

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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CSX CORP

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarter ended March 28, 1997

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

62-1051971

(I.R.S. Employer
Identification No.)

901 East Cary Street, Richmond, Virginia
(Address of principal executive offices)

23219-4031
(Zip Code)

(804) 782-1400

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year, if changed since
last report.)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes (X) No ()

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of March 28, 1997: 217,662,928 shares.

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 28, 1997
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CSX CORPORATION AND SUBSIDIARIES
Consolidated Statement of Earnings
(Millions of Dollars, Except Per Share Amounts)

	(Unaudited) Quarters Ended	
	March 28, 1997	March 29, 1996
Operating Revenue	\$ 2,567	\$ 2,514
Operating Expense	2,243	2,218
Operating Income	324	296

Other Income (Expense)	(7)	(12)
Interest Expense	84	60
	-----	-----
Earnings before Income Taxes	233	224
Income Tax Expense	82	78
	-----	-----
Net Earnings	\$ 151	\$ 146
	=====	=====
Earnings Per Share	\$.70	\$.69
	=====	=====
Average Common Shares Outstanding (Thousands)	217,227	210,964
	=====	=====
Common Shares Outstanding (Thousands)	217,663	211,512
	=====	=====
Cash Dividends Paid Per Common Share	\$.26	\$.26
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

CSX CORPORATION AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(Millions of Dollars)

	(Unaudited) Quarters Ended	
	March 28, 1997	March 29, 1996
	-----	-----
OPERATING ACTIVITIES		
Net Earnings	\$ 151	\$ 146
Adjustments to Reconcile Net Earnings to Net Cash Provided		
Depreciation	159	156
Deferred Income Taxes	17	14
Productivity/Restructuring Charge Payments	(15)	(23)
Other Operating Activities	14	(52)
Changes in Operating Assets and Liabilities		
Accounts Receivable	(23)	(20)
Other Current Assets	(3)	(38)
Accounts Payable	(89)	(58)
Other Current Liabilities	(14)	(156)
	-----	-----
Net Cash Provided (Used) by Operating Activities	197	(31)
	-----	-----
INVESTING ACTIVITIES		
Property Additions	(189)	(338)
Proceeds from Property Dispositions	3	24
Short-Term Investments - Net	41	(44)
Purchases of Long-Term Marketable Securities	(18)	--
Proceeds from Sales of Long-Term Marketable Securities	8	89
Other Investing Activities	(25)	12
	-----	-----
Net Cash Used by Investing Activities	(180)	(257)
	-----	-----
FINANCING ACTIVITIES		
Short-Term Debt - Net	(48)	284
Long-Term Debt Issued	5	57
Long-Term Debt Repaid	(51)	(120)

Dividends Paid	(57)	(55)
Other Financing Activities	3	3
	-----	-----
Net Cash Provided (Used) by Financing Activities	(148)	169
	-----	-----
Net Decrease in Cash and Cash Equivalents	(131)	(119)
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
Cash and Cash Equivalents at Beginning of Period	368	320
	-----	-----
Cash and Cash Equivalents at End of Period	237	201
Short-Term Investments at End of Period	273	380
	-----	-----
Cash, Cash Equivalents and Short-Term Investments at End of Period	\$ 510	\$ 581
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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CSX CORPORATION AND SUBSIDIARIES
Consolidated Statement of Financial Position
(Millions of Dollars)

	(Unaudited)	
	March	December
	28,	27,
	1997	1996
	-----	-----
ASSETS		
Current Assets		
Cash, Cash Equivalents and Short-Term Investments	\$ 510	\$ 682
Accounts Receivable	924	894
Materials and Supplies	243	229
Deferred Income Taxes	145	139
Other Current Assets	119	128
	-----	-----

Total Current Assets	1,941	2,072
Properties-Net	11,924	11,906
Investment in Conrail	1,955	1,965
Affiliates and Other Companies	362	345
Other Long-Term Assets	706	677
	-----	-----
Total Assets	\$ 16,888	\$ 16,965
	=====	=====
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 1,053	\$ 1,189
Labor and Fringe Benefits Payable	444	499
Casualty, Environmental and Other Reserves	298	306
Current Maturities of Long-Term Debt	143	101
Short-Term Debt	287	335
Other Current Liabilities	346	327
	-----	-----
Total Current Liabilities	2,571	2,757
Casualty, Environmental and Other Reserves	716	715
Long-Term Debt	4,243	4,331
Deferred Income Taxes	2,743	2,720
Other Long-Term Liabilities	1,488	1,447
	-----	-----
Total Liabilities	11,761	11,970
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$1 Par Value	218	217
Other Capital	1,470	1,433
Retained Earnings	3,546	3,452
Minimum Pension Liability	(107)	(107)
	-----	-----
Total Shareholders' Equity	5,127	4,995
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 16,888	\$ 16,965
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

CSX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the company's financial position as of March 28, 1997 and December 27, 1996, the results of its operations and its cash flows for the quarters ended March 28, 1997 and March 29, 1996, such adjustments being of a normal recurring nature.

Earnings per share are based on the weighted average of common shares outstanding for the quarters ended March 28, 1997 and March 29, 1996. Dilution for these periods, which could result if all outstanding common stock equivalents were exercised, is not significant.

While the company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the financial statements and the notes included in the company's latest Annual Report and Form 10-K.

Beginning with the quarter ended June 28, 1996, the company changed its earnings presentation to exclude non-transportation activities from operating revenue and expense. These activities, principally real estate and resort operations, are now included in "Other Income (Expense)." Prior-year data have been reclassified to conform to the new presentation.

NOTE 2. FISCAL REPORTING PERIODS

The company's fiscal year is composed of 52 weeks ending on the last Friday in December. The financial statements presented are for the 13-week quarters ended March 28, 1997 and March 29, 1996, and the fiscal year ended December 27, 1996.

NOTE 3. ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued Statement No. 128 "Earnings per Share," which establishes new guidelines for the calculation of and disclosures regarding earnings per share. The company will adopt the provisions of Statement No. 128 during the fourth quarter of 1997 and at that time will be required to present basic and diluted earnings per share and to

restate all prior periods. There will be no impact on the calculation of basic earnings per share for the quarters ended March 28, 1997 and March 29, 1996. Diluted earnings per share is not expected to differ materially from basic earnings per share.

The FASB also issued Statement No. 129 "Disclosure of Information About Capital Structure," which the company will adopt during the fourth quarter of 1997. The company does not expect that adoption of the disclosure requirements of this pronouncement will have a material impact on its financial statements.

NOTE 4. JOINT ACQUISITION OF CONRAIL, INC.

At March 28, 1997, the company held shares equivalent to approximately 19.9% of the aggregate outstanding common and ESOP Preferred stock (the Conrail shares) of Conrail, Inc. (Conrail). The shares were acquired in November 1996 pursuant to a merger agreement entered into by the two companies in October 1996 and subsequent tender offer. The merger agreement was subsequently modified, including an amendment on March 7, 1997 to increase the price to be paid for the remaining outstanding Conrail shares to \$115 cash per share and to permit the company to negotiate with Norfolk Southern Corporation (Norfolk Southern) on a division of the Conrail rail system. On April 8, 1997, the company and Norfolk Southern announced an agreement to form a

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CSX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued
(All Tables in Millions of Dollars, Except Per Share Amounts)

jointly-owned entity to acquire all outstanding Conrail shares for \$115 cash per share. The agreement provides for the company to contribute \$4.3 billion for its 42% share of the acquisition and for Norfolk Southern to contribute \$5.9 billion for its 58% share, including the investments already held by each company. The jointly-owned entity is expected to complete its tender offer for the remaining Conrail shares in May 1997 and to place all Conrail shares in a voting trust pending approval of the proposed transaction by the Surface Transportation Board (STB). The joint STB application is expected to be filed shortly after acquisition of the remaining Conrail shares is completed.

At March 28, 1997, the company has accounted for its 19.9% investment in Conrail using the cost method. Upon acquiring its additional interest in Conrail through the jointly-owned entity and until STB approval and release of the Conrail shares from the voting trust, the company will account for the investment using the equity method.

During the quarter ended March 28, 1997, the company incurred net costs

before income taxes of \$24 million with respect to its investment in Conrail shares. These net costs, principally interest on debt issued to acquire the investment less dividends received on the shares, reduced net earnings by \$16 million, 7 cents per share.

NOTE 5. ACCOUNTS RECEIVABLE

The company has sold, directly and through Trade Receivables Participation Certificates (Certificates), ownership interests in designated pools of accounts receivable originated by CSX Transportation, Inc. (CSXT), its rail unit.

During 1993, \$200 million of Certificates were issued at 5.05%, due September 1998. The Certificates represent undivided interests in a master trust holding an ownership interest in a revolving pool of rail freight accounts receivable. At March 28, 1997 and December 27, 1996, the Certificates were collateralized by \$249 million and \$248 million, respectively, of accounts receivable held in the master trust.

