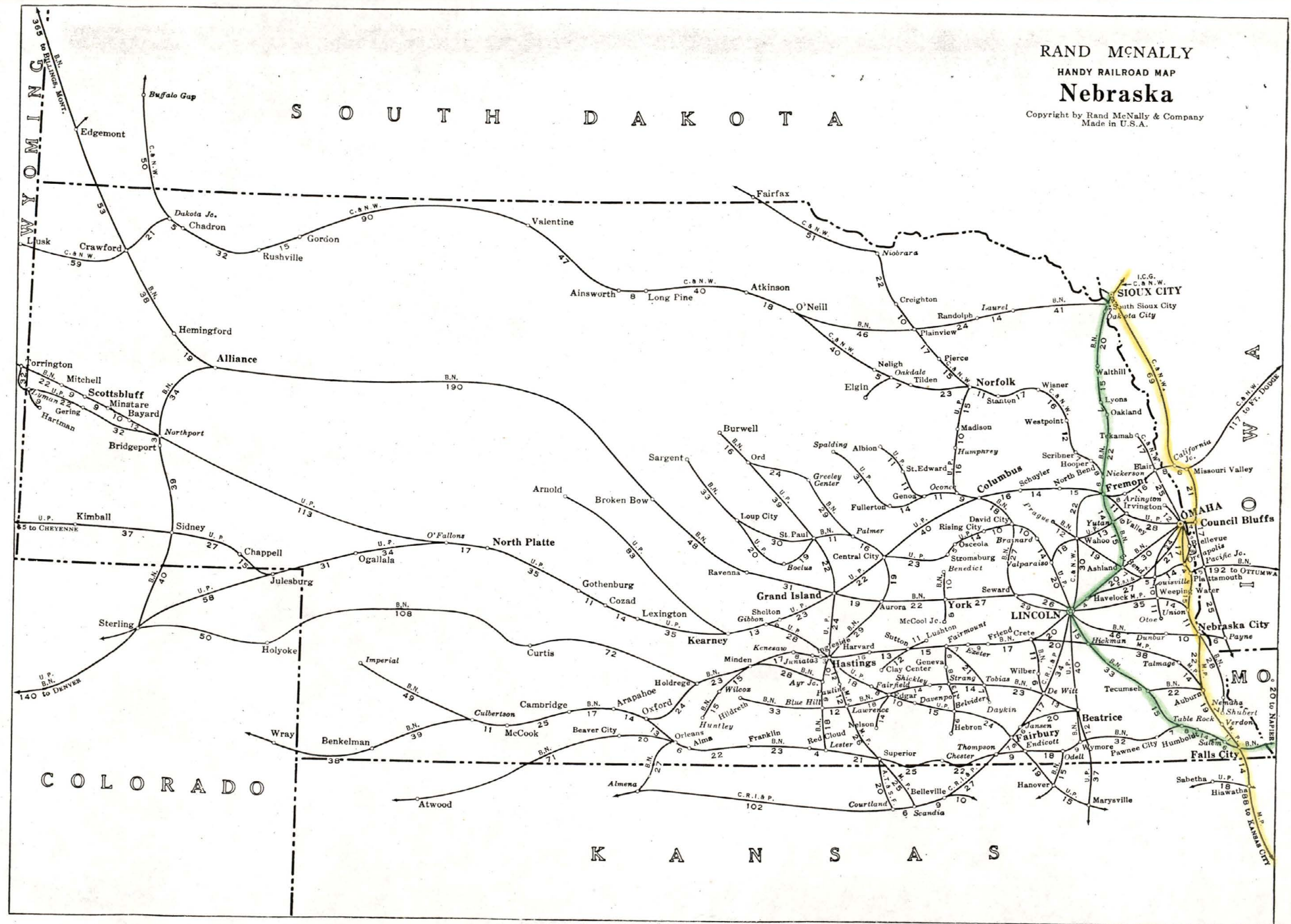


RAND McNALLY
HANDY RAILROAD MAP
Missouri

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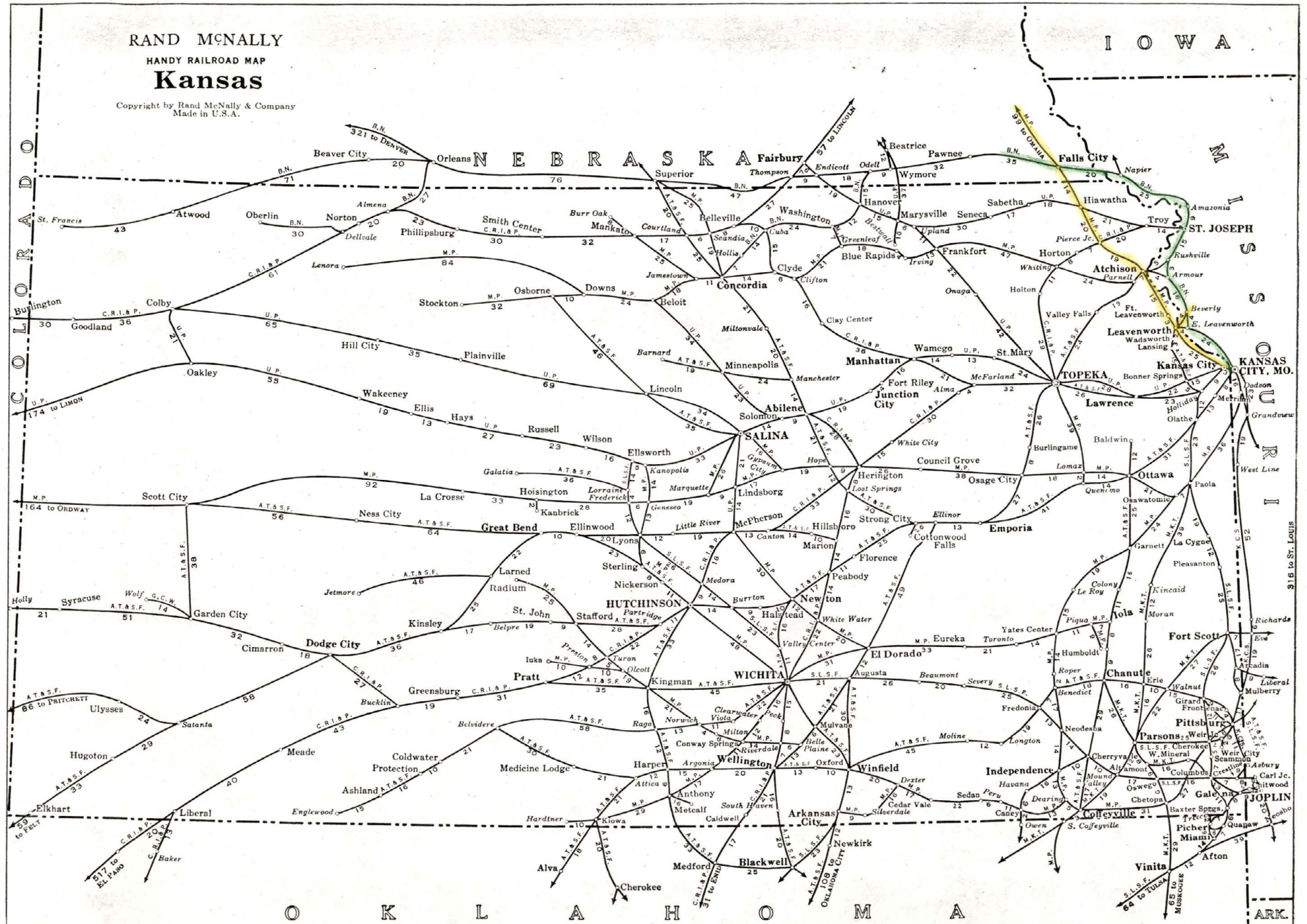
RAND McNALLY
HANDY RAILROAD MAP
Nebraska

