

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

CONRAIL INC

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SIC: **4011** Railroads, line-haul operating

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- (X) Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 1996 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 1-12184

CONRAIL INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2728514
(I.R.S. Employer
Identification No.)

2001 Market Street, Philadelphia, Pennsylvania 19101
(Address of principal executive offices)
(Zip Code)

(215) 209-4000
(Registrant's telephone number, including area code)

(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 the latest practicable date.

Number of shares of Conrail Inc. common stock outstanding (as of October 31, 1996) 80,112,935

CONRAIL INC.

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PART I. FINANCIAL INFORMATION
CONRAIL INC.

Item 1. Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(\$ In Millions except per share data)

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
Revenues	\$ 933	\$ 923	\$ 2,771	\$ 2,735

Operating expenses				
Way and structures	105	117	364	368
Equipment	196	187	614	575
Transportation	331	319	1,048	992
General and administrative	66	92	252	298
Voluntary separation programs	-----	-----	-----	-----
Total operating expenses	698	715	2,413	2,233
	-----	-----	-----	-----
Income from operations	235	208	358	502
Interest expense	(44)	(49)	(137)	(147)
Other income, net	25	29	83	89
	-----	-----	-----	-----
Income before income taxes	216	188	304	444
Income taxes	78	72	109	150
	-----	-----	-----	-----
Net income	\$ 138	\$ 116	\$ 195	\$ 294
	=====	=====	=====	=====
Net income per common share				
Primary	\$1.74	\$1.44	\$2.39	\$3.61
Fully diluted	1.58	1.31	2.21	3.28
Dividends per common share	\$.475	\$.425	\$1.325	\$1.175
Weighted average number of shares used in computing earnings per share (thousands)				
Primary	76,825	78,664	77,443	78,837
Fully diluted	86,489	88,525	87,194	88,853
Ratio of earnings to fixed charges	4.77x	4.02x	2.64x	3.28x

See accompanying notes.

CONRAIL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(\$ in Millions)

	September 30, 1996	December 31, 1995
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33	\$ 73
Accounts receivable	655	614
Deferred tax assets	337	333
Material and supplies	144	158
Other current assets	30	28
	-----	-----
Total current assets	1,199	1,206
Property and equipment, net	6,495	6,408
Other assets	693	810
	-----	-----
Total assets	\$ 8,387	\$ 8,424
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	65	89
Current maturities of long-term debt	138	181
Accounts payable	158	113
Wages and employee benefits	188	183
Casualty reserves	127	110
Accrued and other current liabilities	574	494
	-----	-----
Total current liabilities	1,250	1,170
Long-term debt	1,891	1,911
Casualty reserves	204	217
Deferred income taxes	1,420	1,393
Special income tax obligation	369	440
Other liabilities	315	316
	-----	-----
Total liabilities	5,449	5,447

Stockholders' equity		
Series A ESOP convertible junior preferred stock	281	282
Unearned ESOP compensation	(224)	(233)
Common stock	86	85
Additional paid-in capital	2,213	2,187
Employee benefits trust	(331)	(329)
Retained earnings	1,251	1,176
	-----	-----
	3,276	3,168
Treasury stock	(338)	(191)
Total stockholders' equity	2,938	2,977
Total liabilities and stockholders' equity	-----	-----
	\$8,387	\$ 8,424
	=====	=====

See accompanying notes.

CONRAIL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(\$ in millions)

	Nine Months Ended September 30,	
	----- 1996	1995 -----
Cash flows from operating activities	\$ 548	\$ 515
Cash flows from investing activities		
Property and equipment acquisitions	(233)	(327)
Payments for capital lease buyouts	(20)	(26)
Other	(11)	(37)
	-----	-----
Net cash used in investing activities	(264)	(390)
Cash flows from financing activities		
Repurchase of common stock	(147)	(52)

Net proceeds from (reductions in) short-term borrowings	(24)	62
Loans from and redemptions of insurance policies	95	
Proceeds from long-term debt	26	85
Payment of long-term debt	(153)	(75)
Dividends paid on common stock	(108)	(94)
Dividends paid on preferred stock	(21)	(21)
Other	8	8
	-----	-----
Net cash used in financing activities	(324)	(87)
Increase (decrease) in cash and cash equivalents	(40)	38
Cash and cash equivalents		
Beginning of period	73	43
	-----	-----
End of period	\$ 33	\$ 81
	=====	=====

See accompanying notes.

CONRAIL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The unaudited financial statements contained herein present the consolidated financial position of Conrail Inc. (the "Company") as of September 30, 1996 and December 31, 1995, the consolidated results of operations for the three and nine-month periods ending September 30, 1996 and 1995 and the consolidated cash flows for the nine-month periods ended September 30, 1996 and 1995. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments and the voluntary separation programs charge mentioned in Note 2, necessary to present fairly the results for the interim periods included.

The rules and regulations of the Securities and Exchange Commission permit

certain information and footnote disclosures, ordinarily required by generally accepted accounting principles, to be condensed or omitted from interim financial reports. Accordingly, the financial statements included herein should be read in conjunction with the audited financial statements and notes for the year ended December 31, 1995, presented in the Company's Annual Report on Form 10-K.

2. During the second quarter of 1996, the Company recorded a charge of \$135 million (before tax benefits of \$52 million) consisting of termination benefits to be paid to non-union employees participating in the voluntary retirement and separation programs ("voluntary separation programs") of \$102 million and losses on long-term non-cancelable leases for office space no longer required as a result of the reductions in the Company's workforce. A total of 879 applications were accepted from eligible employees under both programs. Approximately \$90 million of the termination benefits to be paid under the voluntary separation programs will be paid from the Company's overfunded pension plan.

3. As a result of a decrease in a state income tax rate enacted during the second quarter of 1995, income tax expense for the nine months ended September 30, 1995 was reduced by \$21 million representing the effects of adjusting deferred income taxes and the special income tax obligation for the rate decrease as required under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

4. In July 1996, the Consolidated Rail Corporation issued \$26 million of 1996 Equipment Trust Certificates, Series A, with interest rates ranging from 6.0% to 7.48%, maturing annually from

1997 to 2011. The certificates were used to finance approximately 85% of the total purchase price of twenty locomotives.

5. In June 1996, the Company borrowed \$69 million against the cash surrender value of its company-owned life insurance policies which it maintains on certain of its non-union employees. The Company also redeemed the remaining excess cash surrender value of \$26 million.

6. In April 1995, the Board of Directors approved a \$250 million multi-year stock repurchase program. During the nine months of 1996, the Company acquired 2,086,904 shares for \$147 million under this program. At September 30, 1996, \$102 million remained available from this authorization. However, as a result of the proposed merger agreement with

CSX Corporation, (see Note 7 and "Proposed Merger" included in the Management's Discussion and Analysis) the Company will not make any additional stock repurchases under this program.

7. On October 15, 1996, Conrail and CSX Corporation announced their agreement for a strategic merger. Under the terms of the proposed merger agreement, as amended, 40 percent of Conrail's common stock and ESOP convertible junior preferred stock would be acquired for cash at \$110.00 per share, and the remaining 60 percent would be acquired for stock at an exchange ratio of 1.85619 CSX common shares for each Conrail share. On October 24, 1996, Norfolk Southern Corporation announced an unsolicited tender offer for all outstanding Conrail shares at \$110 per share. See "Proposed Merger" included in the Management's Discussion and Analysis).

8. Information regarding contingent liabilities and litigation was included in Note 12 to Consolidated Financial Statements and Part I, Item 3 - Legal Proceedings in the Company's Annual Report on Form 10-K for the year ended December 31, 1995. Material developments with respect to these and other matters are discussed in "Other Matters" in the Management's Discussion and Analysis of Results of Operations and in Part II, Item I - Legal Proceedings in this Form 10-Q.

REPORT OF INDEPENDENT ACCOUNTANTS

The Stockholder and Board of Directors of
Conrail Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Conrail Inc. and its subsidiaries (the "Company") as of September 30, 1996 and the related condensed consolidated statements of income for the three and nine-month periods ended September 30, 1996 and September 30, 1995 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1996 and September 30, 1995. This financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with generally accepted accounting principles.