In addition, the company has a revolving agreement with a financial institution to sell with recourse on a monthly basis an undivided percentage ownership interest in designated pools of freight and other accounts receivable. The agreement provides for the sale of up to \$200 million in accounts receivable and expires in September 1998.

The company has retained the responsibility for servicing and collecting accounts receivable held in trust or sold. At March 28, 1997 and December 27, 1996, accounts receivable have been reduced by \$372 million, representing Certificates and accounts receivable sold. The net costs associated with sales of Certificates and receivables were \$7 million for each of the quarters ended March 28, 1997 and March 29, 1996.

The company adopted FASB Statement No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" during the first quarter of 1997. Adoption of the pronouncement, which established new guidelines for accounting and disclosure related to transfers of trade accounts receivable and other financial assets, did not have a material impact on the company's financial statements.

CSX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued
 (All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 6. OPERATING EXPENSE

	Quarters Ended	
	March 28, 1997	March 29, 1996
	-----	-----
Labor and Fringe Benefits	\$ 795	\$ 794
Materials, Supplies and Other	614	618
Building and Equipment Rent	284	289
Inland Transportation	237	229
Depreciation	156	153
Fuel	157	135
	-----	-----
Total	\$2,243	\$2,218
	=====	=====

NOTE 7. OTHER INCOME (EXPENSE)

	Quarters Ended	
	March 28, 1997	March 29, 1996
	-----	-----
Interest Income	\$ 12	\$ 12
Income from Real Estate and Resort Operations(1)	(7)	(8)
Net Costs for Accounts Receivable Sold	(7)	(7)
Minority Interest	(10)	(8)
Net Loss on Investment Transactions	--	(2)
Equity Earnings of Other Affiliates	1	2
Income from Investment in Conrail - Net	5	--
Miscellaneous	(1)	(1)
	-----	-----
Total	\$ (7)	\$ (12)
	=====	=====

(1) Gross revenue from real estate and resort operations was \$17 million and \$13 million for the quarters ended March 28, 1997 and March 29, 1996, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Although the company obtains substantial amounts of commercial insurance for potential losses for third-party liability and property damage, reasonable levels of risk are retained on a self-insurance basis. A portion of the insurance coverage, \$25 million limit above \$100 million per occurrence from rail and certain other operations, is provided by a company partially owned by CSX.

The company has been advised that activities of a subsidiary that administered student loans and that was sold by the company in 1992 are under review to determine whether, and to what extent, damages should be asserted against the company for government insurance payments on uncollected loans related to alleged processing deficiencies or errors that may have occurred prior to the time the subsidiary was sold. The company believes it has no material liability for any claim that might be asserted, but the final outcome of the review and the amount of potential damages are not yet reasonably estimable. Based upon information currently available to the company, it is believed any adverse outcome will not be material to the company's results of operations or financial position.

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CSX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited), Continued
(All Tables in Millions of Dollars, Except Per Share Amounts)

CSXT is a party to various proceedings involving private parties and regulatory agencies related to environmental issues. CSXT has been identified as a potentially responsible party (PRP) at approximately 111 environmentally impaired sites that are or may be subject to remedial action under the Federal Superfund statute (Superfund) or similar state statutes. A number of these proceedings are based on allegations that CSXT, or its railroad predecessors, sent hazardous substances to the facilities in question for disposal. Such proceedings arising under Superfund or similar state statutes can involve numerous other waste generators and disposal companies and seek to allocate or recover costs associated with site investigation and cleanup, which could be substantial.

CSXT is involved in a number of administrative and judicial proceedings and other clean-up efforts at approximately 271 sites, including the sites addressed under the Federal Superfund statute or similar state statutes, at which it is participating in the study and/or clean-up of alleged environmental contamination. The assessment of the required response and remedial costs associated with most sites is extremely complex. Cost estimates are based on information available for each site, financial viability of other PRPs, where available, and existing technology, laws and regulations. CSXT's best estimates of the allocation method and percentage of liability when other PRPs are

involved are based on assessments by consultants, agreements among PRPs, or determinations by the U.S. Environmental Protection Agency or other regulatory agencies.

At least once each quarter, CSXT reviews its role, if any, with respect to each such location, giving consideration to the nature of CSXT's alleged connection to the location (e.g., generator, owner or operator), the extent of CSXT's alleged connection (e.g., volume of waste sent to the location and other relevant factors), the accuracy and strength of evidence connecting CSXT to the location, and the number, connection and financial position of other named and unnamed PRPs at the location. The ultimate liability for remediation can be difficult to determine with certainty because of the number and creditworthiness of PRPs involved. Through the assessment process, CSXT monitors the creditworthiness of such PRPs in determining ultimate liability.

Based upon such reviews and updates of the sites with which it is involved, CSXT has recorded, and reviews at least quarterly for adequacy, reserves to cover estimated contingent future environmental costs with respect to such sites. The recorded liabilities for estimated future environmental costs at March 28, 1997, and December 27, 1996, were \$115 million and \$117 million, respectively. These recorded liabilities include amounts representing CSXT's estimate of unasserted claims, which CSXT believes to be immaterial. The liability has been accrued for future costs for all sites where the company's obligation is probable and where such costs can be reasonably estimated. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. The majority of the March 28, 1997 environmental liability is expected to be paid out over the next five to seven years, funded by cash generated from operations.

The company does not currently possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, latent conditions at any given location could result in exposure, the amount and materiality of which cannot presently be reliably estimated. Based upon information currently available, however, the company believes that its environmental reserves are adequate to accomplish remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters will not materially affect its overall results of operations and financial condition.

A number of legal actions, other than environmental, are pending against CSX and certain subsidiaries in which claims are made in substantial amounts. While the ultimate results of environmental investigations, lawsuits and claims involving the company cannot be predicted with certainty, management does not currently expect that resolution of these matters will have a material adverse effect on the consolidated financial position, results of operations and cash flows of the company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On April 8, 1997, the company and Norfolk Southern entered into an agreement providing for the joint acquisition and division of Conrail. This landmark agreement is outlined in more detail under "Joint CSX/Norfolk Southern Acquisition of Conrail" in this section.

RESULTS OF OPERATIONS

The company reported net earnings for the quarter ended March 28, 1997, of \$151 million, 70 cents per share, versus net earnings of \$146 million, 69 cents per share, for the same period in 1996. Net earnings for the quarter rose 3% over the 1996 first quarter results.

Excluding net costs of \$24 million pretax and \$16 million after tax relating to CSX's 19.9% investment in Conrail, earnings would have been \$167 million, 77 cents per share, for the 1997 quarter. These costs were principally interest on debt issued to acquire the investment, less dividends received on the Conrail stock.

Operating revenue for the first quarter of 1997 rose to \$2.6 billion, vs. \$2.5 billion in the 1996 period. Operating expense of \$2.2 billion remained level with the prior-year quarter. Operating income was \$324 million, 9% higher than 1996's first quarter.

RAIL UNIT RESULTS

The company's rail unit achieved record quarterly operating income of \$282 million, 19% above last year's first quarter, and 15% above the prior first-quarter record set in 1995. Total rail operating revenue of \$1.25 billion exceeded 1996's weather-affected first-quarter results by \$52 million.

Shipments of coal, the unit's largest commodity, rose 9% to 41.5 million tons, reflecting higher utility coal traffic. Coal revenue increased 5% over 1996. Total merchandise traffic rose 4%, due to strong demand overall. Major contributors to the increase included: autos and parts (up 14%); minerals (up 11%); metals (up 9%) and chemicals (up 6%).

Rail operating expense for the quarter increased 1% to \$965 million.

RAIL OPERATING INCOME
(Millions of Dollars)

Quarters Ended

March 28, 1997	March 29, 1996	Percent Change
-------------------	-------------------	-------------------

Operating Revenue			
Merchandise	\$ 826	\$ 789	5 %
Coal	389	370	5 %
Other	32	36	(11) %
	-----	-----	
Total	1,247	1,195	4 %
Operating Expense	965	959	1 %
	-----	-----	
Operating Income	\$ 282	\$ 236	19 %
	=====	=====	
Operating Ratio	77.4%	80.3%	
	=====	=====	

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION, CONTINUED

RESULTS OF OPERATIONS, CONTINUED

CONTAINER SHIPPING UNIT RESULTS

Despite ongoing rate pressures in major trade lanes, the container-shipping unit achieved its second-best first quarter. Operating income totaled \$41 million, compared with 1996's first-quarter record \$52 million. During the quarter, the unit continued to focus on stringent cost control and productivity improvements.