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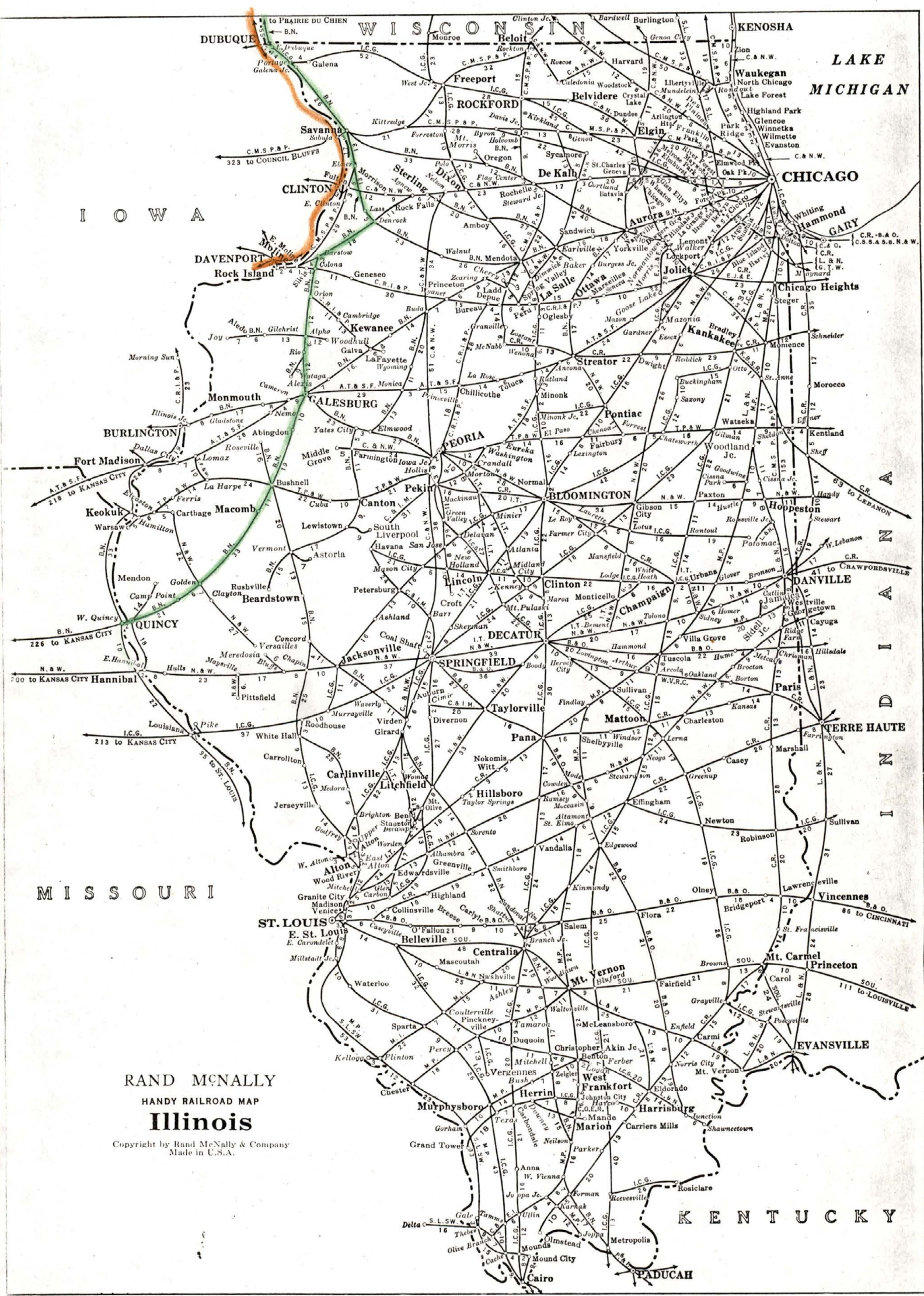


RAND McNALLY
HANDY RAILROAD MAP
Kansas

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RAND McNALLY
HANDY RAILROAD MAP
Illinois
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Made in U.S.A.