We previously audited in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1995, and the related consolidated statements of income, of stockholder's equity and of cash flows for the year then ended (not presented herein), and in our report dated January 22, 1996, except as to paragraphs five and six of Note 12 to the consolidated financial statements which are as of February 21, 1996, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph describing the Company's change in methods of accounting for income taxes and postretirement benefits other than pensions in 1993. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1995, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PRICE WATERHOUSE LLP
Thirty South Seventeenth Street
Philadelphia, PA 19103

October 16, 1996

CONRAIL INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Overview

Net income for Conrail Inc. ("Conrail" or the "Company") was \$138 million for the third quarter of 1996 compared with \$116 million for the third quarter of 1995. Net income for the first nine months of 1996 was \$195 million compared with \$294 million for the first nine months of 1995. Results for the first nine months of 1996 include a one-time charge of \$83 million (net of \$52 million of tax benefits) related to voluntary separation programs and related costs (see Note 2 to the Condensed Consolidated Financial Statements). Results for 1995 include recognition of a \$21 million reduction in income taxes related to a decrease in a state tax rate enacted during the second quarter of 1995 (see Note 3 to

the Condensed Consolidated Financial Statements). Conrail's net income for the first nine months excluding the one-time charge of \$83 million in 1996 and the \$21 million tax benefit in 1995, would have been \$278 million and \$273 million for 1996 and 1995, respectively.

Net income per common share for the third quarter of 1996 was \$1.74 on a primary basis and \$1.58 on a fully diluted basis compared with \$1.44 and \$1.31 on the same bases for the third quarter of 1995. Net income per common share for the nine months of 1996 was \$2.39 on a primary basis and \$2.21 on a fully diluted basis compared with \$3.61 and \$3.28 on the respective bases for the same nine-month period of 1995. Without the effect of the one-time voluntary separation programs charge, net income per share for the first nine months of 1996 would have been \$3.46 on a primary basis and \$3.16 on a fully diluted basis. Excluding the one-time tax benefit for the first nine months of 1995, net income per common share would have been \$3.34 on a primary basis and \$3.05 on a fully diluted basis.

Traffic volume increases of 4.2% and 1.3% occurred during the third quarter and first nine months of 1996, respectively, compared with the same periods of 1995. These volume improvements were primarily responsible for the modest revenue increases experienced during these same periods of 1996 (1.1% and 1.3% for the third quarter and nine months, respectively). The Company has lowered its 1996 annual projection of line haul revenue growth to between 1.0% and 2.0% from between 2.0% and 3.0%. The revenue increase along with the Company's continued cost reduction efforts resulted in an operating ratio (operating

expenses as a percent of revenues) of 74.9% for the third quarter of 1996 compared with 77.5% for the third quarter of 1995.

Third Quarter 1996 compared with Third Quarter 1995

Net income for the third quarter of 1996 was \$138 million versus \$116 million for third quarter of 1995.

Operating revenues (primarily freight line haul revenues, but also including switching, demurrage and incidental revenues) increased \$10 million, or 1.1%, from \$923 million in the third quarter of 1995 to \$933 million in the third quarter of 1996. A 4.2% increase in traffic volume in

units (freight cars and intermodal trailers and containers) resulted in a \$37 million increase in revenues. Average revenue per unit decreased revenues by \$25 million due to decreases in average rates, \$12 million, and an unfavorable traffic mix, \$13 million. Other revenues decreased \$2 million.

Operating expenses decreased \$17 million, or 2.4%, from \$715 million in the third quarter of 1995, to \$698 million in the third quarter of 1996. The following table sets forth the operating expenses for the two periods:

(\$ In Millions)	Third Quarter		Increase (Decrease)
	1996	1995	
	----	----	-----
Compensation and benefits	\$ 286	\$ 304	\$ (18)
Fuel	44	38	6
Material and supplies	38	35	3
Equipment rents	94	91	3
Depreciation and amortization	71	74	(3)
Casualties and insurance	42	47	(5)
Other	123	126	(3)
	-----	-----	-----
	\$ 698	\$ 715	\$ (17)
	=====	=====	=====

Compensation and benefits as a percent of revenues was 30.8% in the third quarter of 1996 as compared with 33.0% in the third quarter of 1995. The decrease in labor costs of \$18 million, or 5.9%, was mainly attributable to lower employment levels and decreases in other employee-related costs in the third quarter of 1996.

Fuel costs increased \$6 million, or 15.8%, primarily as a result of higher fuel prices.

Casualties and insurance decreased \$5 million, or 10.6%, as a result of fewer personal injury and occupational health claims and several large adverse jury verdicts in the third quarter of 1995, partially offset by higher costs for damage to lading from derailments.

Conrail's operating ratio was 74.9% for the third quarter of 1996, compared with 77.5% for the third quarter of 1995.

First Nine Months of 1996 compared with First Nine Months of 1995

Net income for the first nine months of 1996 was \$195 million and included the second quarter one-time after-tax charge of \$83 million (see Note 2 to the Condensed Consolidated Financial Statements). Net income for the first nine months of 1995 was \$294 million which included the tax benefit of \$21 million recorded during the second quarter (see Note 3 to the Condensed Consolidated Financial Statements).

Operating revenues increased \$36 million, or 1.3%, to \$2,771 million for the first nine months of 1996 from \$2,735 million for the first nine months of 1995. A 1.3% increase in traffic volume resulted in a \$32 million increase in revenues. Average revenue per unit decreased revenues by \$4 million for the period, with an unfavorable traffic mix causing a \$20 million decrease, partially offset by higher average rates providing \$16 million. Other revenues increased \$8 million.

Operating expenses increased \$180 million, or 8.1%, to \$2,413 million in the first nine months of 1996, from \$2,233 million in the first nine months of 1995. The following table sets forth the operating expenses for the two periods:

(\$ In Millions)	First Nine Months		Increase (Decrease)
	1996	1995	
	-----	-----	-----
Compensation and benefits	\$ 939	\$ 958	\$ (19)
Fuel	146	125	21
Material and supplies	144	134	10
Equipment rents	287	259	28
Depreciation and amortization	212	220	(8)
Casualties and insurance	135	123	12
Other	415	414	1
Voluntary separation programs	135		135
	-----	-----	-----
	\$2,413	\$2,233	\$180
	=====	=====	=====

Compensation and benefits as a percent of revenues was 33.9% in the first nine months of 1996 as compared with 35.0% in the first nine months of 1995. Reductions in employment levels and other employee-related costs were partially offset by increased wage costs, increased train crew costs and overtime caused by adverse weather conditions experienced during the

first quarter of 1996.

Fuel costs increased \$21 million, or 16.8%, due mostly to higher fuel prices, which are expected to continue to increase into the fourth quarter.

Equipment rents increased \$28 million, or 10.8%, primarily as a result of declines in equipment utilization and increased car hire rates.

Conrail's operating ratio was 87.1% for the first nine months of 1996, compared with 81.7% for the first nine months of 1995. Without the \$135 million one-time charge for the voluntary separation programs, the operating ratio for the first nine months of 1996 would have been 82.2%.

The Company's effective income tax rate for the first nine months of 1996 was 35.9% compared with 33.8% for the same period of 1995. The lower effective rate in 1995 is primarily related to a \$21 million reduction in income taxes as a result of a decrease in a state income tax rate (see Note 3 to the Condensed Consolidated Financial Statements).

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased \$40 million in the first nine months of 1996, from \$73 million at December 31, 1995 to \$33 million at September 30, 1996. Cash generated from operations, primarily from its wholly-owned subsidiary, Consolidated Rail Corporation ("CRC"), and borrowings by CRC have been the principal sources of liquidity and are used primarily for capital expenditures, debt service and dividends. In the first nine months of 1996, operating activities provided cash of \$548 million and loans from and redemptions of insurance policies added \$95 million.

The principal uses of cash were: property and equipment acquisitions, \$233 million; payment of long-term debt, \$153 million; repurchase of common stock, \$147 million; and cash dividends on common and preferred stock, \$129 million.

A working capital (current assets less current liabilities) deficit of \$51 million existed at September 30, 1996 as compared with working capital of

\$36 million at December 31, 1995. Management believes that the Company's financial position allows it sufficient access to credit sources on investment grade terms, and, if necessary, additional intermediate or long-term debt could be obtained for working capital requirements.

During the first nine months of 1996, CRC issued \$75 million of commercial paper and repaid \$99 million. At September 30, 1996, \$165 million remained outstanding, of which \$100 million is classified as long-term debt since it is expected to be refinanced through subsequent issuances of commercial paper and is supported by a long-term credit facility.