Strength in global trade resulted in a 10% increase in total volume - 33% in the Americas trade lane, 16% in the Asia/Middle East/Europe (A.M.E.), and 14% in the Atlantic. Operating revenue declined 1% over the prior-year quarter to \$1 billion, reflecting rate pressures in the major trade lanes.

While handling greater volume, operating expense of \$909 million was held level with the 1996 period. This reflects the combined benefits of cost-cutting measures to date and strategic initiatives.

OTHER UNIT RESULTS

Performance at the company's barge unit was significantly affected by adverse weather conditions along the river system. The unit's first-quarter operating income totaled \$2 million, compared with last year's record of \$18 million. Severe flooding and ice resulted in increased operating costs and reduced shipments. Traffic is expected to rebound when the flooding subsides.

The company's intermodal unit achieved operating income of \$5 million, vs. \$3 million in the 1996 quarter. Although revenue decreased 3% due to changes in traffic mix, better margins were achieved as a result of network redesign and rationalization measures implemented in 1996.

The contract logistics unit continued its rapid growth, with revenue rising 30% to \$92 million and operating income reaching \$6 million.

FINANCIAL CONDITION

Cash, cash equivalents and short-term investments totaled \$510 million at March 28, 1997, a decrease of \$172 million since December 27, 1996. The primary source of cash and cash equivalents during the quarter was business operations. Cash and cash equivalents were primarily used by property additions, repayment of long-term debt, and payment of dividends.

During the first quarter of 1997, net investing activities consumed \$180 million of cash and cash equivalents compared with \$257 million consumed in the first quarter of 1996. The change in cash used by investing activities was primarily due to lower property additions compared to the quarter ended March 29, 1996.

Financing activities used \$148 million of cash and cash equivalents for the quarter ended March 28, 1997, a \$317 million increase from 1996's first quarter. The change was primarily due to a reduction in short-term debt levels.

The working capital deficit decreased \$55 million during the quarter ended March 28, 1997. The decrease was primarily due to reductions in accounts payable and labor and fringe benefits payable, partially offset by a decrease in cash, cash equivalents and short-term investments. A working capital deficit is not unusual for the company and does not indicate a lack of liquidity. The company continues to maintain adequate current assets to satisfy current liabilities when they are due and has sufficient liquidity and financial resources to manage its day-to-day cash needs.

FINANCIAL DATA

(Millions of Dollars)

	March 28, 1997	December 27, 1996
Cash, Cash Equivalents and Short-Term Investments	\$ 510	\$ 682
Commercial Paper Outstanding - Short-Term	287	335
Commercial Paper Outstanding - Long-Term	2,300	2,300
Working Capital (Deficit)	(630)	(685)
Current Ratio	0.8	0.8
Debt Ratio	45%	46%
Ratio of Earnings to Fixed Charges	2.8x	4.0x

OUTLOOK

Each of the company's transportation units anticipates overall favorable performance over the remainder of 1997, compared to 1996. The company expects modest economic growth and robust demand for transportation services. CSX also plans to remain focused on customer service, safety and cost control throughout its units in order to enhance core earning power and increase shareholder returns.

Following on its record first quarter results, the rail unit expects to continue on that same positive trend into the second quarter. Revenue is expected to improve in 1997 propelled by strength in merchandise and coal traffic. The rail unit, through the National Carriers Conference Committee, now has agreements with all labor organizations signed and in effect.

The container-shipping unit anticipates increased volume and permanent cost reductions to mitigate the difficult rate environment. Improving the mix of higher margin freight will remain an ongoing priority.

The barge unit will closely monitor the weather situation as it will continue to have a negative impact on its operations in the second quarter. The intermodal unit forecasts overall improvement compared to prior year levels attributable to its network redesign implemented in 1996. The contract logistics company expects its growth to continue throughout the year, based upon increased demand for its services.

JOINT CSX/NORFOLK SOUTHERN ACQUISITION OF CONRAIL

CSX/NORFOLK SOUTHERN AGREEMENT

On April 8, 1997, the company and Norfolk Southern Corporation entered

into an agreement providing for their joint acquisition of Conrail and the division of its routes and other assets. Conrail is a holding company of which the principal subsidiary is Consolidated Rail Corporation, a Class I freight railroad that operates approximately 10,500 route miles in the Northeast and Midwest of the United States and the Province of Quebec, Canada, and which possesses superior access to certain major northeast markets, including the New York and Boston metropolitan areas. Norfolk Southern owns an eastern Class I freight railroad, Norfolk Southern Railway Company.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION, CONTINUED

Under the CSX/Norfolk Southern agreement, the company and Norfolk Southern will acquire all outstanding shares of Conrail not already owned by them for \$115 in cash per share through a jointly-owned acquisition entity. The company and Norfolk Southern will each possess 50% of the voting and management rights of the acquisition entity, and non-voting equity will be apportioned between the parties to achieve overall economic allocations of 42% for CSX and 58% for Norfolk Southern. Following approval by the STB as described below, Conrail's assets will be segregated within Conrail, and the company and Norfolk Southern will each benefit from the operation of a specified portion of the Conrail routes and other assets through the use of various operating arrangements, and certain Conrail assets will be operated for the joint benefit of the company and Norfolk Southern.

The acquisition of the Conrail shares will be effected under a pending tender offer initiated by the company in December 1996 and amended in April 1997 to include Norfolk Southern as a co-bidder (the joint tender offer) and a subsequent cash merger. The estimated aggregate cost of the joint tender offer, the merger and the shares of Conrail already acquired by the company and Norfolk Southern is approximately \$10.2 billion. Pursuant to the CSX/Norfolk Southern agreement, the company will bear 42%, or approximately \$4.3 billion, and Norfolk Southern will bear 58%, or approximately \$5.9 billion, of such cost. These totals include approximately \$2 billion previously spent by the company and \$1 billion previously spent by Norfolk Southern to acquire approximately 30%, in aggregate, of Conrail's shares.

The scheduled closing for the joint tender offer for the remaining outstanding Conrail shares is May 23, 1997. However, the closing may be extended, to a date not later than June 2, 1997, if certain conditions in the original merger agreement, dated as of October 14, 1996 by and among Conrail, the company and Green Acquisition Corp. (a wholly-owned subsidiary of the company), as amended, are satisfied. The joint tender offer is not subject to any financing condition but is conditioned, among other things, on the valid tender of shares constituting, together with Conrail shares already owned by CSX

and Norfolk Southern, at least a majority of the outstanding Conrail shares on a fully-diluted basis. Conrail shares purchased in the joint tender offer will, together with all Conrail shares previously purchased by the company and Norfolk Southern, be deposited into a voting trust pending STB approval of the joint acquisition, control and division of Conrail. Upon closing, the joint tender offer will be followed by a merger in which all Conrail Shares not tendered for purchase in the joint tender offer will be converted into the right to receive \$115 per share in cash.

JOINT CSX/NORFOLK SOUTHERN STB APPLICATION

While the obligation to purchase Conrail shares by the company and Norfolk Southern in the joint tender offer is not subject to any regulatory condition, the exercise of control over Conrail by the acquiring companies remains subject to a number of conditions and approvals, including approval by the STB, which has the authority to modify contract terms and impose additional conditions, including with respect to divestitures, grants of trackage rights and other terms of continuing operations. Subject to the STB's authorization of an accelerated filing date, the company and Norfolk Southern plan to file a joint application with the STB in June 1997 for control and division of Conrail and for such other matters as may be required to be approved by the STB. The joint STB application will address traffic flows, operations and related matters; will outline the capital investments each company plans to make in new connections and facilities and to increase capacity on critical routes; and will detail operating savings and other public benefits resulting from the transaction. The application also will contain certain historical and pro forma financial information required by the STB. The company and Norfolk Southern have asked the STB to consider the joint application on an expedited schedule that would result in an STB decision in early 1998. Under current law, the STB must rule within approximately sixteen months from the filing date of the joint application. No assurance can be given with respect to the receipt of STB approval or the modifications or conditions that may be imposed in connection therewith.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION, CONTINUED

PROPOSED DIVISION OF CONRAIL ROUTES

Until the date the company and Norfolk Southern are permitted by the STB to assume control over Conrail (the Control Date), Conrail will continue to be managed by its current Board of Directors and management. After the Control Date, Conrail will segregate its assets primarily into two groups to facilitate their separate operation pursuant to leasing, operating, partnership or other similar arrangements. The remaining assets and liabilities of Conrail, including joint facilities, generally will either be shared or allocated ratably between

the company and Norfolk Southern according to their respective 42% and 58% economic allocations. In arriving at the proposed division of Conrail and these percentages, the acquiring companies negotiated with a view toward producing the best fits with their existing systems and optimizing service to their respective customers.

