The Acquisition of Consolidated Rail Corporation (B)

After making it through the 1980s without the vicious public takeover fights that tore through other industries, railroading has its battle royal.[1]

On October 15, 1996, Richmond-based CSX Corporation (CSX) and Philadelphia-based Consolidated Rail Corporation (Conrail) surprised the railroad world by announcing an $8.3 billion merger. Just hours after the announcement, Norfolk Southern Corporation (Norfolk Southern), the second largest railroad in the East and one of the premier railroads in the United States, issued the following statement:

> Norfolk Southern recognizes that the proposed merger of Conrail and CSX, if consummated, would have very significant implications for the nation's transportation system and for the shipping public. This combination raises serious concerns. Norfolk Southern will act responsibly and aggressively; ... we do not rule out any options.[2]

Eight days later, Norfolk Southern countered CSX's bid with a hostile $9.1 billion offer for Conrail. When describing the offer, David R. Goode, Norfolk Southern's chief executive officer, said:

> People always talk about our war chest ... but there comes a time to use it. A CSX-Conrail combination posed a serious threat to Norfolk Southern. [We made the offer because...] I was concerned about being excluded from important markets in the Northeast.[3]

An industry analyst concurred: "Takeover competitions are very intense when the target is a scarce jewel in a rapidly evolving industry that is populated by relatively few firms."[4] Indeed, the bidding war escalated over the next several months, culminating on January 17, 1997 in a critical vote for Conrail shareholders on whether to permit the CSX-Conrail merger to proceed.

Research Associate Mathew Mateo Millett prepared this case under the supervision of Professor Benjamin C. Esty as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Lori Flees (MBA '97) prepared an earlier version of the case.

Conrail as a "Scarce Jewel"

Conrail was the sole Class I railroad (a designation based on revenue) serving the lucrative Northeast market, considered by many to be one of the industry's prize possessions. Its routes connected the major Northeastern cities such as Philadelphia, Boston, and New York with major Midwestern cities such as Chicago, St. Louis, and Detroit, and Southern cities such as Atlanta and New Orleans. In 1996, Conrail had 21,280 employees, controlled 29.2% of the rail freight market east of the Mississippi, and operated 10,543 miles of track. Conrail's revenue per mile of track operated, per carload originated, and per ton originated were the highest by far of the three major Eastern railroads (Conrail, CSX, and Norfolk Southern). Yet it was the least profitable railroad due to its high cost position. For example, Conrail had 30% more employees per mile of track operated than either CSX or Norfolk Southern. As a result, its operating ratio, the standard industry measure of efficiency, was significantly higher. **Exhibits 1** and **2** provide Conrail's balance sheet and income statement information, respectively.

CSX's Friendly Offer

A CSX-Conrail merger would create an entity with $8.6 billion in revenues and 68% of the Eastern market. CSX planned to buy Conrail in a friendly, two-tiered transaction. To complete the deal, CSX would have to purchase 90.5 million Conrail shares ("acquisition shares") including approximately 1.3 million common shares owned by management and directors. According to the merger agreement, CSX would pay $92.50 per share in cash for 40% of Conrail's acquisition shares (the front-end offer). The front-end offer would be completed in two stages for regulatory reasons. CSX would acquire 19.7% of the shares in the first stage and 20.3% of the shares in the second stage. Following the cash tender offers, CSX would then exchange shares in the ratio of 1.85619:1.0 (CSX:Conrail) for the remaining 60% of Conrail's shares (the back-end offer). Based on closing prices on the day Norfolk Southern announced its bid, the blended value of CSX's offer was $87.67 per share, which represented a 23.5% premium over Conrail's pre-announcement stock price of $71.00 per share. Conrail had traded around $71.00 for most of the previous year.

Norfolk Southern's Hostile Offer

A Norfolk Southern-Conrail combination would have rail revenues of $7.8 billion and 61% of the Eastern market. The combined rail network would appear quite similar to the CSX-Conrail network with contiguous rail service between the Northeastern, Midwestern, and Southeastern markets, but with slightly fewer total rail miles—24,843 versus 29,047. **Exhibit 3** shows the pro forma route maps for both combinations. **Exhibit 4** and **5** provide CSX and Norfolk Southern's historical balance sheet and income statement information.

Norfolk Southern's $100 per share cash tender offer, totaling $9.1 billion, represented a 40.8% premium over Conrail's pre-merger announcement stock price and a 14.1% premium over CSX's blended offer. However, Norfolk Southern's offer included a number of important conditions that had to be met before it would proceed with the offer. For instance, Conrail had to terminate its merger agreement with CSX and suspend its poison pill; shareholders had to tender a majority of the acquisition shares; and Norfolk Southern had to arrange sufficient financing to complete the acquisition. Norfolk Southern retained J.P. Morgan and Merrill Lynch to advise them on the deal and agreed to pay them each 0.125% of the total deal value upon consummation of the merger.