In July 1996, CRC issued \$26 million of 1996 Equipment Trust Certificates, Series A, with interest rates ranging from 6.0% to 7.48%, maturing annually from 1997 to 2011. The certificates were used to finance approximately 85% of the total purchase price of twenty locomotives.

In June 1996, CRC borrowed \$69 million against the cash surrender value of its company-owned life insurance policies which it maintains on certain of its non-union employees. The Company also redeemed the remaining excess cash surrender value of \$26 million. Both transactions resulted in an increase of \$95 million in cash for 1996.

In April 1995, the Board of Directors approved a \$250 million multi-year stock repurchase program. During the first nine months of 1996, the Company acquired 2,086,904 shares for \$147 million under this program. At September 30, 1996, \$102 million remained available from this authorization; however, as a result of the proposed merger agreement with CSX Corporation (see "Proposed Merger"), the Company will not make any additional stock repurchases under this program.

Proposed Merger

On October 14, 1996, Conrail, CSX Corporation ("CSX") and a subsidiary of CSX entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement"). Pursuant to the Merger Agreement, CSX commenced a cash tender offer for an aggregate of approximately 17.9 million shares of Conrail common stock and ESOP convertible junior preferred stock, or approximately 19.9% of the Conrail outstanding voting stock.

On October 24 1996, Norfolk Southern Corporation ("Norfolk")

commenced an unsolicited tender offer for all outstanding Conrail voting stock at \$100 per share in cash. Norfolk has since increased its offer to \$110 per share in cash. As set forth below, the Norfolk offer cannot be consummated under the terms of the Merger Agreement until at least July 12, 1997.

Under the terms of the Merger Agreement, as amended on November 5, 1996, 40 percent of Conrail's common stock and ESOP convertible junior preferred stock will be acquired by CSX for cash at \$110 per share, and the remaining 60 percent will be acquired for CSX Stock at an exchange ratio of 1.85619 CSX common shares for each Conrail share. Because the Conrail-CSX merger is subject to approval of the Surface Transportation Board, the consummation of the merger is expected to occur in the fourth quarter of 1997.

The CSX tender offer is currently for 19.9 percent of the outstanding Conrail shares. If Conrail shareholders approve a proposal to opt out of Subchapter 25E of the Pennsylvania Business Corporation Law of 1988, as amended (the "PBCL"), CSX will either

increase the number of shares to which the offer applies or make a second tender offer, in either case such that the total number of shares to be acquired will be 40 percent of the fully diluted Conrail shares. The terms and conditions of any second tender offer will be no less favorable to shareholders than the terms and conditions of the current CSX offer.

CSX and Conrail also have granted each other an option to purchase 19.9 percent of the other's common shares under certain conditions. The 19.9 percent option held by CSX also would be exercisable if it purchases shares in the CSX tender offer.

Following the CSX merger, John W. Snow, chairman, president and chief executive officer of CSX, will become chairman and chief executive officer of the new holding company. David M. LeVan, Conrail's chairman, president and chief executive officer, will become the new holding company's president and chief operating officer. The board of directors of the new holding company will be composed of an equal number of members appointed by each of CSX and Conrail. Upon consummation of the merger, Mr. LeVan will be president and chief executive officer of the two railroads. Mr. LeVan will succeed Mr. Snow as the chief executive officer

of the new holding company two years after consummation of the merger, and will succeed Mr. Snow as chairman of the new holding company four years after consummation of the merger.

The Conrail Board of Directors has unanimously recommended that shareholders do not tender their shares pursuant to the Norfolk offer. The Merger Agreement provides that, until July 12, 1997, the Conrail Board of Directors will not (i) withdraw or modify, or publicly propose to withdraw or modify, its approval or recommendation of the transactions with CSX, in a manner adverse to CSX, (ii) approve or recommend, or publicly propose to approve or recommend, any takeover proposal (such as the Norfolk offer) or (iii) cause Conrail to enter into any agreement related to any such takeover proposal. Because certain conditions to the Norfolk offer (such as redemption of the Conrail common stock purchase rights and approval of the Norfolk offer under Subchapter 25F of the PBCL) can only be satisfied if the Conrail Board of Directors takes such actions to approve the Norfolk offer, the Norfolk offer cannot be consummated under the terms of the Merger Agreement until at least July 12, 1997. In addition, the Merger Agreement provides that on or after July 12, 1997, certain conditions must be satisfied in order for the Conrail Board of Directors to take any of the foregoing actions. Moreover, the Conrail Board of Directors has no obligation under Pennsylvania law to agree to or recommend any takeover proposal (such as the Norfolk offer) or to take any such action to facilitate any such takeover proposal.

The Conrail Board of Directors has unanimously recommended that shareholders who desire to receive cash now for a portion of their shares should tender pursuant to the CSX offer.

The full terms and conditions of the CSX Offer and Conrail's position with respect to the CSX and Norfolk offers are set forth in documents filed by Conrail with the Securities and Exchange Commission on October 16, 1996, October 25, 1996, November 1, 1996, November 4, 1996, November 6, 1996, November 7, 1996, November 8, 1996 and November 13, 1996, all of which are filed as Exhibits 99.1-99.12, and the foregoing summary is qualified in its entirety by reference thereto. See also Part II, Item 1, "Legal Proceedings".

Other Matters

CRC has received three adverse jury verdicts related to railroad crossing accidents in Ohio that include significant punitive damage awards that collectively approximate \$40 million. CRC believes the punitive damage awards in the referenced cases are improper and that it has meritorious defenses and plans to appeal. The Company is not presently able to reasonably estimate the ultimate outcome of these cases, and accordingly, no expense for such awards has been recorded as of September 30, 1996.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements that involve risks and uncertainties that may cause actual results to differ, including but not limited to the effect of economic conditions, competition, regulation and weather on Conrail's operations, customers, service and prices, and other factors discussed elsewhere in this report and, from time to time, in other reports filed with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

CONRAIL INC.

Item 1. Legal Proceedings.

Norfolk Litigation

On October 23, 1996, Norfolk filed a Complaint for Declaratory and Injunctive Relief (as amended on October 30, 1996, the "Complaint"), with respect to the transactions contemplated by the Merger Agreement, in the United States District Court for the Eastern District of Pennsylvania. Norfolk named CSX, Conrail and certain directors of Conrail as defendants. The Complaint in its currently amended form alleges, among other things, violations of: (1) fiduciary duties by the Conrail Board; (2) Conrail's Articles of Incorporation and By-Laws; and (3) Pennsylvania statutory law.

In addition, Norfolk alleges that the CSX tender offer is coercive and unfair to Conrail shareholders; that certain provisions in the Merger Agreement prohibiting Conrail from changing its recommendation of the transaction or agreeing to a competing transaction until July 12, 1997, is ultra vires and a breach of the Conrail Board's fiduciary duties;

and that Conrail and CSX violated disclosure provisions of the federal securities laws relating to tender offers and proxy solicitations through the misrepresentation and omission of material facts.

Norfolk has requested preliminary and permanent injunctive and declaratory relief including, without limitation, an injunction to prevent defendants from: (1) continuing a tender offer for the Conrail shares, (2) taking any action to enforce certain provisions of the Merger Agreement, and (3) failing to take actions necessary to exempt Norfolk's proposal to acquire Conrail from certain provisions of Pennsylvania statutory law.

Conrail believes that the claims set forth by Norfolk are entirely without merit, and on November 12, 1996, Conrail filed a motion to dismiss Norfolk's complaint in its entirety. A hearing on the preliminary injunction being sought by Norfolk has been scheduled for November 18, 1996.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 2.1 Agreement and Plan of Merger dated October 14, 1996 among Conrail Inc., CSX Corporation and Green Acquisition Corp. (the "Merger Agreement") (incorporated by reference to Exhibit (c)(1) to the Solicitation/Recommendation Statement on Schedule 14D-9, originally filed with the Securities and Exchange Commission ("SEC") on October 16, 1996 (the "CSX 14D-9")).
- 2.2 First Amendment to the Merger Agreement, dated as of November 5, 1996 (incorporated by reference to Exhibit (c)(11) to the CSX 14D-9).
- 3 Amended and Restated By-laws of Conrail (amended and restated as of October 14, 1996).