The acquisition by the company of the Conrail shares and the right to use the assets allocated to or shared by the company pursuant to the CSX/Norfolk Southern agreement and the liabilities allocated to or shared by it pursuant to that agreement will be hereinafter referred to as the "Transaction." Many of the terms of the Transaction will be detailed in further definitive documentation that is currently being negotiated between CSX and Norfolk Southern.

For additional information regarding the Transaction and the CSX/Norfolk Southern agreement, reference is made to the company's Tender Offer Statement on Schedule 14D-1, together with exhibits thereto, initially filed with the Securities and Exchange Commission on December 6, 1996, as amended. In addition, pursuant to the Securities Exchange Act of 1934, the company will be required to file under cover of Form 8-K certain historical financial statements and pro forma financial statements giving effect to the Transaction no later than 75 days after the consummation of the joint tender offer.

FINANCING ARRANGEMENTS

The company estimates that it will require \$2.3 billion to purchase its portion of the outstanding Conrail shares pursuant to the joint tender offer. The company paid approximately \$2 billion to acquire about 20% of Conrail's shares in November 1996. At that time, the company arranged a five-year \$4.8 billion bank credit facility to finance an acquisition of Conrail and to meet general working capital needs. The company intends to utilize the capital markets to raise substantially all of the remaining funds needed for its contribution under the joint tender offer. Those securities will be sold in private placements and will not be registered under the Securities Act of 1933. Therefore, such securities may not be offered or sold in the United States without registration or exemption.

Such financings are expected to result in the company's having outstanding a combination of long-term debt with staggered maturities, trust preferred securities and commercial paper. The company expects its long-term debt levels (including the company's portion of Conrail debt and excluding trust preferred securities) to peak in 1998 at approximately \$6.5 billion, with related interest charges (including interest payments on the company's portion of Conrail debt) to peak at approximately \$500 million. While definitive documentation is not complete, the company and Norfolk Southern contemplate that payments to Conrail under operating or similar arrangements and through capital contributions to the jointly-owned acquisition entity will be sufficient to pay obligations on Conrail's outstanding debt instruments. The agreement between the company and Norfolk Southern provides that such debt will be shared ratably according to their respective 42% and 58% percentages.

BROADEST GEOGRAPHIC NETWORK IN EASTERN UNITED STATES

The Transaction will significantly enhance the company's position as a leading global transportation company. The company will remain the largest railroad in the eastern United States and become the third largest railroad in the nation, measured in terms of route miles and ton-miles.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION, CONTINUED

The company, as a result of the Transaction, will be adding approximately 3,500 route miles, or 19%, to its rail network, and sharing with Norfolk Southern approximately 1,200 additional route miles. The company will have approximately 22,000 route miles in 22 states, the District of Columbia, and the Provinces of Ontario and Quebec, Canada, and will provide direct access to virtually every major metropolitan area east of the Mississippi River and to eleven of the largest east coast and gulf ports.

ENHANCED OPERATING EFFICIENCIES AND REVENUE GROWTH

Management expects the integration of Conrail operations resulting from the Transaction to add approximately \$1.6 billion, or 15%, to the company's annual revenue beginning in the first twelve months following consolidation. Management believes that the Transaction will also result in growth of the company's rail revenue base through expansion of single-line service and the company's ability to compete more effectively on certain routes along which large quantities of goods are now transported by truck. Single-line service is preferred by shippers over joint-line service because of lower transaction costs, reduced delays, less damage from interchange operations and single-carrier accountability. The addition of Conrail lines to the company's rail network also will improve operational efficiency through better asset utilization. Optimization of train sizes, increased length of haul, improved backhauls, shorter routes to many destinations and fewer empty movements are all expected to produce cost reductions for the combined rail network. Other significant savings will be achieved through the realization of economies of scale, rationalization of administrative and other overhead expenses and consolidation of duplicative facilities. Specific plans for achieving these cost savings following the Control Date are currently under development and will be more specifically identified in the STB application.

FINANCIAL EFFECTS

The company expects that the benefits from the Transaction will begin to

build from the Control Date and should be largely realized within a three-year period thereafter. It is anticipated that STB approval will be granted in early 1998. Therefore, for the purposes of the following discussion, Year 1, Year 2 and Year 3 roughly correspond to 1998, 1999 and 2000, respectively. Based on joint efforts of the company and Conrail to identify potential cost savings, management currently estimates that the Transaction will lead to quantifiable pre-tax benefits from increased traffic and cost efficiencies of approximately \$75 million, \$170 million and \$240 million annually in Years 1, 2 and 3, respectively, compared to the separate operation of the company and its share of Conrail. These benefits include estimated incremental operating income of \$25 million, \$54 million and \$75 million expected through increased traffic in Years 1, 2 and 3, respectively. The remaining pre-tax benefits will be in the form of operating cost savings, with \$50 million, \$116 million and \$165 million expected to be realized in Years 1, 2 and 3, respectively. Further, management expects a reduction in the requirement for annual capital expenditures of approximately \$12 million, \$28 million and \$40 million in Years 1, 2 and 3, respectively.

Management estimates that the company will, in Years 1 and 2, incur one-time transitional capital expenditures in connection with the integration of operations. Those are expected to be \$310 million in Year 1 and \$178 million in Year 2.

The overall purchase price paid by the company is expected to exceed the historical book value of the net Conrail assets acquired by the company by approximately \$3.5 billion. Although purchase accounting adjustments will not be finalized until the Transaction is completed, a substantial portion of the excess purchase price is expected to be allocated to specific assets and liabilities acquired, with the remainder allocated to goodwill. On an aggregate basis, the excess purchase price is expected to be amortized over a period of approximately 40 years.

Because of the time required to obtain necessary regulatory and other approvals, the company does not expect integrated operations to have a significant effect on operating and financial results prior to fiscal 1998. The primary impact of the proposed Transaction on net earnings prior to the

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION, CONTINUED

integration of operations is likely to be the after-tax effect of the company's share of Conrail's net earnings, reported under the equity method of accounting, less interest on debt incurred to acquire and hold Conrail shares. Net cash flow prior to operational integration is expected to be reduced by interest payments on such debt, partially offset by Conrail dividends. The average interest rate in 1996 on debt incurred to acquire Conrail shares was

approximately 5.6%. The degree of negative impact on net earnings and net cash flow during 1997 will depend primarily on the net earnings reported by Conrail and the average interest rate and timing of interest payments on the related debt.

THE ABOVE ESTIMATES AND FORECASTS ARE BASED UPON NUMEROUS ESTIMATES AND ASSUMPTIONS ABOUT COMPLEX ECONOMIC AND OPERATING FACTORS WITH RESPECT TO INDUSTRY PERFORMANCE, GENERAL BUSINESS AND ECONOMIC CONDITIONS AND OTHER MATTERS THAT CANNOT BE PREDICTED ACCURATELY AND THAT ARE SUBJECT TO CONTINGENCIES OVER WHICH THE COMPANY HAS NO CONTROL. SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY TO DIFFER MATERIALLY FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. CERTAIN OF THOSE RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY INCLUDE: (A) FUTURE ECONOMIC CONDITIONS IN THE MARKETS IN WHICH THE COMPANY AND CONRAIL OPERATE; (B) FINANCIAL MARKET CONDITIONS; (C) INFLATION RATES; (D) CHANGING COMPETITION; (E) CHANGES IN THE ECONOMIC REGULATORY CLIMATE IN THE UNITED STATES RAILROAD INDUSTRY; (F) THE ABILITY TO ELIMINATE DUPLICATIVE ADMINISTRATIVE FUNCTIONS; AND (G) ADVERSE CHANGES IN APPLICABLE LAWS, REGULATIONS OR RULES GOVERNING ENVIRONMENTAL, TAX OR ACCOUNTING MATTERS. THESE FORWARD LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS FILING. THE COMPANY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD LOOKING STATEMENT CONTAINED HEREIN TO REFLECT ANY CHANGE IN THE COMPANY'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. (10.1) 1987 Long-Term Performance Stock Plan
2. (27) Financial Data Schedule

(b) Reports on Form 8-K

1. None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CSX CORPORATION
(Registrant)

By: /S/JAMES L. ROSS

James L. Ross
Vice President and Controller
(Principal Accounting Officer)

Dated: April 24, 1997

1987 Long-Term Performance Stock Plan

As Amended and Restated Effective April 25, 1996
(As Amended February 12, 1997)

1. Purpose

The purpose of the CSX Corporation Long-Term Performance Stock Plan is to attract and retain outstanding individuals as officers and key employees of CSX Corporation and its subsidiaries, to furnish motivation for the achievement of long-term performance objectives by providing such persons opportunities to acquire ownership of common shares of the Company, monetary payments based on the value of such shares or the financial performance of the Company, or both, on terms as herein provided. It is intended that the Incentives provided under this Plan will be treated as qualified performance-based compensation within the meaning of Section 162(m) of the Code.