The Competitive Impacts of the Proposed Mergers

Over the previous few years, there had been several large railroad mergers as firms tried to reduce costs through scale. Like the previous deals, both CSX and Norfolk Southern projected large merger synergies from acquiring Conrail. On one side, CSX and Conrail projected gains in operating income of $565 million per year from cost reductions and $165 million per year from revenue enhancements by the year 2000.[5] Over the same period, Norfolk Southern projected gains in operating income of $515 million from cost reductions and $145 million from revenue increases.[6] These amounts were net of merger costs and the effects of granting competitive access to certain markets currently served only by the acquirer. **Exhibits 6a** and **6b** present projections of gains and losses in operating income from the two proposed mergers.

The cost savings would be driven by consolidation of overlapping operations and lower costs on longer-haul contiguous routes (see the route maps in **Exhibit 3**). For this reason, CSX was projecting greater cost savings than Norfolk Southern even though it was less efficient (had a higher operating ratio). The revenue increases would come from trucking and from the remaining Eastern railroad competitor. In other words, CSX-Conrail would steal revenue from Norfolk Southern or, alternatively, Norfolk Southern-Conrail would steal revenue from CSX.

Exhibits 7a and **7b** present the results of a model of industry economics and efficiency. Using current cost and revenue data combined with estimates of merger synergies and historical trends, the model projects operating ratios under the various merger scenarios. According to the model, the winning combination would suffer a short transition period of reduced operating efficiency due to Conrail's high-cost position. Over time, as it achieved the cost reductions and revenue enhancements, operating efficiency would improve. Assuming it was able to achieve the projected merger synergies, the winning combination would become more efficient than the stand-alone railroad. However, if the Surface Transportation Board (STB), the federal railroad regulators, required the winning combination to provide competitive access to certain key markets, then the value of acquiring Conrail would significantly less. Both CSX and Norfolk Southern hoped to cede as little access as possible.

Commenting on the importance of the deal, one analyst said, "Both [CSX and Norfolk Southern] are in a position where they cannot be willing to lose."[7] Another said, "The winner [will] obtain an overwhelming dominance of the Eastern and Midwestern rail freight markets. The loser [will] not only lose the instant battle, but, perhaps, its very existence."[8]

The Bidding War and Legal Battles

Within hours of Norfolk Southern's bid, CSX dismissed it as a "non-bid."

> Norfolk Southern's highly conditional non-bid would inevitably face serious delay and could not in any event be consummated without the approval of the Conrail board. The provisions of the CSX-Conrail merger agreement effectively preclude the Conrail board of directors' approval of any competing offers prior to mid-April 1997. The certain delays involved in the Norfolk Southern non-bid severely and negatively impact the present value of its proposal. Using a customary discount rate of two percent per month, the Norfolk Southern non-bid is worth less than $90.00 per Conrail share, far less than Norfolk Southern would have Conrail shareholders believe.[9]

In response, Norfolk Southern sued to stop the deal and force Conrail's board to consider its offer. Norfolk Southern contended that CSX's two-tiered offer was "... a strategy to subvert the intent of the state law and coerce Conrail shareholders into accepting an inadequate offer for their shares."[10] Pennsylvania's antitakeover law required bidders holding 20% or more of a company's stock to offer all shareholders the same price unless target shareholders explicitly voted to nullify this provision (the "fair value" statute). As a result, Conrail shareholders had to "opt-out" of the Pennsylvania statute before CSX could purchase more than 19.9% of the firm. This fair value statute was the reason why CSX was forced to execute its front-end tender offer in two stages. The suit also alleged that Conrail's board had violated its fiduciary duty by accepting CSX's offer. Specifically, Norfolk Southern said that Conrail's board had "... agreed to take a six-month leave of absence during the most critical six months in Conrail's history" when it agreed to the no-talk clause.[11].

The combination of Conrail's poison pill and the no-talk clause forced Norfolk Southern to make a hostile offer. Yet Pennsylvania's voting rights statute made such an offer especially difficult to execute successfully. Unless Conrail's board terminated its merger agreement with CSX and approved a Norfolk Southern-Conrail merger, the statute would preclude Norfolk Southern from acquiring Conrail. Thus even a hostile takeover would not work unless it was coupled with a proxy contest through which Norfolk Southern replaced Conrail's directors with directors in favor of the Norfolk Southern deal. Because Conrail directors were elected on a staggered basis—one-third every year—it would take at least one and one-half years from January 1997 before Norfolk Southern could replace a majority of the directors. Then, it would probably take at least another six months before Norfolk Southern could gain regulatory approval and complete a deal. In total, it might take as long as two years to consummate a Norfolk Southern-Conrail merger.