- 10.1 Conrail Stock Option Agreement, dated as of October 14, 1996 (incorporated by reference to Exhibit (c)(2) of the CSX 14D-9).
- 10.2 CSX Stock Option Agreement, dated as of October 14, 1996 (incorporated by reference to Exhibit (c)(3) of the CSX 14D-9).
- 11 Statement of earnings per share computations.
- 12 Computations of the ratio of earnings to fixed charges.
- 15 Letter re unaudited interim financial information from Price Waterhouse LLP.
- 27 Financial data schedule.
- 99.1 Solicitation/Recommendation Statement on Schedule 14D-9 filed with the SEC on October 16, 1996 (incorporated herein by reference).
- 99.2 Amendment 1 to the CSX 14D-9 filed with the SEC on October 25, 1996 (incorporated herein by reference).
- 99.3 Amendment 2 to the CSX 14D-9 filed with the SEC on October 31, 1996 (incorporated herein by reference).
- 99.4 Amendment 3 to the CSX 14D-9 filed with the SEC on November 4, 1996 (incorporated herein by reference).
- 99.5 Amendment 4 to the CSX 14D-9 filed with the SEC on November 6, 1996 (incorporated herein by reference).
- 99.6 Amendment 5 to the CSX 14D-9 filed with the SEC on November 7, 1996 (incorporated herein by reference).
- 99.7 Amendment 6 to the CSX 14D-9 filed with the SEC on November 8, 1996 (incorporated herein by reference).

by reference).

- 99.8 Amendment 7 to the CSX 14D-9 filed with the SEC on November 13, 1996 (incorporated herein by reference).
- 99.9 Solicitation/Recommendation Statement on Schedule 14D-9, filed with the SEC on November 6, 1996 (the "Norfolk Southern 14D-9") (incorporated herein by reference).
- 99.10 Amendment 1 to the Norfolk Southern 14D-9 filed with the SEC on November 7, 1996 (incorporated herein by reference).
- 99.11 Amendment 2 to the Norfolk Southern 14D-9 filed with the SEC on November 8, 1996 (incorporated herein by reference).
- 99.12 Amendment 3 to the Norfolk Southern 14D-9 filed with the SEC on November 13, 1996 (incorporated herein by reference).

(b) Reports on Form 8-K

On October 22, 1996, the Company filed a report on Form 8-K reporting under Item 5, Other Events, that Conrail and CSX had entered into the Merger Agreement and the CSX Corporation Stock Option Agreement on October 14, 1996, and that Conrail had amended its Rights Agreement.

SIGNATURES

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.

CONRAIL INC.
Registrant

/s/ Bruce B. Wilson

Bruce B. Wilson
Senior Vice President - Law

/s/ Timothy T. O'Toole

Timothy T. O'Toole
Senior Vice President -
Finance
(Principal Financial Officer)

Date: November 14, 1996

EXHIBIT INDEX

Exhibit No.

- 2.1 Agreement and Plan of Merger dated October 14, 1996 among Conrail Inc., CSX Corporation and Green Acquisition Corp. (the "Merger Agreement") (incorporated by reference to Exhibit (c)(1) to the Solicitation/Recommendation Statement on Schedule 14D-9, originally filed with the Securities and Exchange Commission ("SEC") on October 16, 1996 (the "CSX 14D-9")).
- 2.2 First Amendment to the Merger Agreement, dated as of November 5, 1996 (incorporated by reference to Exhibit (c)(11) to the CSX 14D-9).
- 3 Amended and Restated By-laws of Conrail (amended and restated as of October 14, 1996).
- 10.1 Conrail Stock Option Agreement, dated as of October 14, 1996 (incorporated by reference to Exhibit (c)(2) of the CSX 14D-9).

- 10.2 CSX Stock Option Agreement, dated as of October 14, 1996 (incorporated by reference to Exhibit (c) (3) of the CSX 14D-9).
- 11 Statement of earnings per share.
- 12 Computations of the ratio of earnings to fixed charges.
- 15 Letter re unaudited interim financial information from Price Waterhouse LLP.
- 27 Financial data schedule.
- 99.1 Solicitation/Recommendation Statement on Schedule 14D-9 filed with the SEC on October 16, 1996 (incorporated herein by reference).
- 99.2 Amendment 1 to the CSX 14D-9 filed with the SEC on October 25, 1996 (incorporated herein by reference).
- 99.3 Amendment 2 to the CSX 14D-9 filed with the SEC on November 1, 1996 (incorporated herein by reference).
- 99.4 Amendment 3 to the CSX 14D-9 filed with the SEC on November 4, 1996 (incorporated herein by reference).
- 99.5 Amendment 4 to the CSX 14D-9 filed with the SEC on November 6, 1996 (incorporated herein by reference).
- 99.6 Amendment 5 to the CSX 14D-9 filed with the SEC on November 7, 1996 (incorporated herein by reference).
- 99.7 Amendment 6 to the CSX 14D-9 filed with the SEC on November 8, 1996 (incorporated herein by reference).
- 99.8 Amendment 7 to the CSX 14D-9 filed with the SEC on November 13, 1996 (incorporated herein by reference).

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- 99.11 Amendment 2 to the Norfolk Southern 14D-9 filed with the SEC on November 8, 1996 (incorporated herein by reference).
- 99.12 Amendment 3 to the Norfolk Southern 14D-9 filed with the SEC on November 13, 1996 (incorporated herein by reference).

CONRAIL INC.
A PENNSYLVANIA CORPORATION
AMENDED AND RESTATED BYLAWS
AMENDED AND RESTATED AS OF OCTOBER 14, 1996

ARTICLE I

Offices

SECTION 1.01. Registered Office. The registered office of Conrail Inc. (the "Corporation") in the Commonwealth of Pennsylvania shall be at Two Commerce Square, 2001 Market Street, Philadelphia, Pennsylvania 19101 or at such other place as the Board of Directors of the Corporation (the "Board") may specify in a statement of change of registered office filed with the Department of State of the Commonwealth of Pennsylvania.

SECTION 1.02. Other Offices. The Corporation may also have an office or offices at such other place or places either within or without the Commonwealth of Pennsylvania as the Board may from time to time determine or the business of the Corporation requires.

ARTICLE II

Meetings of the Shareholders

SECTION 2.01. Place. All meetings of the shareholders shall be held at such places, either within or without the Commonwealth of Pennsylvania, as the Board may from time to time determine. Shareholders are not permitted to act without a meeting.

SECTION 2.02. Annual Meeting. A meeting of the shareholders for the election of directors and the transaction of such other business as may be properly brought before the meeting shall be held on the third Wednesday in April in each calendar year or, if that be a legal holiday, on the first day thereafter that is not a legal holiday, or on such other date as the Board shall designate. If the annual meeting is not called and held within six months after the third Wednesday in

April, or such other date as the Board has designated in any specific year, any shareholder may call a meeting of shareholders for the election of directors at any time after the expiration of the six-month period commencing on the third Wednesday in April, or such designated date, as the case may be. Elections of directors, whether at annual meetings or special meetings, need not be by written ballot, except upon demand by a shareholder entitled to vote at the election and before the voting begins.

SECTION 2.03. Special Meetings. Special meetings of the shareholders, for the purpose or purposes, may be called at any time by the Chief Executive Officer of the Corporation or by the Board, upon written request delivered to the Secretary of the Corporation. In addition, an "interested shareholder" (as defined in Section 2553 of the Pennsylvania Business Corporation Law of 1988 as it may from time to time be amended (the "1988 BCL")) may, upon written request delivered to the Secretary of the Corporation, call a special meeting for the purposes of approving a business combination under either subsection (3) or (4) of Section 2555 of the 1988 BCL. Any request for a special meeting of shareholders shall state the general nature of the business to be transacted at the meeting. Upon receipt of any such request, it shall be the duty of the Secretary of the Corporation to give notice, in a manner consistent with Section 2.05 of these By-laws, of a special meeting of the shareholders to be held at such time as the Secretary of the Corporation may fix, which time may not be, in the case of a special meeting of shareholders called pursuant to a statutory right, more than sixty (60) days after receipt by the Secretary of the Corporation of such request. If the Secretary of the Corporation shall neglect or refuse to fix the time of the meeting and give notice thereof, the person or persons calling the meeting may do so.

SECTION 2.04. Scope of Special Meetings. Business transacted at any special meeting shall be confined to the business stated in the notice.