2. Definitions

Whenever the following words are capitalized and used in the Plan, they shall have the respective meanings set forth below, unless a different meaning is expressly provided. Unless the context clearly indicates to the contrary, in reading this document the singular shall include the plural and the masculine shall include the feminine.

- a. "Beneficiary": The term Beneficiary shall mean the person designated by the Participant, on a form provided by the Company, to exercise the Participant's rights in accordance with Section 14 of the Plan in the event of his death.
- b. "Board of Directors": The term Board of Directors or Board means the Board of Directors of CSX Corporation.
- c. "Cause": The term Cause means (i) an act or acts of personal dishonesty of a Participant intended to result in substantial personal enrichment of the Participant at the expense of the Company or any of its subsidiaries, (ii) violation of the management responsibilities by the Participant which is demonstrably willful and deliberate on the Participant's part and which is not remedied in a reasonable period of time after receipt of written notice from the Company or a subsidiary, or (iii) the conviction of the Participant of a felony involving moral turpitude.
- d. "Change in Control": The term Change in Control is defined in Section 20.

- e. "Code": The term Code means the Internal Revenue Code of 1986, as amended.
- f. "Committee": The term Committee means a committee appointed from time to time by the Board of Directors to administer the Plan.
- g. "Company": The term Company means CSX Corporation.
- h. "Completed Month": The term Completed Month shall mean a period beginning on the monthly anniversary date of a grant of an Incentive and ending on the day before the next monthly anniversary.
- i. "Covered Employee": The term Covered Employee shall mean the chief executive officer of the Company or any other individual who is among the four (4) highest compensated officers or who is otherwise a "covered employee" within the meaning of Section 162(m) of the Code, as determined by the Committee.
- j. "Disability": The term Disability means long-term disability as determined under the Company's Salary Continuance and Long-Term Disability Plan.
- k. "Exchange Act": The term Exchange Act means the Securities Exchange Act of 1934, as amended.
- l. "Exercisability Requirements": The term Exercisability Requirements used with respect to any grant of options means such restrictions or conditions on the exercise of such options that the Committee may, in its discretion, add to the one-year holding requirement contained in Sections 7 and 8.
- m. "Fair Market Value": The term Fair Market Value shall be deemed to be the mean between the highest and lowest quoted selling prices of the stock per share as reported under New York Stock Exchange-Composite Transactions on the day of reference to any event to which the term is pertinent, or, if there is no sale that day, on the last previous day on which any such sale occurred.
- n. "Functional Group": The term Functional Group means a group of employees, identified by the Compensation Committee, in its sole discretion, to be subject to a common set of Performance Objectives.
- o. "Incentive": The term Incentive means any incentive under the Plan described in Section 6.
- p. "Objective Standard": The term Objective Standard means a formula or standard by which a third party, having knowledge of the relevant performance results, could calculate the amount to be paid to a Participant. Such formula or standard shall specify the individual employees or class of employees to which it applies, and shall

preclude discretion to increase the amount payable that would otherwise be due upon attainment of the objective.

- q. "Participant": The term Participant means an individual designated by the Committee as a Participant pursuant to Section 5.
- r. "Performance Objective": The term Performance Objective shall mean a performance objective established in writing by the Committee within ninety (90) days of the commencement of the Performance Period to which the Performance Objective relates and at a time when the outcome of such objective is substantially uncertain. Each Performance Objective shall be established in such a way that a third party having knowledge of the relevant facts could determine whether the objective is met. A Performance Objective may be based on one or more business criteria that apply to the individual Participant, a business unit or the Company as a whole, and shall state, in terms of an Objective Standard, the method of computing the amount payable to the Participant if the Performance Objective is attained. With respect to Incentives granted to Covered Employees, the material terms of the Performance Objective shall be disclosed to, and must be subsequently approved by, a vote of the shareholders of the Company, consistent with the requirements of Section 162(m) of the Code and the regulations thereunder. The Performance Objectives for any Performance Period shall be based on one or more of the following measures, as determined by the Committee in writing within ninety (90) days of the commencement of the Performance Period:
1. The achievement by the Company or business unit of specific levels of Return on Invested Capital ("ROIC"). ROIC for the Company or business unit means its results of operations divided by its capital.
 2. The generation by the Company or business unit of free cash flow.
 3. The creation by the Company or business unit of specific levels of Economic Value Added ("EVA"). EVA for the Company or business unit means its ROIC less its cost of capital multiplied by its capital.
 4. The creation by the Company of specific levels of Total Shareholder Return ("TSR"). TSR for the Company means total return to shareholders as measured by stock price appreciation plus dividends.
- s. "Performance Period": The term Performance Period means a fixed period of time, established by the Committee, during which a Participant performs service for the Company and during which Performance Objectives may be achieved.
- t. "Plan": The term Plan means this CSX Corporation 1987 Long-Term

Performance Stock Plan as amended or restated from time to time.

- u. "Retirement": The term Retirement means termination of employment with immediate commencement of retirement benefits under the Company's defined benefit pension plan.
- v. "Separation From Employment": The term Separation From Employment means an employee's separation from employment with the Company as a result of Retirement, death, Disability, or termination of employment (voluntarily or involuntarily). A Participant in receipt of periodic severance payments shall be considered separated from employment on the day preceding the day such severance payments commenced.
- w. "Trust": The term Trust means the CSX Corporation Executive Stock Trust or such other trust which will substantially conform to the terms of the Internal Revenue Service model trust as described in Revenue Procedure 92-64, 1992-2 C.B. 422.

3. Number of Shares

Subject to the provisions of Section 16 of this Plan, the maximum number of shares which may be issued pursuant to the Incentives shall be 16,000,000 shares of the Company's common stock, par value \$1.00 per share. Such shares shall be authorized and unissued shares of the Company's common stock. Subject to the provisions of Section 16, if any Incentive granted under the Plan shall terminate or expire for any reason without having been exercised in full, the unissued shares subject thereto shall again be available for the purposes of the Plan. Similarly, shares which have been issued, but which the Company retains or which the Participant tenders to the Company in satisfaction of income and payroll tax withholding obligations or in satisfaction of the exercise price of any option shall remain authorized and shall again be available for the purposes of the Plan, provided, however, that any such previously issued shares shall not be the subject of any grant under the Plan to any officer of the Company who, at the time of such grant, is subject to the short-swing trading provisions of Section 16 of the Exchange Act.

4. Administration

The Plan shall be administered by the Committee. The Committee shall consist of three or more members of the Board of Directors. No member of the Committee shall be eligible to receive any Incentives under the Plan while a member of the Committee. A majority of the Committee shall constitute a quorum. The Committee shall recommend to the Board individuals to receive Incentives, including the type and amount thereof, unless the Board shall have delegated to the Committee the authority and power to select persons to whom Incentives may be granted, to establish the type and amount thereof, and to make such grants.

Subject to the express provisions of the Plan, the Committee shall have authority to construe any agreements entered into with any person in respect of any Incentive or Incentives, to prescribe, amend and rescind rules and regulations relating to the Plan, to determine the terms and provisions of any

such agreements and to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any agreement under the Plan in the manner and to the extent it shall deem expedient to carry it into effect, and it shall be the sole and final judge of such expedience. Any determination of the Committee under the Plan may be made without notice of meeting of the Committee by a writing signed by a majority of the Committee members. The determinations of the Committee on the matters referred to in this Section 4 shall be conclusive.

5. Eligibility and Participation

Incentives may be granted only to officers and key employees of the Company and of its subsidiaries at the time of such grant as the Committee in its sole discretion may designate from time to time to receive an Incentive or Incentives. An officer or key employee who is so designated shall become a Participant. A director of the Company or of a subsidiary who is not also an officer or employee of the Company or of such subsidiary will not be eligible to receive an Incentive.

The Committee's designation of an individual to receive an Incentive at any time shall not require the Committee to designate such person to receive an Incentive at any other time. The Committee shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Incentives, including without limitation (a) the financial condition of the Company, (b) anticipated financial results for the current or future years, including return on invested capital, (c) the contribution by the Participant to the profitability and development of the Company through achievement of established strategic objectives, and (d) other compensation provided to Participants.

6. Incentives

Incentives may be granted in any one or a combination of (a) Incentive Stock Options; (b) Non-Qualified Stock Options; (c) Stock Appreciation Rights; (d) Performance Shares; (e) Performance Units; (f) Restricted Stock; and (g) Incentive Compensation Program Shares, all as described below and pursuant to the terms set forth in Sections 7-12 hereof. With respect to Items (a)-(c), the maximum number of shares of common stock of the Company with respect to which these Incentives may be granted any Plan Year to any Participant will be 750,000. With respect to Items (d)-(f), the maximum number of shares of common stock of the Company with respect to which these Incentives may be granted during any Plan Year to any Participant will be 150,000.