3/9/82

Bill Sills

3/9/83

Des Holland, Iowa DOT

Talked to TMB

KCS Participation

Hockaday, Dr

NS - private meeting, Sr. VP., last
Friday

Jim McCollan

Newton

Pella to Altaona

} Shippers Association
guaranteeing a
repayment acquisition

IRFA \$7.5 million back taxes

TRA - ^{MILW and RT} Hearing April 11, 1983 on
^{to hear}

MILW back taxes, who gets it.

Iowa Supreme Court

March 17, 1983 RT Date

\$2,000,000 preference share

judging

Want to come to Mpls.

Soo Line Railroad Company



Date Feb. 10, 1983

To: J. D. Darling

From: G. H. Barker *GHB*

- ☐ Please note and return.
- ☒ For your information.
- ☐ Please reply directly to attached.
- ☐ Please give me your recommendations.
- ☐ Please draft reply for my signature.
- ☐ Please handle.
- ☐ Would like to discuss with you.
- ☐ Proposed draft attached for your review
and suggestions.
- ☐ Comments?
- _____
- _____
- _____
- _____

Minneapolis - February 7, 1983

File:

1109M

To: G. H. Barker

Fr: C. W. Sanborn

Re: Rock Island Study

This report is a result of my inspection trip of the former Rock Island Railroad mechanical facilities between Northfield, MN and Kansas City, MO.

I left Minneapolis at approximately 1:00 P.M. on Tuesday, January 25th and traveled to Northfield, MN where I inspected our mechanical facility on the former MN&S Railroad.

From Northfield, I drove to Albert Lea, MN and inspected the CNW and RI facilities. It appeared that the CNW had the major facility in this area and that while there was a small yard and depot, I did not see any mechanical facilities even though I heard that the CNW fuels locomotives at Albert Lea.

I then headed southwest from Albert Lea on Highway 69 and onto Highway 9 to Esterville, IA. In route, I went through Thompson and Armstrong, Iowa both of which had large grain elevators with capacities far greater than those I have seen in the Dakota's.

I arrived in Esterville after dark but was able to locate and inspect the mechanical facility. There is a two stall enginehouse in fair condition. Two CNW locomotives were running on the ready track. It did not appear that the enginehouse was being utilized for locomotives.

There was a heated enginemen's locker and ready room and also a 50 ft. box car which was being used to store freight car parts. I noted several new couplers, yokes and draft gears on a platform outside the storage car. Tanks for fuel storage for the locomotives were also in the area. In general, the area looked well kept and in good condition. All buildings had CNW property signs attached as well as no trespassing signs. There was no one working so I could not get out of my car and inspect closer.

It appeared that carmen were working this point because of the well kept condition of the repair track, but I could be wrong as the Mechanical people at Iowa Falls, I learned later, had been layed off January 1, 1983. It could be that the area is serviced by a CNW road truck crew from a point such as Albert Lea or Fort Dodge, Iowa, which is on the CNW.

I looked over the yard at Esterville as best I could and found it good size with many stored hopper cars of CNW & RI ownership.

Page 2
February 7, 1983
File:
1109M

From Esteville, I traveled south on Highway 4 to Emmetburg where I crossed the Milwaukee Road tracks. From there, I headed east on Highway 18, paralleling the Milwaukee tracks noting that there were large elevators at every town in route. I tied up at Mason City, Iowa that evening.

On Wednesday morning, I traveled Highway 65 south to Iowa Falls. At Iowa Falls, I went to the yard office and told the yard clerk and trainmaster on duty that I was from the Soo Line and wanted to look around and asked if they would answer a few questions. They both agreed to do so. I learned that the CNW was no longer using the former RI Yard at Iowa Falls and were moving cars down from the Esterville branch to Fort Dodge and down to the main line or directly to Ames, Iowa, where their main line runs east and west. They do not move out on the Esterville branch from Iowa City because of the poor condition of the track. They do drop a road switcher from Des Moines at Iowa Falls once each week which does weighfreight work north. This locomotive is inspected by the engine crew each day prior to their going to work and is changed weekly. They also told me that there had been a mechanic in charge and a helper to do the work of all crafts at Iowa Falls up until January 1, 1983, when they were furloughed.

Inspection showed a 50 foot box car which had been used to store car parts and supplies just east of the yard office. The set up was very similar to the one at Esterville except I did not see a Yard Office near the mechanical buildings at Esterville. There is also a turntable at Iowa Falls which they said was inoperative and required an estimated \$50,000 in repairs. A two stall enginehouse was also in the area. This was not being heated nor used. It looked in fair condition but I was not able to inspect the interior. An old roundhouse which was being leased to an outside party was between the yard office and engine house. The general condition of the property was fair to good. I learned later that both the Esterville and Iowa Falls enginehouses had pits but also had dirt floors.

I traveled south on Highway 65 from Iowa Falls to Des Moines where I inspected the former RI yard and mechanical facilities. There was a diesel house and storehouse building as well as a yard office. There was considerable activity going on. There were approximately 20 CNW locomotives in the immediate area. From there, I drove to a suburb of Des Moines called Avon Lake to look at a possible site which the Soo Line might use for switching and yarding trains for interchange in the Des Moines area. This was as a result of a request by Dave Nelson that I looked this area over for a possible mechanical site. There is a large grain terminal at this area called Agri-Industries, who have their own fleet of cars and their own car repair shop. They also do contract repairs for railroads and private owners. They had several heavily damaged RI cars which had been dumped on the ground near their shop and when questioned, they stated they had purchased these cars from the RI and were rebuilding them for their own fleet.