SECTION 2.05. Notice. Written notice of any meeting of the shareholders, stating the place, the date and hour thereof and the matters to be voted on at such meeting, shall be given in a manner consistent with the applicable provisions of Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, or any successor act or regulation (the "Exchange Act"), by, or at the direction of, the Secretary of the Corporation or, in the absence of the Secretary of the Corporation, any Assistant Secretary of the Corporation, at least ten (10) days before the date named for such meeting, to each shareholder entitled to vote thereat on the date fixed as a

record date in accordance with Section 7.01 of these By-laws, or if no record date be fixed, then of record thirty (30) days next preceding the date of the meeting, at such address as appears on the transfer book of the Corporation. Any notice of any meeting of shareholders shall state that, for purposes of any meeting that has been previously adjourned from one or more periods aggregating at least fifteen (15) days because of an absence of a quorum, the shareholders entitled to vote who attend such a meeting, although less than a quorum pursuant to Section 2.06 of these By-laws, shall nevertheless constitute a quorum for the purposes of acting upon any matter set forth in the original notice of the meeting which was so adjourned.

SECTION 2.06. Quorum. The shareholders present in person or by proxy, entitled to cast a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting, shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the Corporation owned by it, directly or indirectly, and controlled by the Board of Directors, directly or indirectly, shall not be counted in determining the total number of outstanding shares for quorum purposes. The shareholders present in person or by proxy at a duly organized meeting of shareholders can continue to conduct the business of the meeting until the adjournment thereof, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. If a meeting of shareholders cannot be organized because a quorum has not attended, the shareholders present in person or by proxy may, except as otherwise provided by the 1988 BCL and subject to the provisions of Section 2.07 of these By-laws, adjourn the meeting to such time and place as they may determine.

SECTION 2.07. Adjournment. Any meeting of the shareholders, including one at which directors are to be elected, may be adjourned for such period as the shareholders present in person or by proxy and entitled to vote shall direct. Unless otherwise provided in a by-law adopted by the shareholders, the shareholders entitled to vote present in person or by proxy, although less than a quorum pursuant to Section 2.06 of these By-laws, shall nevertheless constitute a quorum for the purpose of (i) electing directors at a meeting called for the election of directors that has been previously adjourned for lack of a quorum, and (ii) acting, at a meeting that has been previously adjourned for one or more periods aggregating at

least fifteen (15) days because of an absence of a quorum, upon any matter set forth in the original notice of the meeting that was

adjourned, provided that such original notice shall have complied with the last sentence of Section 2.05 of these By-laws. Other than as provided in the last sentence of Section 2.05 of these By-laws, no notice of any adjourned meeting or the business to be conducted thereat need to be given other than an announcement at the meeting at which the adjournment is taken, unless the Board fixes a new record date for the adjourned meeting. At any adjourned meeting at which a quorum shall be present, any business may be transacted that might have been transacted at the meeting as originally noticed.

SECTION 2.08. Majority Vote. Any matter brought before a duly organized meeting of shareholders for a vote of the shareholders shall be decided by a majority of the votes cast at such meeting by the shareholders present in person or by proxy and entitled to vote thereon, unless the matter is one for which a different vote is required by express provision of (i) the 1988 BCL, (ii) the Amended and Restated Articles of Incorporation of the Corporation as they may from time to time be amended (the "Articles") or (iii) a by-law adopted by the shareholders, in any of which cases such express provision shall govern and control the decision on such matter.

SECTION 2.09. Voting Rights. Except as otherwise provided by statute or the Articles, at every meeting of the shareholders every shareholder entitled to vote shall have the right to one vote for each share having voting power standing in his name on the books of the Corporation.

SECTION 2.10. Proxies. Every shareholder entitled to vote at a meeting of the shareholders may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the shareholder, or by the shareholder's duly authorized attorney-in-fact, and filed with the Secretary of the Corporation. The presence of, or vote or other action at a meeting of shareholders by a proxy of, a shareholder shall constitute the presence of, or vote or action by the shareholder. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary of the Corporation. No

unrevoked proxy shall be valid after three (3) years from the date of its execution, unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is given to the Secretary of the Corporation.

SECTION 2.11. Voting Lists. The officer or agent having

charge of the transfer books for securities of the Corporation shall either (i) make a complete list of the shareholders entitled to vote at each meeting of shareholders, arranged in alphabetical order, with the address of, and the number of shares of stock held by, each shareholder, which list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting, or (ii) otherwise make such information available at the meeting.

SECTION 2.12. Judges of Election. In advance of any meeting of the shareholders, the Board may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of judges shall be one or three, as determined by the Board. No person who is a candidate for office shall act as a judge. The judges of election shall do all such acts as may be proper to conduct the election or vote with fairness to all shareholders, and shall make a written report of any matter determined by them and execute a certificate of any fact found by them, if requested by the presiding officer of the meeting or any shareholder of the proxy of any shareholder. If there be three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

SECTION 2.13. No Participation by Conference Call. No shareholder may participate in any meeting of shareholders by means of conference telephone or similar communications equipment.

SECTION 2.14. Presiding Officer. At each meeting of the shareholders, the Chairman of the Board, or, in his absence, his designee, or, in their absence, a presiding officer chosen by a majority of the votes cast by the

shareholders present in person or by proxy and entitled to vote at such meeting, shall act as presiding officer of the meeting and shall have plenary power in conducting the meeting with regard to setting an agenda, keeping order, limiting debate and prescribing such rules of the meeting as from time to time are useful and proper. The Secretary or an Assistant Secretary of the Corporation, or, in the absence of the Secretary and all Assistant Secretaries, a person whom the presiding officer of such meeting shall appoint, shall act as secretary of the meeting and keep the minutes thereof.

SECTION 2.15. Notice of Shareholder Business. At an annual meeting of the shareholders, only such business shall be conducted,

and only such proposals shall be acted upon, as shall have been brought before the meeting (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board or (iii) by any shareholder of the Corporation who is a shareholder of record at the time of giving of the notice provided for in this By-law, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed to, postage prepaid, and received at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be received no later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed or public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting (1) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (2) a representation that the shareholder is a holder of record of shares of the Corporation's capital stock entitled to vote at such meeting and intends to appear in person or by proxy to bring such matter before the meeting, (3) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business, and the name and address of the beneficial owner, if any, on whose behalf the

proposal is made, (4) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder of record and by the beneficial owner, if any, on whose behalf the proposal is made, (5) any material interest of such shareholder of record and the beneficial owner, if any, on whose behalf the proposal is made in such business and (6) a description of all arrangements and understandings between the shareholder of record and the beneficial owner, if any, on whose behalf the proposal is made and any other person or persons (naming such person or persons) pursuant to which the proposal is to be made.

Notwithstanding anything in these By-laws to the contrary, no business shall be conducted, and no proposal shall be acted upon, at an annual meeting except in accordance with the procedures set forth in this Section. The presiding officer of the meeting shall, if the facts warrant, determine and declare to the meeting that business or a proposal was not properly brought before the meeting in

accordance with the procedures prescribed by these By-laws, and if he should so determine, he shall so declare to the meeting and any such business or proposal not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section.

ARTICLE III

Directors

SECTION 3.01. Number of Directors and Classification of Board. The Board shall consist of thirteen members. Except as provided in Section 3.04 of these By-laws in the case of vacancies, directors shall be elected by the shareholders. The directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes, one of which shall consist of five members and two of which shall consist of four members each. Each class of directors shall serve for a term of three years, which terms shall commence in three consecutive years. At each annual meeting of the shareholders the successors to the class of directors whose term expires that year shall be elected to hold office

for the term of three years and until his successor is elected and qualified or until his earlier death, resignation or removal, so that the term of office of one class of directors shall expire in each year. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

SECTION 3.02. Qualifications. Directors shall be natural persons of full age and need not be residents of the Commonwealth of Pennsylvania or security holders of the Corporation.