7. Incentive Stock Options

Incentive Stock Options (ISOs) will consist of options to purchase shares of the Company's common stock at purchase prices not less than 100 percent of the Fair Market Value of such common stock on the date of grant. ISOs will be exercisable upon the date or dates specified in an option agreement entered into

with a Participant but not earlier than one year after the date of grant of the options and not later than 10 years after the date of grant of the options; provided, however, that whether or not the one-year holding requirement is satisfied, any Exercisability Requirements must be satisfied. For options granted after December 31, 1986, the aggregate Fair Market Value, determined at the date of grant, of shares for which ISOs are exercisable for the first time by a Participant during any calendar year shall not exceed \$100,000.

Notwithstanding the provisions of Section 5 of this Plan, no individual will be eligible for or granted an ISO if that individual owns stock of the Company possessing more than 10 percent of the total combined voting power of all classes of the stock of the Company or its subsidiaries.

Any Participant who is an option holder may exercise his option to purchase stock in whole or in part upon the date or dates specified in the option agreement offered to him. In no case may an option be exercised for a fraction of a share. Except as set forth in this Section 7 and in Sections 12 through 15, no option holder may exercise an option unless at the time of exercise he has been in the continuous employ of the Company or one of its subsidiaries since the grant of such option. An option holder under this Plan shall have no rights as a shareholder with respect to any shares subject to such option until such shares have been issued.

For purposes of this Section 7, written notice of exercise must be received by the Corporate Secretary of the Company not less than one year nor more than 10 years after the option is granted. Such notice must state the number of shares being exercised and must be accompanied by payment of the full purchase price of such shares. Payment for the shares for which an option is exercised may be made by (1) a personal check or money order payable to CSX Corporation; (2) a tender by the employee (in accordance with procedures established by the Company) of shares of the Company's common stock having a Fair Market Value on the date of tender equaling the purchase price of the shares for which the option is being exercised; or (3) any combination of (1) and (2).8.

8. Non-Qualified Stock Options

Non-Qualified Stock Options (NQSOs) will consist of options to purchase shares of the Company's common stock at purchase prices not less than 100 percent of the Fair Market Value of such common stock on the date of grant.

NQSOs will be exercisable upon the date or dates specified in an option agreement entered into with a Participant but not earlier than one year after the date of grant of the options and not later than 10 years after the date of grant of the options; provided, however, that whether or not the one-year holding requirement is satisfied, any Exercisability Requirements must be satisfied.

Any Participant may exercise an option to purchase stock upon the date or dates specified in the option agreement offered to him. In no case may an option be exercised for a fraction of a share. Except as set forth in this Section 8 and in Sections 12 through 15, no option holder may exercise an option unless at

the time of exercise he has been in the continuous employ of the Company or one of its subsidiaries since the grant of his option. An option holder under this Plan shall have no rights as a shareholder with respect to any shares subject to such option until such shares have been issued.

For purposes of this Section 8, written notice of exercise must be received by the Corporate Secretary of the Company, not earlier than one year nor later than 10 years after the option is granted. Such notice must state the number of shares being exercised and must be accompanied by payment of the full purchase price of such shares. Payment for the shares for which an option is exercised may be made by (1) a personal check or money order payable to CSX Corporation; (2) a tender by the employee (in accordance with procedures established by the Company) of shares of the Company's common stock having a Fair Market Value on the date of tender equaling the purchase price of the shares for which the option is being exercised; (3) the delivery of a properly executed exercise notice, together with irrevocable instructions to a broker to promptly deliver to the Company either sale proceeds of shares sold to pay the purchase price or the amount loaned by the broker to pay the purchase price; or (4) any combination of (1), (2) and (3).

9. Stock Appreciation Rights

Any option granted under the Plan may include a stock appreciation right (SAR) by which the participant may surrender to the Company all or a portion of the option to the extent exercisable at the time of surrender and receive in exchange a payment equal to the excess of the Fair Market Value of the shares covered by the option portion surrendered over the aggregate option price of such shares. Such payment shall be made in shares of Company common stock, in cash, or partly in shares and partly in cash, as the Committee in its sole discretion shall determine, but in no event shall the number of shares of common stock delivered upon a surrender exceed the number the option holder could then purchase upon exercise of the option. Such rights may be granted by the Committee concurrently with the option or thereafter by amendment upon such terms and conditions as the Committee may determine.

The Committee may also grant, in addition to, or in lieu of options to purchase stock, SARs which will entitle the Participant to receive a payment upon surrender of that right, or portion of that right in accordance with the provisions of the Plan, equaling the difference between the Fair Market Value of a stated number of shares of Company common stock on the date of the grant and the Fair Market Value of a comparable number of shares of Company common stock on the day of surrender, adjusted for stock dividends declared between the time of the grant of the SAR and its surrender. The Committee shall have the right to limit the amount of appreciation with respect to any or all of the SARs granted. Payment made upon the exercise of the SARs may be in cash or shares of Company common stock, or partly in shares and partly in cash, as the Committee in its sole discretion shall determine.

For purposes of this Section 9, written notice must be received by the Corporate Secretary of the Company not earlier than one year nor later than 10 years after the SAR is granted. Such notice must state the number of SARs being

surrendered and the method of settlement desired within the guidelines established from time to time by the Committee. The SAR holder will receive settlement based on the Fair Market Value on the day the written request is received by the Corporate Secretary of the Company.

In certain situations as determined by the Committee, for purposes of this Section 9, written notice must be received by the Corporate Secretary of the Company between the third and twelfth business days after the public release of the Company's quarterly earnings report, or between such other, different period as may hereinafter be established by the Securities and Exchange Commission. For such settlements, a Participant subject to a restricted exercise period shall receive settlement based on the highest Fair Market Value during the period described in the foregoing sentence.

The Committee may not grant an SAR or other rights under this Section 9 in connection with an incentive stock option if such grant would cause the option or the Plan not to qualify under Section 422A of the Code or if it is prohibited by such section or Treasury regulations issued thereunder. Any grant of an SAR or other rights which would disqualify either the option as an ISO or the Plan, or which is prohibited by Section 422A of the Code or Treasury regulations issued thereunder, is and will be considered as void and vesting no rights in the grantee. It is a condition for eligibility for the benefits of the option and of the Plan that the Participant agree that in the event an SAR or other right granted should be determined to be void as provided by the foregoing, the Participant has no right or cause of action against the Company.

10. Performance Unit Awards and Performance Share Awards.

The Committee may grant Performance Unit Awards (PUAs) and Performance Share Awards (PSAs) under which payment shall be made in shares of the Company's common stock, in cash, or partly in shares and partly in cash, as the Committee in its sole discretion shall determine. PUAs and PSAs may be awarded to individual Participants or to a Functional Group. Awards to a Functional Group shall be subject to distribution by the Chief Executive Officer of the Company, or by his designees, to individuals within such group. At the time of the grant, the Committee shall establish in writing and communicate to Participants, and to members of a Functional Group who can be identified, Performance Objectives to be achieved during the Performance Period. Awards of PUAs and PSAs may be determined by the average level of attainment of Performance Objectives over multiple Performance Periods.

Prior to the payment of PUAs and PSAs, the Committee shall determine the extent to which Performance Objectives have been attained during the Performance Period or Performance Periods in order to determine the level of payment to be made, if any, and shall record such results in the minutes of the meeting of the Committee. In no instance will payment be made if the Performance Objectives are not attained.

Payment, if any, shall be made in a lump sum or in installments, in cash or shares of Company common stock, as determined by the Committee, commencing as promptly as feasible following the end of the Performance Period, except that

(a) payments to be made in cash may be deferred subject to such terms and conditions as may be prescribed by the Company, and (b) payments to be made in Company common stock may be deferred pursuant to an election filed on forms prescribed and provided by and filed with the Company. A Participant may elect annually to defer to a date certain, or the occurrence of an event, as provided in the form, the receipt of all or any part of shares of Company common stock he may subsequently become entitled to receive. On forms provided by and filed with the Company, the Participant shall also specify whether, when the deferral period expires or when the restrictions below lapse, payment will be in a lump sum or installments over a period not exceeding twenty (20) years. The Committee shall prescribe the time periods during which the election must be filed in order to be effective. Elections to defer, once effective, are irrevocable. Changes regarding the date of payment, the period over which payments are to be made and the method of payment are subject to substantial penalties. However, a One-Time Change of Distribution Election may be made to change the timing or the form of payment without penalty. Any such election which changes a distribution election specified "termination of employment" or "the earlier of termination or a specified age" shall be void in the event the Participant's employment terminates within twelve (12) months following the date of the election.