Page 3
February 7, 1983
File: 1109M

I toured the contract shop before heading south again on Highway 65 to Trenton, MO. At Trenton, I inspected the yard and plant facilities. There is an enginehouse similar to those at Esterville and Iowa Falls, but it seemed more run down and looked as though it hadn't been used in quite some time. There was a fleet of 6 to 8 engineering trucks parked across the yard from the enginehouse. There seems to be a lot of engineering activity everywhere on the Rock Island.

Behind the enginehouse there is a large fuel tank which looks the size of our 200,000 gal. tanks and a main line fueling station across the yard from the tank.

There does not appear to be any mechanical employees and I learned later, after talking to two brakemen that are furloughed from the RI, that it has been years since any carmen have been employed at Trenton. A road truck had come out of Kansas City to repair any cars defective, which were set out for repairs.

There is room to establish a rip track near the enginehouse and the track lay out is good for this. There are no buildings however.

At the south end of the yard, there is a double main line on which the CNW has stored CNW DF box. I was told the track could hold 230 cars and the track was full.

Later that night, I drove from Trenton to Kansas City and tied up. The next morning I drove to the rail yards at Kansas City and drove around the KCS, Milwaukee, etc. yard who would have to switch cars and make up trains if we were to run on the Rock Island. It appeared that most of the Kansas City rail yard for all railroads were located in one general area, which was quite impressive as the system looked very efficient. It also appeared that there was a lot of activity going on.

I left Kansas City at approximately 9:00 A.M. on Thursday for Minneapolis. While driving, I decided that I wanted to take another look at Des Moines and the plant facilities.

I was beginning to feel that mechanical facilities were far inadequate in comparison to the portion of the railroad on which we would be asked to maintain locomotives and freight cars.

I was not able to determine which percentage of the business would be retained on the Rock Island if it were separated from the CNW and their business, but as it looked, we would have to maintain about 30 locomotives or more on the Rock Island if our business returned to what it had been 6 or 7 years ago. In addition, we would have main line business between Kansas City and Minneapolis. It appeared to me that the cost of moving as much power as need to Minneapolis for maintenance would put a burden on both Mechanical and Transportation. There is also the bottle neck at Humboldt bringing the units to Shoreham.

Page 4
February 7, 1983
File: 1109M

I arrived at Des Moines at lunch time and went to the CNW diesel shop (former RI) and asked the man in the office if I could look around his shop. Because the head man was out to lunch, he said I would have to wait.

In the meantime, I questioned him about his shop and its capabilities. He advised that they were able to do any work on locomotives except change main generators and engines and that they had Whiting jacks and changed traction motors when necessary. Each stall of the two stall shop was capable of holding 2 GP locomotives but only one SD locomotive.

It was a runthru building with a turntable at one end which was capable of turning an SD locomotive. The layout of the building and ready tracks was good.

He advised that they had a fuel storage capacity of 950,000 gal. of fuel at Des Moines.

He also advised that when the CNW took over this yard, they eliminated the Car Department repair track and were making all car repairs at the CNW yard, which was adjacent to the RI yard.

There is a sizeable building next to the Diesel Shop which appeared to be a storehouse building. Both the storehouse and diesel shop were brick buildings in good repair. There were also several buildings (wooden) near the yard which were in good repair. They also had towers in the yard for yardmasters. The yard itself had a 2100 car capacity I was told. The Des Moines mechanical division is scheduled to maintain 180 units at their facility, of which 100 were stored at the time I was there. The only other maintenance points on the division were Esterville and Iowa Falls.

I learned when I returned to Minneapolis that Des Moines was not included in the package we were bidding on, but I myself feel that the yard and mechanical facilities would be a real asset as it would make the new branch self sufficient for the most part. Des Moines it self was a very busy community and appeared to have several large industries adjacent to the Rock Island tracks.

I noticed several snow plows in the Des Moines yard and recall seeing a plow in 2 or 3 other locations. We do not have plows to man this area.

I left Des Moines in the afternoon and headed up Interstate 35 toward Manly, Iowa, where I was told there were mechanical facilities. When I arrived at Manly, I found an old roundhouse and several other buildings that have been neglected and vandalized to the extent that it would be cheaper to rebuild than repair if there were ever a need.

I then drove from Manly to Minneapolis and arrived Thursday evening.

Page 5
February 7, 1983
File: 1109M

The following are a list of contacts from whom we might obtain additional information should it be needed.

Russell Johnson, Mech. in Charge - CNW Ry.
Phone 515-648-4483 Home - Iowa Falls, Iowa

A. C. (Chuck) Stienhebel, Division General Foreman, Central Division
Phone 223-7447 Office Avon Lake, Iowa

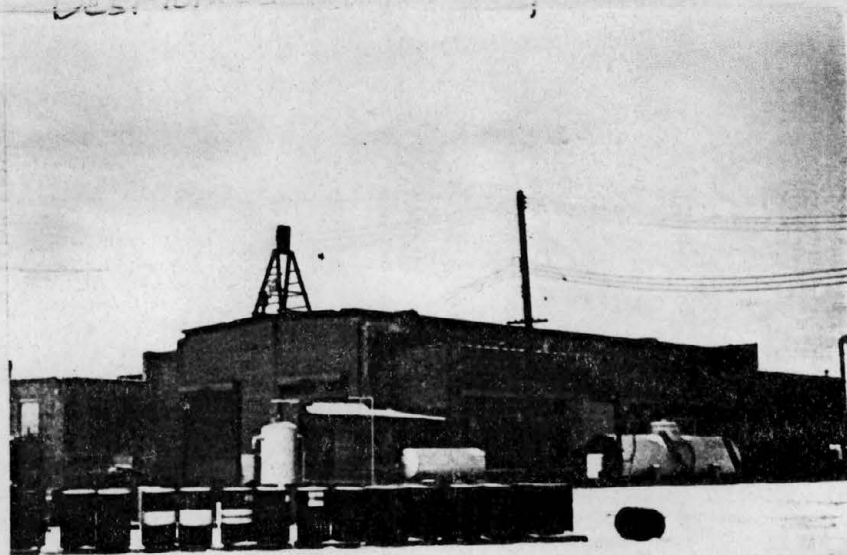
Larry Robinson, Brakeman
Phone 816-359-3436 Home - Trenton, MO