SECTION 3.03. Nominations of Directors. Subject to the rights of holders of any series of preferred stock or any other class of capital stock of the Corporation (other than Common Stock) then outstanding, only persons who are nominated in accordance with the procedures set forth in this Section shall be eligible to serve as directors. Nominations of persons for election to the Board of the Corporation may be made at a meeting of shareholders (i) by or at the direction of the Board, (ii) by or at the direction of a committee of the Board to which the Board has delegated the authority to make such

nominations or (iii) by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Section, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Section. Such nominations, other than those made by or at the direction of the Board or a committee of the Board, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed to, postage prepaid, and received at the principal executive offices of the Corporation (a) in the case of an annual meeting, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed or public disclosure was made), and (b) in the case of a special meeting at which directors are to be elected, not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed or public disclosure was made. Such shareholder's

notice shall set forth (1) as to each person whom the shareholder proposes to nominate for election as a director, (A) the name, age, business address and residence address of the proposed nominee, (B) the principal occupation or employment of the proposed nominee, (C) the class and number of shares of capital stock of the Corporation which are beneficially owned by the proposed nominee, (D) a description of all arrangements or understandings between the shareholder and each proposed nominee and any other person (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder, (E) all other information relating to such proposed nominee that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended and (F) the written consent of the proposed nominee to serve as a director of the Corporation if so elected; (2) as to the shareholder giving the notice (A) the name and address, as they appear on the Corporation's books, of such shareholder, (B) a representation that the shareholder is a holder of record of shares of the Corporation's capital stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the proposed nominee or nominees specified in the notice and (C) the class and number of shares of the Corporation which are beneficially owned by such shareholder and also which are owned of record by such shareholder; and (3) as to the beneficial owner, if any, on whose behalf the nomination is made, (A) the name and address of such person

and (B) the class and number of shares of the Corporation which are beneficially owned by such person. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

No person shall be eligible to serve as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section. The presiding officer of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this Section, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as

amended, and the rules and regulations thereunder with respect to the matters set forth in this Section.

SECTION 3.04. Vacancies. Vacancies in the Board shall be filled by a majority of the remaining members of the Board though less than a quorum, and each director so elected shall serve until the next selection of the class for which such director was chosen, and until a successor has been selected and qualified or until such director's earlier death, resignation or removal. If one or more directors resign from the Board effective at a future date, the directors then in office, including those who have so resigned, shall have the power to fill the vacancies by a majority vote, such vote to take effect when the resignations become effective.

SECTION 3.05. Powers. The business and affairs of the Corporation shall be managed under the direction of the Board which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles or by these By-laws directed or required to be exercised and done by the shareholders.

SECTION 3.06. Place of meetings. Meetings of the Board may be held at such places within or without the Commonwealth of Pennsylvania as, in the case of a regular meeting, the Board may from time to time designate, or, in the case of a special meeting, as may be designated in the notice calling the meeting.

SECTION 3.07. First Meeting of Newly Elected Board. The first meeting of each newly elected Board shall be held as soon as practicable after the meeting of shareholders at which such directors

were elected, and if held on the day and at the place where the annual meeting of the shareholders was held, no notice shall be required other than announcement at the annual meeting of the shareholders. If such first meeting of the newly-elected Board is not so held, notice of such meeting shall be given in the same manner as set forth in Section 3.08 of these By-laws with respect to notice of regular meetings of the Board.

SECTION 3.08. Regular Meetings of the Board. Regular meetings of the Board may be held at such times and places as shall be determined from time to time by resolution of at least a majority of the whole Board at a duly convened meeting, or by unanimous written consent.

Notice of each regular meeting of the Board shall specify the date, place and hour of the meeting, as well as the general nature of the business to be conducted at the meeting, and shall be given to each director, to his or her address or telex, TWX, telecopier or telephone number as supplied by such director to the Corporation for the purpose of notice, at least twenty-four (24) hours before the meeting if given personally or by telephone, telex, TWX (with answer back received) or telecopier, at least forty-eight (48) hours before the meeting if given by telegram (with messenger service specified), express mail (postage prepaid) or courier service (charges prepaid), and at least five (5) days before the meeting if given by first class mail (postage prepaid). If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person, or, in the case of telex, or TWX, when dispatched.

SECTION 3.09. Special Meetings of the Board. Special meetings of the Board may be called by the Chief Executive Officer, and shall be called by the Chief Executive Officer or by the Secretary on the written request of two directors. Notice of the date, place and hour of each special meeting of the Board shall be given within the same time and in the same manner provided for notice of regular meetings in Section 3.08 of these By-laws, and shall also specify the general nature of the business to be conducted at such meeting.

SECTION 3.10. Quorum of the Board. At all meetings of the Board the presence of a majority of the directors in office shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at the meeting at which a quorum is present shall be the acts of the Board. If a quorum shall not be present at any meeting of directors, the directors present thereat may adjourn the meeting. It shall not be necessary to give any notice of

the adjourned meeting or of the business to be transacted thereat other than by announcement at the meeting at which such adjournment is taken.

SECTION 3.11. Organization. The Secretary, or in his absence, an Assistant Secretary of the Corporation, or in the absence of the Secretary and all Assistant Secretaries, a person whom the chairman of such meeting

shall appoint, shall act as secretary, of such meeting and keep the minutes thereof.

SECTION 3.12. Committees of Directors. The Board may, by resolution adopted by a majority of the directors in office, establish one or more committees, each committee to consist of three or more of the directors, and may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. Any such committee, to the extent provided in such resolution or in these By-laws, shall have and may exercise all of the powers and authority of the Board; provided that no such committee shall have any power or authority to (i) submit to the shareholders any action requiring the approval of shareholders under the 1988 BCL, (ii) create or fill vacancies on the Board, (iii) adopt, amend or repeal By-laws, (iv) amend or repeal any resolution of the Board that by its terms is amendable or repealable only by the Board, (v) act on any matter committed by these By-laws or resolution of the Board to another committee of the Board, (vi) adopt a plan or an agreement of merger or consolidation, or (vii) amend the Articles or adopt a resolution proposing an amendment to the Articles. In the absence or disqualification of a member or alternate member or members of a committee, the member or members thereof present at any meeting of such committee and not disqualified from voting, whether or not a quorum is present, may unanimously appoint another director to act at the meeting in place of any absent or disqualified member. Minutes of all meetings of any committee of the Board shall be kept by the person designated by such committee to keep such minutes. Copies of such minutes and any writing setting forth an action taken by written consent without a meeting shall be distributed to each member of the Board promptly after such meeting is held or such action is taken. Each committee of the Board shall serve at the pleasure of the Board.

SECTION 3.13. Audit Committee. The Board shall designate an Audit Committee, consisting of three or more directors, each of whom shall be independent of management and free from any relationship that would interfere with the exercise of independent judgment as a committee member. It shall be the responsibility of the Audit

Committee to evaluate for, and recommend to, the Board, as appropriate, the selection of the Corporation's independent auditors, the scope of the audits to be conducted, and the purpose and

adequacy of reserves; to monitor and make recommendations in respect to the internal audit program; and to review significant accounting policies, including any major changes to those policies.

SECTION 3.14. Ethics Committee. The Board shall designate an Ethics Committee, consisting of three or more members, each of whom shall be independent of management and free from any relationship that would interfere with the independent judgment as a committee member. It shall be the responsibility of the Ethics Committee to review, and recommend to the Board, as appropriate, matters relating to the business conduct of the corporation and its employees and other matters of public interest, including environmental quality, safety and equal employment.

SECTION 3.15. Nominating Committee. The Board shall designate a Nominating Committee consisting of three or more members, each of whom shall be independent of management and free from any relationship that would interfere with the independent judgment as a committee member. It shall be the responsibility of the Nominating Committee to recommend to the Board of Directors, without regard to sex, race, religion or national origin, individuals to be nominated for election to the Board of Directors, including the position of Chairman, President, and Chief Executive Officer; to periodically review Board procedures, making such recommendations to the Board as may be appropriate, and to provide for a process through which the performance of the Board of Directors and its members is reviewed and evaluated, reporting to the Board of Directors, as appropriate.

SECTION 3.16. Compensation Committee. The Board shall designate a Compensation Committee, consisting of three or more members, each of whom shall be independent of management and free from any relationship that would interfere with the independent judgment as a committee member. It shall be the responsibility of the Compensation Committee to review matters relating to compensation policies and proposed significant changes in the structure of the organization and personnel and, as appropriate, make recommendations to the Board of Directors.

SECTION 3.17. Finance Committee. The Board shall designate a Finance Committee, consisting of five or more members. It shall be the responsibility of the Finance Committee to review matters relating to the financial

condition and performance of the corporation, including the financial aspects of pension matters and, as appropriate, make recommendations to the Board of Directors, and to exercise, to the extent permitted by the law of Pennsylvania and the by-laws of the Corporation, the authority of the Board of Directors in the management of the business and the affairs of the Corporation on days other than those on which the Board of Directors meets and to report such actions to the Board of Directors.