If a Participant has made an effective election to defer the payment of shares of common stock, the Company shall, within a reasonable period of time after the deferral election is made, transfer shares of common stock or other assets equal in value to the number of shares as to which payment is deferred to the Trust to secure the Company's obligation to pay shares of common stock to the Participant in the future. However, in any event, the Company shall make any previously deferred payment of shares to the Participant upon:

- a. the death of the Participant;
- b. the Disability of the Participant;
- c. the Participant's termination of employment with the Company or a subsidiary of the Company, subject to the Participant's deferral election; or
- d. a Change in Control.

11. Restricted Stock

A Restricted Stock Award (RSA) shall entitle the Participant, subject to his continued employment during the restriction period determined by the Committee and his complete satisfaction of any other conditions, restrictions and limitations imposed in accordance with the Plan, to the unconditional ownership of the shares of the Company's common stock covered by the grant without payment therefore.

The Committee may grant RSAs at any time or from time to time to a Participant selected by the Committee in its sole discretion. The Committee shall establish at the time of grant of each RSA a Performance Period and Performance Objectives to be achieved during the Performance Period.

At the time of grant, the Performance Period and Performance Objectives shall be set forth either in agreements or in guidelines communicated to the

Participant in such form consistent with this Plan as the Committee shall approve from time to time.

Following the conclusion of each Performance Period and prior to payment, the Committee shall determine the extent to which Performance Objectives have been attained or a degree of achievement between maximum and minimum Performance Objectives during the Performance Period in order to determine the level of payment to be made, if any, and shall record such results in the minutes of the meeting of the Committee. In no instance will payment be made if the Performance Objectives are not attained.

At the time that an RSA is granted, the Committee shall establish in the written agreement a restriction period applicable to all shares covered by such grant. Subject to the provisions of the next following paragraph, the Participant shall have all of the rights of a stockholder of record with respect to the shares covered by the grant to receive dividends or other distributions in respect of such shares (provided, however, that any shares of stock of the Company distributed with respect to such shares shall be subject to all of the restrictions applicable to such shares) and to vote such shares on all matters submitted to the stockholders of the Company, but such shares shall not be sold, exchanged, pledged, hypothecated or otherwise disposed of at any time prior to the expiration of the restriction period, including by operation of law, and any purported disposition, including by operation of law, shall result in automatic forfeiture of any such shares.

Except as hereinafter provided, if, during the restriction period applicable to such grant, a Separation From Employment of a Participant occurs for any reason other than death, Disability or Retirement, all shares covered by such grant shall be forfeited to the Company automatically. If the Participant's Separation From Employment is because of Retirement or death, or in the event of Disability, the Participant or his successor in interest shall be entitled to unconditional ownership of a fraction of the total number of shares covered by such grant of which the numerator is the number of whole calendar months in the period commencing with the first whole calendar month following the date of grant and ending with the whole calendar month including the date of death, Disability or Retirement, and of which the denominator is the number of whole calendar months in the applicable restriction period. Any fractional shares shall be disregarded.

The Committee may, at the time of granting any RSA, impose such other conditions, restrictions or limitations upon the rights of the Participants during the restriction period or upon the Participant's right to acquire unconditional ownership of shares as the Committee may, in its discretion, determine and set forth in the written agreement. At the time of grant of an RSA, the Company shall cause to be issued and registered in the name of the Participant a stock certificate representing the full number of shares covered thereby, which certificate shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such grant, and the grantee shall execute and deliver to the Company a stock power endorsed in blank covering such shares. Such stock certificate and stock power shall be held by the Company or its designee until the expiration of the restriction period, at

which time the same shall be delivered to the Participant or his designee if all of the conditions and restrictions of the grant have been satisfied, or until the forfeiture of such shares, at which time the same shall be cancelled and the shares shall be returned to the status of unissued shares.

12. Incentive Compensation Program Shares

A Participant who receives base compensation in excess of a dollar level to be determined by the Committee and who is eligible to receive an award under the Company's Incentive Compensation Program ("ICP") may elect, by filing the prescribed election form with the Company in accordance with rules established by the Committee, to receive all or part of his annual ICP award in shares of the Company's common stock, rather than cash; provided, however, the Participant must agree that his receipt of the stock will be deferred until his retirement or termination of employment, with a minimum deferral period of three (3) years. Elections to defer are irrevocable. A Participant who makes such election shall, at the time that the stock is deferred, receive an additional award of stock equal to a percentage, established by the Committee from time to time, of the amount that he elected to have deferred, but not to exceed 25% (the "Stock Premium"). The Participant's election to defer shall also apply to the Stock Premium.

If a Participant made an effective election to defer the payment of shares of common stock and receive the Stock Premium, the Company shall, within a reasonable period of time after the deferral election is made, transfer shares of common stock or other assets equal in value to the number of shares as to which payment is deferred to the Trust to secure the Company's obligation to pay shares of common stock to the Participant in the future. However, in any event, the Company shall make any previously deferred payment of shares to the Participant upon:

- a. the death of the Participant;
- b. the Disability of the Participant;
- c. the Participant's termination of employment with the Company or a subsidiary of the Company, subject to the Participant's deferral election and the three (3) year deferral requirement; or
- d. a Change in Control."

13. Separation From Employment

If the Participant's Separation From Employment is because of Disability or death, the right of the Participant or his successor in interest to exercise an ISO, NQSO or SAR shall terminate not later than five years after the date of such Disability or death, but in no event later than 10 years from the date of grant; provided, however, that if such Participant is eligible to retire with the ability to begin immediately receiving retirement benefits under the Company's pension plan, his or his successor in interest's right to exercise any ISOs, NQSOs or SARs shall be determined as if his Separation From Employment was because of Retirement.

If the Participant's Separation From Employment is because of his

Retirement, the right of the Participant or his successor in interest to exercise an ISO, NQSO or SAR shall terminate not later than 10 years from the date of grant.

Unless the Committee deems it necessary in individual cases (except with respect to Covered Employees) to extend a Participant's exercise period, if a Participant's Separation From Employment is for any reason other than Retirement, Disability or death, the right of the Participant to exercise an ISO, NQSO or SAR shall terminate not later than one year from the date of Separation From Employment, but in no event later than 10 years after the date of grant.

At the time of his Separation From Employment for any reason other than Cause, a Participant shall vest in a portion of any Incentives granted under sections 7 (ISOs), 8 (NQSOs) or 9 (SARs) that he has held for less than one year from the date of the grant. The portion of such Incentives in which the Participants shall vest shall be determined by multiplying all shares subject to such Incentives by a fraction, the numerator of which shall be the number of Completed Months of employment following the date of grant and the denominator of which shall be twelve.

A Participant who vests in any Incentives under the preceding paragraph may not exercise such Incentives prior to the satisfaction of the one-year holding requirement and the Exercisability Requirements pertaining to such Incentives. Any Incentives vested under the preceding paragraph must be exercised within one year from the date of the Participant's Separation From Employment.

As to PUAs or PSAs, in the event of a Participant's Separation from Employment because of his Retirement, Disability or death prior to the end of the applicable Performance Period, payment, if any, to the extent earned under the applicable Performance Objectives and awarded by the Committee, shall be payable at the end of the Performance Period in proportion to the active service of the Participant during the Performance Period, as determined by the Committee. If the Separation From Employment prior to the end of the Performance Period is for any other reason, the Participant's participation in Section 10 of the Plan shall immediately terminate, his agreement shall become void and the PUA or PSA shall be canceled.

Notwithstanding anything to the contrary in this Plan, if a Participant or former Participant (a) becomes the owner, director or employee of a competitor of the Company or its subsidiaries, (b) has his employment terminated by the Company or one of its subsidiaries on account of actions by the Participant which are detrimental to the interests of the Company or its subsidiaries, or (c) engages in conduct subsequent to the termination of his employment with the Company or its subsidiaries which the Committee determines to be detrimental to the interests of the Company or its subsidiaries then the Committee may, in its sole discretion, pay the Participant or former Participant a single sum payment equal to the amount of his unpaid benefits which were awarded and deferred under Sections 10 or 12 of the Plan; provided, however, if the deferral has been for less than three (3) years under Section 12, the Participant shall not be eligible to receive the Stock Premium. The single sum payment shall be made as

soon as practicable following the date the Participant or former Participant becomes an owner, director or employee of a competitor, his termination of employment or the Committee's determination of detrimental conduct, as the case may be, and shall be in lieu of all other benefits which may be payable to the Participant or former Participant under this Plan.

14. Incentives Non-assignable and Non-transferable

Any Incentive granted under this Plan shall be non-assignable and non-transferable other than as provided in Section 15 and shall be exercisable (including any action of surrender and exercise of rights under Section 9) during the Participant's lifetime only by the Participant who is the holder of the Incentive or by his guardian or legal representative.