Chris Bets, Brakeman
Phone 816-359-3436 Home - Trenton, MO

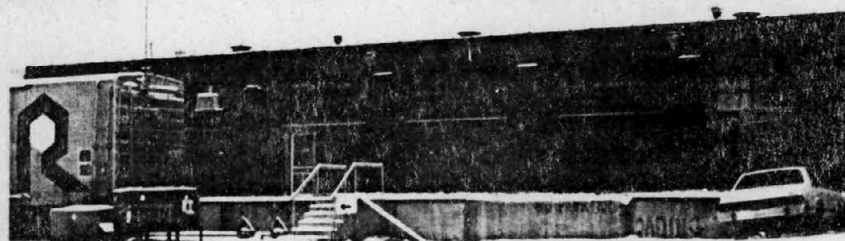
Attached also are pictures I took.

CWS:rk

Att.



Des Moines Store House



Iowa Falls

Yard Office



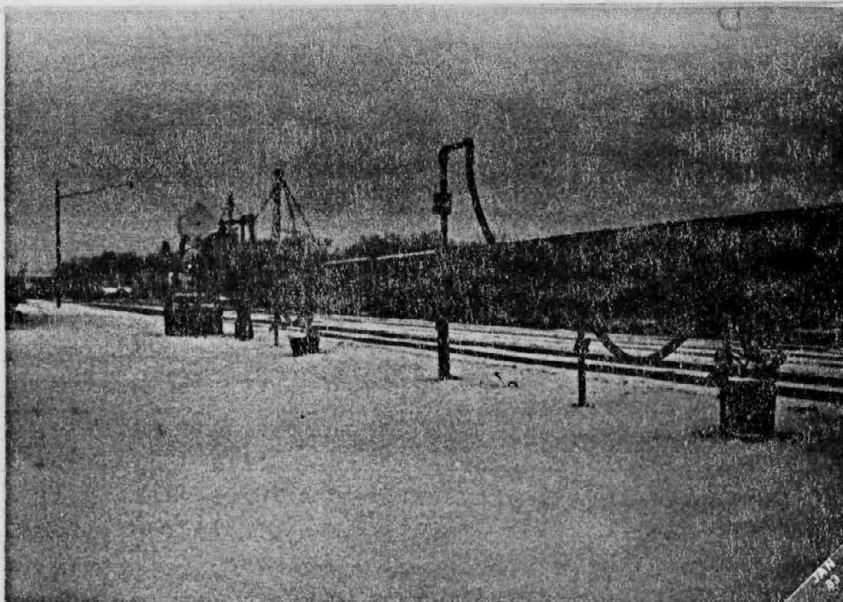


Iowa Falls
Roundhouse

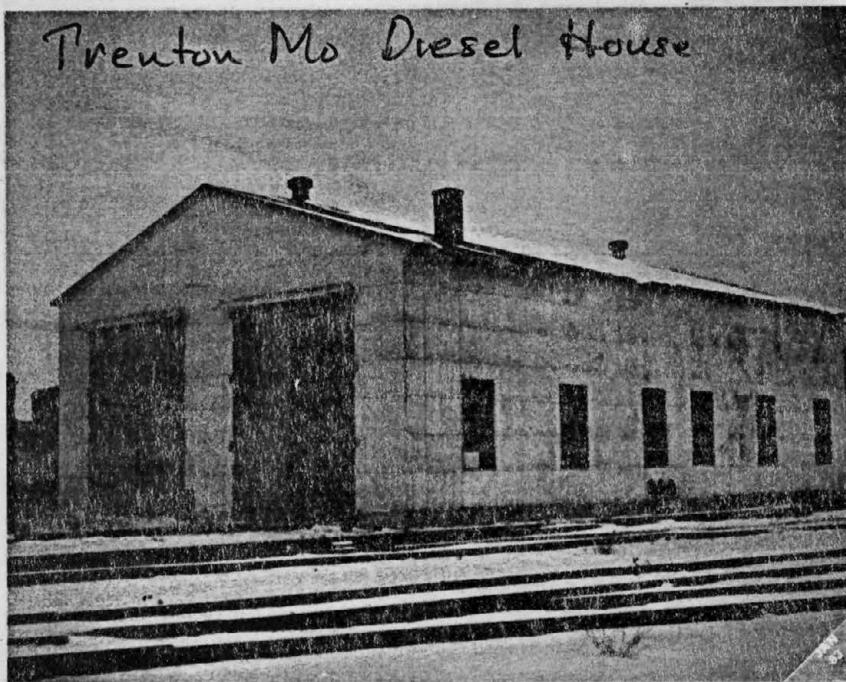
Leased to Private
Party



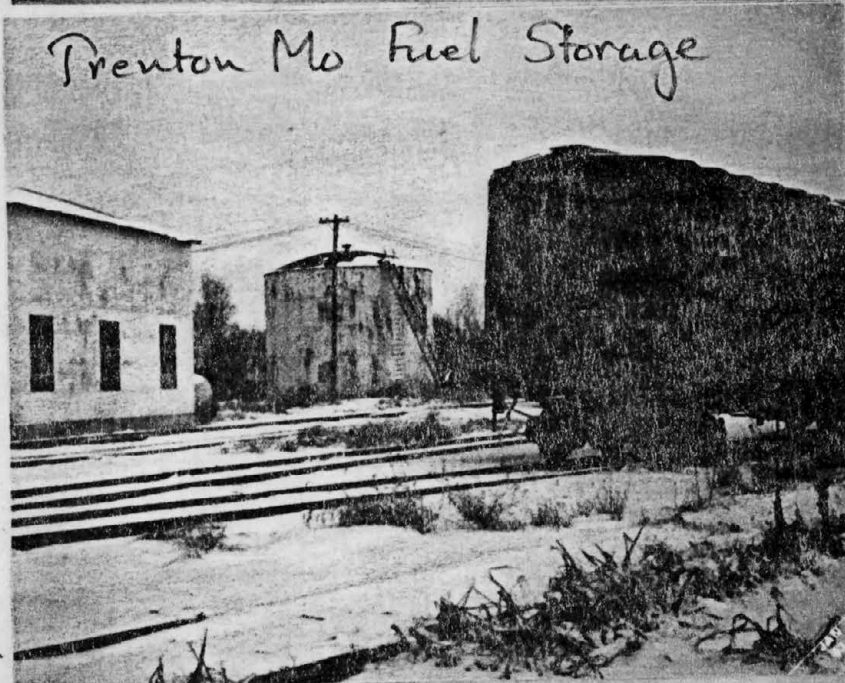
Trenton Mo Engning



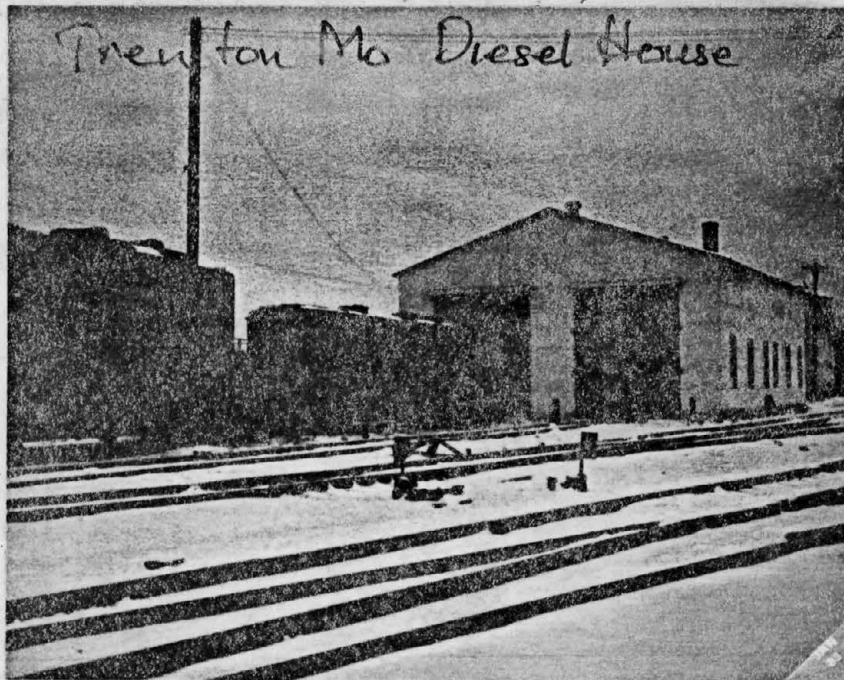
Trenton Mo Diesel House



Trenton Mo Fuel Storage




Trenton Mo Diesel House



February 9, 1983

FILE: Rock Island Acquisition

TO: T. M. Beckley
D. M. Cavanaugh

FROM: J. D. Darling  /

RE: Rock Island Study

During the Board Meeting today, I took a call from Les Holland, Iowa DOT.

He wanted me to convey that the Iowa Supreme Court will hold a hearing on April 11, 1983 in the dispute as to whether IRFA or the counties are to receive \$7.5 million in back ad valorem taxes from the MILW and Rock Island Trustees.

Iowa has until March 17, 1983 to notify the Rock Island Trustee as to whether they want to accept the 90 cents on a dollar offer for back taxes, or wait for final settlement of the estate. The State and counties have reached an agreement to hold any back taxes received in a special escrow account pending the outcome of the Supreme Court hearing.

Les also indicated that the CNW is still including the Royal-Manson segment in their offer, has notified Cargill of this intention but were required to increase their offer to the Trustee by the \$4.35 million before the Trustee would go to the Bankruptcy Court.

Les also stated a desire for he and other members of the Iowa DOT staff to come to Minneapolis if they could in anyway assist us or facilitate our deliberations.

JDD/jmz

W.M. Gibbons, Trustee
CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY
332 South Michigan Avenue, Chicago, Illinois 60604
Phone: (312) 435-7306

FOR IMMEDIATE RELEASE:

William M. Gibbons, Trustee for the Chicago, Rock Island and Pacific Railroad announced that the Rock Island and the Chicago and North Western Transportation Company are near agreement whereby North Western will purchase from the Rock Island's estate approximately 720 miles of Rock Island trackage. The trackage being purchased includes the Rock Island mainline between Minneapolis—St. Paul, Minnesota and Kansas City, Missouri, plus some grain-gathering lines in northern Iowa and some yard and industrial trackage in Des Moines and Cedar Rapids, Iowa.

It is expected that the transaction will be submitted to U.S. District Court Chief Judge Frank J. McGarr for approval in the near future.