SECTION 3.18. Participation in Board Meetings by Telephone. One or more directors may participate in a meeting of the Board or of a committee of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and all directors so participating shall be deemed present to the meeting.

SECTION 3.19. Action by Written Consent of Directors. Any action which may be taken at a meeting of the Board or of the members of the committee of the Board may be taken without a meeting if, prior or subsequent to the action, a consent or consents in writing setting forth the action so taken shall be signed by all of the directors or the members of the committee, as the case may be, and filed with the Secretary of the Corporation.

SECTION 3.20. Compensation of Directors. The Board of Directors may, by resolution, fix the compensation of directors for their services. A director may also serve the Corporation in any other capacity and receive compensation therefor.

SECTION 3.21. Chairman of the Board. The Board shall appoint a Chairman of the Board who shall, if present, preside at all meetings of the Board and at all meetings of the shareholders.

ARTICLE IV

Officers

SECTION 4.01. Principal Officers. The principal officers of the Corporation shall be chosen by the Board, and shall include a Chief Executive Officer, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, and a Treasurer. The Board shall designate one

officer (who need not be a principal officer but shall not be an assistant officer) to be the chief financial officer of the Corporation and another officer (who need not be a principal officer but shall not be an assistant officer) to be the chief accounting officer of the Corporation. All officers shall be natural persons of full age. Any number of offices may be held by the same person.

SECTION 4.02. Election of Principal Officers. The Board, immediately after each annual meeting of the shareholders, shall elect the principal officers of the Corporation, each of whom shall hold office for a term of one year or such other term as the Board may provide, and until his successor has been elected and qualified or until his earlier death, resignation or removal. Each principal officer shall have such authority and perform such duties as the Board of Directors may from time to time determine.

SECTION 4.03. Other Officers. The Corporation may have such other officers, assistant officers, agents and employees as the Board or the Chief Executive Officer may deem necessary, each of whom shall hold office for such period, have such authority and perform such duties as the Board or the Chief Executive Officer may from time to time determine. The Board may delegate to any principal officer the power to appoint or remove and set the compensation of any such other officers and any such agents or employees.

SECTION 4.04. Compensation of Officers. Except as provided in Section 4.03 of these By-laws, the salaries of all officers of the Corporation shall be fixed by the Board.

SECTION 4.05. Removal of Officers. Any officer or agent of the Corporation may be removed by the Board with or without cause, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Vacancies of any office shall be filled by the Board. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4.06. Bonds. If required by the Board, any officer shall give the Corporation a bond, in such sum and with such surety of sureties as may be satisfactory to the Board, for the faithful discharge of the duties of his or her office and for the restoration to the Corporation, in the case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money

and other property of whatever kind in his or her possession or under

his or her control belonging to the Corporation.

ARTICLE V

Share Certificates

SECTION 5.01. Certificate for Shares. The certificates representing shares of the Corporation shall be numbered and registered in a share register as they are issued. The share register shall exhibit the names and addresses of all registered holders and the number and class of shares and the series, if any, held by each.

The certificates shall state that the Corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the registered holder and the number and class of shares and the series, if any, represented thereby. If, under the Articles, the Corporation is authorized to issue shares of more than one class or series, each certificate shall set forth, or shall contain a statement that the Corporation will furnish to any shareholder upon request and without charge, a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the Board to fix and determine such rights.

SECTION 5.02. Execution. Every share certificate shall be executed, by facsimile or otherwise, by or on behalf of the Corporation by the Chief Executive Officer or by any Senior Vice President or by the Secretary. In case any officer who has executed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer, because of death, resignation or otherwise, before the Certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the time of its issue.

ARTICLE VI

Share Transfer

SECTION 6.01. Transfer of Shares. Upon presentment to the Corporation or its transfer agent of a

share certificate duly endorsed by the appropriate person or

accompanied by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto and the old certificate cancelled and the transfer registered upon the books of the Corporation, unless the Corporation or its transfer agent has a duty to inquire as to adverse claims with respect to such transfer that has not been discharged or unless the Corporation or its transfer agent requests reasonable evidence of the rightfulness of the transfer and such evidence is not submitted. The Corporation shall have no duty to inquire into adverse claims with respect to transfers of its securities or the rightfulness thereof unless (a) the Corporation has received a written notification of an adverse claim at a time and in a manner that affords the Corporation a reasonable opportunity to act on it before the issuance of a new, reissued or re-registered share certificate and the notification identifies the claimant, the registered owner and the issue of which the share or shares are a part and provides an address for communications directed to the claimant; or (b) the Corporation has required and obtained, with respect to a fiduciary, a copy of a will, trust, indenture, articles of co-partnership, By-laws or other controlling instruments, for a purpose other than to obtain appropriate evidence of the appointment or incumbency of the fiduciary, and such documents indicate, upon reasonable inspection, the existence of an adverse claim.

SECTION 6.02. Discharge of Duty of Inquiry. The Corporation may discharge any duty of inquiry by any reasonable means, including notifying an adverse claimant by registered or certified mail at the address furnished by him or, if there is no such address, at the claimant's residence or regular place of business, that the security has been presented for registration of transfer by a named person, and that the transfer will be registered unless within thirty (30) days from the date of mailing the notification, either (a) an appropriate restraining order, injunction or other process issues from a court of competent jurisdiction or (b) an indemnity bond, sufficient in the Corporation's judgment to protect the Corporation and any transfer agent, registrar or other agent of the Corporation and any transfer agent, registrar or other agent of the Corporation involved from any loss that it or they may suffer by complying with the adverse claim, is filed with the Corporation.

ARTICLE VII

Record Date; Identity of Shareholders

SECTION 7.01. Fixing Record Date. The Board may fix a time, not more than ninety (90) days before the date of any meeting of the

shareholders (other than an adjourned meeting) or the date set for any other purpose, including without limitation, the payment of any dividend or distribution, the allotment of rights, or any change or conversion or exchange of securities, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of securities. Except as otherwise provided in Section 7.02 of these By-laws, only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting or to receive payment of such dividend or distribution or to receive such allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of any securities on the books of the Corporation after any record date so fixed. When a determination of shareholders of record has been made as provided in this Section 7.01 for purposes of a meeting, the determination shall apply to any adjournment of such meeting unless the Board fixes a new record date for the adjourned meeting.

SECTION 7.02. Certification of Nominee. The Board may adopt a procedure whereby a shareholder may certify in writing to the Secretary of the Corporation that all or a portion of the shares registered in the name of the shareholder are held for the account of a specified person or persons. The Board, in adopting such procedure, may specify (i) the classification of shareholder who may certify, (ii) the purpose or purposes for which the certification may be made, (iii) the form of certification and the information to be contained therein, (iv) as to certifications with respect to a record date, the date after the record date by which the certification must be received by the Secretary of the Corporation, and (v) such other provisions with respect to the procedure as the Board deems necessary or desirable. Upon receipt by the Secretary of the Corporation of a certification complying with the procedure, the persons specified in the certification shall be deemed, for the purpose or purposes set forth in the

certification, to be the holders of record of the number of shares specified instead of the person making the certification.

ARTICLE VIII

Registered Shareholders

SECTION 8.01. Registered Shareholders. Before due

presentment for transfer of any security, the Corporation shall treat the registered owner thereof as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner, and shall not be bound to recognize any equitable or other claim or interest in such securities, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the Commonwealth of Pennsylvania or Section 7.02 of these By-laws.

ARTICLE IX

Lost Certificates

SECTION 9.01. Lost Certificates. If the owner of a share certificate claims that it has been lost, destroyed, or wrongfully taken, the Corporation shall issue a new certificate in place of the original certificate if the owner so requests before the Corporation has notice that the certificate has been acquired by a bona fide purchaser, and if the owner has filed with the Corporation an indemnity bond and an affidavit of the facts satisfactory to the Board or its designated agent, and has complied with such other reasonable requirements, if any, as the Board may deem appropriate.

ARTICLE X

Distributions

SECTION 10.01. Payment. Distributions upon the capital stock of the Corporation, whether by dividend, purchase or redemption or other acquisitions of its shares, together with stock dividends and stock splits, may be declared by the Board at any regular or special meeting of

the Board, subject to the limitations set forth in Section 1551 of the 1988 BCl and may be paid in cash, in property, or in securities, including debt securities, of the Corporation except that stock dividends and stock splits may be paid only in the shares in the Corporation.