15. Death of Option Holder

In the event of the death of a Participant who is an Incentive holder under the Plan while employed by the Company or one of its subsidiaries or prior to exercise of all rights under an Incentive, the Incentive theretofore granted may be exercised (including any action of surrender and exercise of rights under Section 9) by the Participant's Beneficiary or, if no Beneficiary is designated, by the executor or executrix of the Participant's estate or by the person or persons to whom rights under the Incentive shall pass by will or the laws of descent and distribution in accordance with the provisions of the Plan and of the option and to the same extent as though the Participant were then living.

16. No Right to Continued Employment

Notwithstanding any other provisions of this Plan to the contrary, it is a condition for eligibility for any benefit or right under this Plan that each individual agrees that his or her designation as a Participant and any grant made under the Plan may be rescinded and determined to be void and forfeited entirely in the absolute and sole discretion of the Committee in the event that such individual is discharged for Cause.

Incentives granted under the Plan shall not be affected by any change of employment so long as the Incentive holder has not suffered a Separation From Employment. A leave of absence granted by the Company or one of its subsidiaries shall not constitute Separation From Employment unless so determined by the Committee. Nothing in the Plan or in any Incentive granted pursuant to the Plan shall confer on any individual any right to continue in the employ of the Company or one of its subsidiaries or interfere in any way with the right of the Company or such subsidiary to terminate employment at any time.

17. Adjustment of Shares

In the event of any change (through recapitalization, merger, consolidation, stock dividend, split-up, combination or exchanges of shares or otherwise) in the character or amount of the Company's common stock prior to exercise of any Incentive granted under this Plan, the Incentives, to the extent not exercised, shall entitle the Participant who is the holder to such number

and kind of securities as he would have been entitled to had he actually owned the stock subject to the Incentives at the time of the occurrence of such change. If any such event should occur, prior to exercise of an Incentive granted hereunder, which shall increase or decrease the amount of common stock outstanding and which the Committee, in its sole discretion, shall determine equitably requires an adjustment in the number of shares which the Incentive holder should be permitted to acquire, such adjustment as the Committee shall determine may be made, and when so made shall be effective and binding for all purposes of the Plan.

Incentives may also be granted having terms and provisions which vary from those specified in the Plan provided that any Incentives granted pursuant to this paragraph are granted in substitution for, or in connection with the assumption of, then existing Incentives granted by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company or a subsidiary corporation is a party.

18. Loans to Option Holders

The Committee may adopt programs and procedures pursuant to which the Company may lend money to any Participant who is an Incentive holder for the purpose of assisting the Participant to acquire or carry shares of common stock issued upon the exercise of Incentives granted under the Plan.

19. Termination and Amendment of Plan

Unless the Plan shall have been previously terminated as hereinafter provided, the Plan shall terminate on May 2, 1999, and no Incentives under it shall be granted thereafter. The Board of Directors, without further approval of the company's shareholders, may at any time prior to that date terminate the Plan, and thereafter no further Incentives may be granted under the Plan. However, Incentives previously granted thereunder may continue to be exercised in accordance with the terms thereof.

The Board of Directors, without further approval of the shareholders, may amend the Plan from time to time in such respects as the Board may deem advisable; provided, however, that no amendment shall become effective without prior approval of the shareholders which would: (i) increase (except in accordance with Section 17) the maximum number of shares for which Incentives may be granted under the Plan; (ii) reduce (except in accordance with Section 16) the Incentive price below the Fair Market Value of the Company's common stock on the date of grant of the Incentive; (iii) extend the term of the Plan beyond May 2, 1999; (iv) change the standards of eligibility prescribed by Section 5; or (v) increase the maximum awards identified in Sections 7, 8, 9, 10 and 11.

No termination or amendment of the Plan may, without the consent of a Participant who is a holder of an Incentive then existing, terminate his or her Incentive or materially and adversely affect his or her rights under the

Incentive.

20. Change in Control

a. Notwithstanding any provision of this Plan to the contrary, upon the occurrence of a Change in Control as set forth in subsection b., below: (i) all stock options then outstanding under this Plan shall become fully exercisable as of the date of the Change in Control, whether or not then otherwise exercisable; (ii) all SARs which have been outstanding for at least six months shall become fully exercisable as of the date of the Change in Control, whether or not then otherwise exercisable; (iii) all terms and conditions of RSAs then outstanding shall be deemed satisfied as of the date of the Change in Control; (iv) all PUAs and PSAs then outstanding shall be deemed to have been fully earned and to be immediately payable in cash as of the date of the Change of Control, however, Participants may defer those case payments, as stock, into the Trust, consistent with the deferral provisions of Section 10; and (v) the three (3) year holding requirement of the Stock Premium for deferred ICP shall be deemed satisfied.

b. A "Change in Control" shall mean any of the following:

- (i) STOCK ACQUISITION. The acquisition, by any individual, entity or group [within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")] (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock"), or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company; (B) any acquisition by the Company; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) of this Section 20(b); or
- (ii) BOARD COMPOSITION. Individuals who, as of the date hereof, constitute the Board of Directors (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election

contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors; or

(iii) BUSINESS COMBINATION. Approval by the shareholders of the Company of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company or its principal subsidiary that is not subject, as a matter of law or contract, to approval by the Interstate Commerce Commission or any successor agency or regulatory body having jurisdiction over such transactions (the "Agency") (a "Business Combination"), in each case, unless, following such Business Combination:

(A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or its principal subsidiary or all or substantially all of the assets of the Company or its principal subsidiary either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be;

(B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination; and

(C) at least a majority of the members of the board of directors resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(iv) REGULATED BUSINESS COMBINATION. Approval by the shareholders of

the Company of a Business Combination that is subject, as a matter of law or contract, to approval by the Agency (a "Regulated Business Combination") unless such Business Combination complies with clauses (A), (B) and (C) of subsection (iii) of this Section 20(b); or

(v) LIQUIDATION OR DISSOLUTION. Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company or its principal subsidiary.

c. Each Participant who has elected to defer the payment of PSAs pursuant to Section 10 or an ICP award pursuant to Section 12, may elect in a time and manner determined by the Committee, but in no event later than December 31, 1996 or the occurrence of a Change in Control, if earlier, to have amounts and benefits currently deferred, and to be deferred, under the Plan determined and payable under the terms of the Plan as if a Change in Control had not occurred. New Participants in the Plan may elect in a time and manner determined by the Committee, but in no event later than ninety (90) days after becoming a Participant, to have amounts and benefits currently deferred, and to be deferred, under the Plan determined and payable under the terms of the Plan as if a Change in Control had not occurred. A Participant who has made an election, as set forth in the two preceding sentences, may at any time and from time to time, change that election; provided, however, a change of election that is made within one year of a Change in Control shall be invalid.

d. If a Change in Control has occurred, the Committee shall cause the Company to contribute to the Trust, within seven (7) days of such Change in Control, a lump sum payment equal to the aggregate value of the amount each Participant deferred pursuant to Sections 10 and 12 (including the Stock Premium under Section 12) to the extent such amounts are not already in the Trust.

21. Compliance with Regulatory Authorities

Any shares purchased or distributed pursuant to any Incentives granted under this Plan must be held for investment and not with a view to the distribution or resale thereof. Each person who shall exercise an Incentive granted under this Plan may be required to give satisfactory assurances to such effect to the Company as a condition to the issuance to him or to her of shares pursuant to such exercise; provided, however, that the Company may waive such condition if it shall determine that such resale or distribution may be otherwise lawfully made without registration under the Securities Act of 1933, or if satisfactory arrangements for such registration are made. Each Incentive granted under this Plan is further subject to the condition that if at any time the Board shall in its sole discretion determine that the listing, registration or qualification of the shares covered by such Incentive upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of or in connection with the granting of such Incentives or the purchase or transfer of

shares thereunder, the delivery of any or all shares of stock pursuant to exercise of the Incentive may be withheld unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

22. Withholding Tax

Whenever the Company proposes or is required to issue or transfer shares of common stock under the Plan, a Participant shall remit to the Company an amount sufficient to satisfy any federal, state or local income and payroll tax withholding liability prior to the delivery of any certificate or certificates for such shares. Alternatively, to the extent permitted by applicable laws, such federal, state or local income and payroll tax withholding liability may be satisfied prior to the delivery of any certificate or certificates for the shares by an adjustment, equal in value to such liability, in the number of shares to be transferred to the Participant. Whenever under the Plan payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy any federal, state or local income and payroll tax withholding liability.

23. Non-Uniform Determinations

Determinations by the Committee under the Plan, including, without limitation, determinations of the persons to receive Incentives and the form, amount and timing of such Incentives, and the terms and provisions of such Incentives and the agreements evidencing the same need not be uniform, and may be made by the Committee selectively among persons who receive, or are eligible to receive, Incentives under the Plan, whether or not such persons are similarly situated.

Without amending the Plan, Incentives may be granted to eligible employees who are foreign nationals or who are employed outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purposes of the Plan. Such different terms and conditions may be reflected in Addenda to the Plan.

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