###

020783

February 7, 1983

TO: T. M. Beckley
D. M. Cavanaugh

FROM: B. D. Olsen

RE: Rock Island Purchase Agreement

I have redrafted some of the price provisions in accordance with our discussions. The \$100 per car bonus payment is now subject to a \$6 million minimum in the event that sum is not earned during the 6 year period following commencement of Soo operations.

A price has now been inserted for the Des Moines property which is intended to be \$6 million plus 7% interest compounded at 6 month intervals. However, there is no mention of interest in the purchase provision: the interest equivalent is incorporated in an escalating schedule of purchase prices to be applied depending on when the property is actually acquired.

The Purchase Agreement is recorded on your word processing equipment. If these changes are acceptable, please have a new edition of the Purchase Agreement run for forwarding to Mr. Gibbons.

BDO/sjp
Attachment

cc: R. L. Murlowski
H. J. Ness
~~D. J. Boyer~~
J. D. Darling

PURCHASE AGREEMENT

This Purchase Agreement, made and entered into as of the day of , 1983, by and between William M. Gibbons, Trustee of the property of the Chicago, Rock Island and Pacific Railroad Company (said Trustee herein-after "Trustee" and said debtor and its estate hereinafter "Rock Island") and the Soo Line Railroad Company, a Minnesota corporation (hereinafter "Soo Line"):

WITNESSETH:

WHEREAS, Trustee is the owner of certain railroad properties, generally extending between Northfield, Minnesota and Kansas City, Missouri and between the Iowa cities of Iowa Falls to Estherville, Emmetsburg to Hartley, Rake to Ocheyedon, Dows to Forest City and Carlisle to Indianola, which Trustee is willing to convey and the Soo Line is willing to purchase for the purpose of continuing railroad operations over said railroad properties;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Purchase Price.

Subject to the terms and conditions of this contract, Trustee agrees to sell and Soo Line agrees to purchase the Properties described in Exhibit A attached hereto for a total consideration of \$52 million, to be paid in cash on the Closing Date.

As additional consideration, Trustee shall be entitled to deferred payments as follows: During the 6 years immediately

following commencement of operation of the Properties by Soo Line, Soo shall pay to the Trustee an amount equal to \$100 per revenue carload moved over the Properties in line haul service, in excess of 75,000 such carloads per year. Soo Line shall make settlement with the Trustee within two months following the conclusion of each one year period subject to this provision. If payments under this provision have not aggregated \$6 million by the end of the 6 year period, Soo Line will pay the difference between the deferred payments actually made and \$6 million, in cash.

Trustee agrees to sell and Soo Line agrees to purchase Rock Island property in and about the city of Des Moines, Iowa described in Exhibit B attached hereto within two years of the Closing Date for an additional consideration as determined by the following schedule:

If purchased within 6 months following the Closing Date the price will be \$6,210,000.

If purchased within the second 6 months following the Closing Date, the price will be \$6,644,700.

If purchased within the third 6 months following the Closing Date, the price will be \$6,877,264.

If purchased within the fourth 6 months following the Closing Date, the price will be \$7,117,968.

2. Properties Included.

Trustee shall sell to Soo Line and Soo Line shall purchase from Trustee all of his right, title and interest in and to the properties described in Exhibit A and Exhibit B attached hereto, hereinbefore and hereinafter "Property" or "Properties,"

including all real estate, station grounds, right of way, personal property, improvements (including rail, track material and railroad facilities), buildings, signal and communication equipment, spur, industry, team, interchange or similar tracks and terminal facilities, and all rights, agreements, grants, franchises,

Tue 2/15 Des Moines - met with IDOT @ Ames, Ia. Notes per Leo Holland & I MacG

20° IFG - Soo

40° Soo spine line

2° Forgive by Trustees - due IDOT

10° DM RE

8° @ 500k per yr forgive RE Tx = 16 yrs

7k April - Determine Tax Money Disposition.

2k East Adam Brauer hire - From Trustee

2k SOS Funds April

10k Iowa Legs ? via IRFA Funding

Pella, Ia

Newton, Ia

Bond counsel, Bankers, gen counsel available
to So for discussions.

Check with Fred White.

40k Spine line { Cash 10
Loan 30

20k IFG

10k DM-RE - Loan

10k Risk IDOT IRFA

Soo Line Railroad Company

Soo Line Building
Minneapolis, Minnesota 55440



DENNIS M. CAVANAUGH
Executive Vice President

February 2, 1983

Mr. Robert C. Gilmore
Vice President Marketing & Sales
CP Rail
P. O. Box 6042, Station A
Montreal, Quebec H3C 3E4
Canada

Dear Bob:

The attached is the input we received from
the Canadian Pacific and how we use the
data in our evaluation.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Cavanaugh", written over the word "Sincerely,".

DMC/jmz

Att. (1)

September 2, 1982

TO: R. H. Smith
FROM: J. T. Hartnett
RE: Rock Island Study

In his letters of August 24 and 25, Mr. Beckley raised several questions in connection with the traffic study on the potential Rock Island acquisition, which I will attempt to answer.

Continuation of traffic patterns which existed in 1978 should be verified

Joe Darling made an analysis of all Soo Line traffic originating or received from connections north of Oshkosh to any of the following states -

Arizona	New Mexico
Arkansas	Nevada
California	Oklahoma
Colorado	Oregon
Kansas	Texas
Louisiana	Utah
Missouri	

for the year 1978 as compared to 1981. He did the same for northbound traffic and adjusted the northbound to eliminate traffic that was obviously not susceptible to Kansas City routing. The results were as follows:

As you can see, there was less than a 2% decline in the carloads to and from the states with Rock Island potential. By contrast, total cars handled on the Soo system 1978 and 1981 and projected for 1982 and 1983 were as follows:

<u>1978</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
435,000 (actual)	363,000 (actual)	326,700 (est.)	328,419 (est.)