SECTION 10.02. Reserves. Before the making of any distributions with respect to the capital stock of the Corporation, there may be set aside out of any funds of the Corporation available for distributions such sum or sums as the Board from time to time, in

its absolute discretion, deems proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board shall deem conducive to the interests of the Corporation, and the Board may abolish any such reserve in the manner in which it was created.

ARTICLE XI

Miscellaneous; Liability and Indemnification

SECTION 11.01. Checks and Notes. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers as the Board may from time to time designate.

SECTION 11.02. Fiscal Year. The fiscal year of the Corporation shall be as determined by the Board.

SECTION 11.03. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Pennsylvania." Such seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced. The affixation of the corporate seal shall not be necessary to the valid execution, assignment or endorsement of any instrument or other document by the Corporation.

SECTION 11.04. Waiver of Notice. Whenever any notice is required to be given by statute or by the Articles or by these By-laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed the equivalent of the giving of such notice. The business to be transacted at the meeting shall be specified in the waiver

of notice of such meeting. Attendance of any person entitled to notice, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where any person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 11.05. Continuing Applicability. The provisions of Sections 11.06, 11.07 and 11.08 of these By-laws shall continue as to any person who has ceased to be a director, officer, other employee or agent of the Corporation and shall inure to the benefit of the heirs

and personal representatives of such person.

SECTION 11.06. Director's Liability. A director of the Corporation shall not be personally liable for monetary damages as such for any action taken, or any failure to take any action, unless (a) such director has breached or failed to perform the duties of his office under Section 8363 of Title 42 of Pennsylvania Consolidated Statutes, known as the Directors' Liability Act, and (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness, or unless such liability is imposed pursuant to a criminal statute or for the payment of taxes.

SECTION 11.07. Indemnification. The Corporation shall indemnify any director or officer and shall have the power by action of the Board of Directors to indemnify any employee or agent other than an officer of the Corporation with respect to any threatened, pending or completed action, suit or proceeding (including actions by or in right of the Corporation to procure a judgment in its favor) arising out of, or in connection with, any actual or alleged act or omission or the status of such indemnified person in his capacity as a director, officer, employee or agent of the Corporation or in his capacity as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, if requested to serve in such capacity by the Corporation, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred, unless the person's action or failure to act that gave rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness. Expenses incurred by any director or officer in defending a civil or criminal action, suit or proceeding shall be paid by the

Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation. Expenses incurred by any employee or agent other than an officer in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon approval of the Board of Directors and receipt of an undertaking by or on behalf of such employee or agent to repay such amount if it shall ultimately be determined that such employee or agent is not entitled to be indemnified by the Corporation. The Corporation may purchase and maintain insurance or establish a separate fund for the purpose of satisfying its indemnification obligations. This Section 11.07 and Section 11.06 shall not apply to any actions filed prior to their

adoption nor to any breach or failure of performance of duty by any director or officer occurring prior to their adoption.

SECTION 11.08. Mandatory Indemnification. Without limiting the foregoing and applicable to any action filed at any time, with respect to any act, omission or circumstance, the Corporation shall indemnify any person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding (including actions by or in right of the Corporation to procure a judgment in its favor) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred, if such person has been successful on the merits or otherwise in any such action or upon a determination in the specific case that such indemnification is proper in the circumstances because he has met the applicable standard of conduct set forth in the 1988 BCL. The Corporation may purchase and maintain insurance for the purposes of indemnification on behalf of any or all persons to the full extent permitted under the 1988 BCL.

ARTICLE XII

By-Law Amendments

SECTION 12.01. Amendments. These By-Laws may be altered, amended or repealed by a majority vote of the shareholders entitled to vote thereon at any regular or special meeting duly convened after notice to the shareholders of that purpose, or except for a by-law on a subject expressly committed to the shareholders by the 1988 BCL, by a majority vote of the members of the Board at any regular or special meeting duly convened, subject always to the power of the shareholders to change such action by the directors. Any change in these By-Laws shall take effect when adopted, except as otherwise provided in the resolution effecting the change.

CONRAIL INC.
EARNINGS PER SHARE COMPUTATIONS

(\$ Millions Except Per Share)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
Net income				
Primary				
Net income	\$ 138	\$ 116	\$ 195	\$ 294
Dividends declared on Series A ESOP convertible junior preferred stock (ESOP Stock), net of tax benefit	(4)	(2)	(10)	(9)
	----- \$ 134	----- \$ 114	----- \$ 185	----- \$ 285
	=====	=====	=====	=====
Fully diluted				
Net income	138	116	195	294
Nondiscretionary adjustment (1)	(1)	(1)	(2)	(3)
	----- \$ 137	----- \$ 115	----- \$ 193	----- \$ 291
	=====	=====	=====	=====
Weighted average number of shares (2)				
Primary				
Weighted average number of common shares outstanding	76,233,398	78,035,787	76,782,398	78,295,582
Effect of shares issuable under employee stock				

compensation plans	592,039	628,223	660,944	541,007
	-----	-----	-----	-----
	76,825,437	78,664,010	77,443,342	78,836,589
	=====	=====	=====	=====
Fully diluted				
Weighted average number of common shares outstanding	76,233,398	78,035,787	76,782,398	78,295,582
Series A ESOP convertible junior preferred stock	9,588,858	9,793,741	9,696,527	9,807,260
Effect of shares issuable under employee stock compensation plans	667,113	695,858	715,143	749,716
	-----	-----	-----	-----
	86,489,369	88,525,386	87,194,068	88,852,558
	=====	=====	=====	=====
Net income per common share				
Primary	\$1.74	\$1.44	\$2.39	\$3.61
Fully diluted	1.58	1.31	2.21	3.28

Exhibit 11

CONRAIL, INC.

EARNINGS PER SHARE COMPUTATIONS

- Notes:
1. Represents the increase, net of income tax benefits, in ESOP-related expenses assuming conversion of all ESOP Stock to common stock.
 2. Shares held by the Employee Benefits Trust (the "Trust") are not considered outstanding for earnings per share computations until issued by the Trust.

CONRAIL, INC.

COMPUTATIONS OF THE RATIO OF EARNINGS TO FIXED CHARGES

(\$ In Millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
Earnings				
Pre-tax income				
Add:	\$ 216	\$ 188	\$ 304	\$ 444
Interest expense	44	49	137	147
Rental expense interest factor	12	12	40	42
Less equity in undistributed earnings of 20%-50% owned companies	(5)	(4)	(13)	(14)
	-----	-----	-----	-----
Earnings available for fixed charges	\$ 267 =====	\$ 245 =====	\$ 468 =====	\$ 619 =====
Fixed charges				
Interest expense	44	49	137	147
Rental expense interest factor	12	12	40	42
	-----	-----	-----	-----
Fixed charges	\$ 56 =====	\$ 61 =====	\$ 177 =====	\$ 189 =====
Ratio of earnings to fixed charges	4.77x	4.02x	2.64x	3.28x

For purposes of computing the ratio of earnings to fixed charges, earnings represent income before taxes plus fixed charges, less equity in undistributed earnings of 20% to 50% owned companies. Fixed charges represent interest expense together with any interest capitalized and a portion of rent under long-term operating leases representative of an interest factor.

November 14, 1996

Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Dear Sirs:

We are aware that Conrail Inc. has incorporated by reference our report dated October 16, 1996 (issued pursuant to the provisions of Statement on Auditing Standards No. 71) in the following documents:

- o Registration Statement on Form S-8 No. 33-19155
- o Registration Statement on Form S-8 No. 33-44140
- o Registration Statement on Form S-8 No. 33-57717
- o Registration Statement on Form S-8 No. 33-60445
- o Registration Statement on Form S-8 No. 333-6513
- o Prospectus constituting part of Registration Statement on Form S-3 No. 33-64670
- o Prospectus constituting part of Registration Statement on Form S-3 No. 33-62929.

We are also aware of our responsibilities under the Securities Act of 1933 and that pursuant to Rule 436(c) our report dated October 16, 1996 shall not be considered part of a registration statement prepared or certified by us or a report prepared or certified by us within the meaning of Sections 7 and 11 of the Securities Act of 1933.

Yours very truly,

PRICE WATERHOUSE LLP
Thirty South Seventeenth Street
Philadelphia, PA 19103

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THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.

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