It is my opinion that business to and from the rapidly growing Southwest will hold up better than the Soo's average experience in a recession economy and traffic potential for the Rock Island in 1983 as compared to 1978 would be down more like 10% rather than the 24½% that we are projecting for the Soo system. On the other hand, none of us feel like the Rock Island secured as great a percent of the potential because of their weakness in 1978 as the Soo would.

Opportunities for Traffic Growth

New Business from the Canadian Pacific

In a memo of July 7, you outlined potential traffic for the line which you had received from the Canadian Pacific. There were a total of 11,420 carloads involved. Since in most cases detail was not available, have arbitrarily

Page 2

Memo J.T. Hartnett to R.H. Smith

Re: Rock Island Study

September 2, 1982

and conservatively taken one half of these cars and applied the average 1982 revenue per car projected on the Minneapolis-Kansas City line of \$691. This is summarized as follows:

CP overhead traffic from New England originations	- 1,000
CP overhead for termination by New England connections	- 650
From Southwest to CP's Atlantic Region	- 1,450
To Southwest from CP's Atlantic Region	- 1,100
Between New England and Atlantic Region on the one hand and stations on the Rock Island line on the other	- 150
Newsprint from Abitibi, Thunder Bay	- 70
Potash from Saskatchewan	- 40
Diversions from the Soo Sumas gateway	- 1,250

At \$691 per car - this equates to \$3,945,000.

Piggyback Potential

Loren Westrom has developed from his contacts with Consolidators and others the following piggyback units - southbound - which he feels he could secure if we acquire the line. Total is as follows:

3,068 units with revenue of \$957,000.

MAINLY MPLS TO KC.

\$4,902,000

Updating rate levels on corn traffic

Marketing has checked rate levels on corn from five representative origins on the Rock Island to selected destinations for 1978. They then updated and increased that rate level by 52% to approximate the 51.73 increase used in the study which reflected a weighted average of Ex Parte increases. This rate was then compared with the current X-082 rates between the same points. I am listing below this information, covering the highest volume movement from each origin:

Page 3

Memo J.T. Hartnett to R.H. Smith

Re: Rock Island Study

September 2, 1982

<u>From (Ia)</u>	<u>To</u>	<u>Cars</u>	<u>G.Rev.</u> <u>per car</u>	<u>¢</u> <u>per cwt.</u>	<u>1.52%</u>	<u>25 cars</u>	<u>50 cars</u>	<u>75 cars</u>
Superior	B. Rouge	145	\$1328	69¢	104.9¢	122	113	102
West Bend	Beaumont	228	\$1306	67.3¢	102.3¢	121	112	101
Klemme	Houston	623	\$1290	67.2¢	102.1¢	121	112	101
Lakota	Houston	160	\$1512	75.2¢	114.3¢	122	113	102
Ocheyedan	Beaumont	50	\$1687	76.4¢	116.1¢	125	117	105

A copy of the complete statement is attached for your information. In general, the 51.73% increase which we used seems to be a pretty good average.

I will cover the analysis of principal classes of traffic in a separate letter.

Attachment



**Chicago, Milwaukee, St. Paul
and Pacific Railroad Company**

516 West Jackson Boulevard
Chicago, Illinois 60606
Phone 312/648-3000

FEB - 7 Rec'd

Chicago - February 2, 1983
Refer to: 107.10 - DMU

Mr. Thomas M. Beckley, Pres.
Soo Line Railroad Company
800 Soo Line Building
P. O. Box 530
Minneapolis, MN 55440

Dear Mr. Beckley:

The Milwaukee Road owns an undivided one-half interest in the Des Moines Union Railway Company in Des Moines, Iowa.

The DMU, consisting of a total of 142 acres of land and approximately 35 miles of trackage, is a terminal and switching railroad operation that formerly accommodated the Milwaukee Road and the Norfolk & Western in the interchange of cars between themselves as well as all other carriers serving the Des Moines area.

As you probably know, the Milwaukee Road terminated all rail operations in the central portion of Iowa, including the Des Moines area, on March 1, 1980 and the Norfolk & Western has been the sole user-operator of the DMU since that time. Quite obviously, with only one user remaining, this property is currently under utilized and our Trustee, Richard B. Ogilvie, has requested that I contact various rail carriers and other interested parties to determine which of you would have the greatest interest in acquiring our one-half ownership in this property.

In addition, we have retained 15.4 miles of solely-owned branch lines intact that extend from the westerly end of the DMU at S.W. 16th Street in Des Moines to and through the nearby communities of Clive and Grimes, Iowa. This property contains 206 acres of operating right of way and a total of approximately 19.5 miles of main track and sidings. These branches provide the only rail access to the prime industrial parks situated on the northwest corner of the Des Moines Metropolitan area and immediately adjacent to Interstates 35 and 80. At the present time, the Norfolk & Western is serving the rail needs of these industries under a Service Order arrangement.

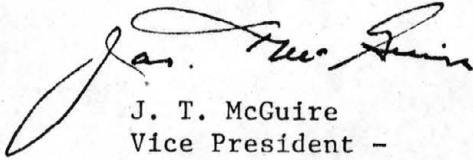
Both of these properties were appraised a few months ago and I am now prepared to share any part or all of the conclusions developed by such appraisals with you as a basis for negotiations if you are interested in

February 2, 1983

Page 2

exploring the potential of these lines. If interested, please telephone me at 312/648-3678 so that an appropriate meeting can be scheduled.

Very truly yours,



J. T. McGuire
Vice President -
Non-Operating Properties

BHB/jd/13

cc: Mr. Dennis M. Cavanaugh
Executive Vice President
Soo Line Railroad Company
800 Soo Line Building
P. O. Box 530
Minneapolis, MN 55440