John W. Snow, CSX's chief executive officer, dismissed the lawsuit by saying, "A company ought to have a right to choose to fulfill a strategic vision with a partner without throwing itself open to an auction."[12] Conrail management agreed. "The [Conrail] Board had already carefully considered the relative merits of a merger with Norfolk Southern rather than CSX and had unanimously determined that a merger with CSX was in the best interests of Conrail and its constituencies."[13] Although management was in favor of the deal, one of the most important constituents, the labor unions, had not yet taken a position on the specific merger proposals. Nevertheless, the AFL-CIO did issue a press release in which they said they were analyzing the deals and would determine the best course for their members.[14]

Two weeks later, on November 6, CSX amended its tender offer. The new merger agreement increased the front-end cash offer to $110 per share, extended the no-talk period by three months until July 12, 1997, and postponed the Conrail shareholder opt-out vote until December 23, 1996. Conrail delayed the vote so that CSX could complete the first stage of the cash tender offer under the new terms. Two days later, Norfolk Southern increased its own bid to $110 cash per share. **Exhibit 8** provides a bidding chronology and stock returns for each company.

The US District Court in Pennsylvania dismissed Norfolk Southern's lawsuit on November 19, 1996. The judge ruled that although Norfolk Southern's bid "... is fine for the shareholders, whose only interest is that of short-term financial investment to maximize their profits, it completely ignores the economic utility and value of corporations as a form of business enterprise."[15] This ruling backed Conrail's assertion that its board had a fiduciary duty to all of the company's constituents, not just shareholders, and that it was justified in agreeing to the no-talk clause. Moreover, it was justified in using a "just say no" defense, meaning that it could reject Norfolk's offer without explicit justification. The judge added that "... the law of Pennsylvania leaves decisions such as what is best for the corporation to be that of the duly elected board of directors rather than second guessing by the courts."[16] In addition, the court rejected Norfolk Southern's argument that the CSX offer was coercive because, in the judge's words, "... those [shareholders] who accept the lower valued back-end of the bid and end up with stock in the merged company could see their stock value rise eventually."[17] When analysts questioned David M. LeVan, Conrail's CEO, about the ruling, he remarked, "If you don't like the law, don't buy the company's stock."[18]

Given this ruling, CSX proceeded with the first stage of its front-end tender offer. When one trader was asked whether he was going to tender, he responded, "How can I take the risk of not even getting a prorated share of the cash portion of the deal and being stuck with the stock the market will discount for both the delay in the exchange and the risk of adverse action by the Surface Transportation Board?"[19] CSX subsequently acquired 19.9% of Conrail's shares (17.86 million shares) on November 21. Interestingly, the offer was highly oversubscribed with 84.7% of Conrail's shares tendered.

On December 19, 1996, four days before the scheduled opt-out vote, CSX once again amended its offer by adding $16 of new convertible preferred stock to the back-end offer. CSX hoped that by increasing the back-end offer, it would entice Conrail shareholders to vote in favor of opting-out. At the same time, CSX postponed the opt-out vote until January 17, 1997, extended the no-talk period through December 1998, and agreed to execute the back-end stock-swap following the completion of the second stage tender offer instead of waiting for regulatory approval from the STB.

Not wanting to be left out, Norfolk Southern raised its own bid to $115 cash per share within hours. A press release read, "... Norfolk Southern remains as determined as ever to acquire Conrail and will use any and all appropriate financial means to accomplish that objective."[20] In fact, a consortium of banks had already made loan commitments to the railroad totaling more than $13 billion and one banker indicated that, if necessary, the consortium would provide more financing.[21]

The Shareholder Vote

As the decisive shareholder vote approached, Norfolk criticized the CSX-Conrail deal in a series of advertisements in the financial press, and encouraged Conrail shareholders to vote against opting-out. Conrail and CSX countered with their own advertisements that encouraged shareholders to vote in favor of opting-out (see **Exhibits 9a** and **9b**). On January 13, 1997, four days before the scheduled vote, Norfolk Southern announced that it would unconditionally tender for 9.9% of Conrail's stock at $115 per share in cash if shareholders voted against opting-out—9.9% was the maximum percentage of shares it could own without triggering Conrail's poison pill.

With the vote only one day away, the outcome was still uncertain. A vote in favor of opting-out would allow CSX to execute the second stage of its cash tender offer for an additional 18.34 million shares, approximately 20.3% of the total, at $110 per share. Upon completion of the second stage tender offer and exercise of the lock-up options on 15.96 million shares, CSX would control 52.16 million shares. When combined with the 1.3 million shares held by Conrail managers directly or through incentive compensation contracts, parties in favor of the deal would control 53.46 million shares, approximately 50.2% of the 106.5 million shares that would be outstanding at that time. Of course this scenario assumed that a majority of the shareholders would vote in favor of opting-out. If they did not, it was unclear what would happen.

In anticipation of the vote, investors were actively trading Conrail shares and options. **Exhibit 10** provides capital market information as of January 16, 1997, the day before the shareholder vote. On that day, Conrail closed at $103.50.

Exhibit 1 Conrail Consolidated Balance Sheet ($ millions)

	1992	1993	1994	1995	1996
ASSETS					
Cash	$40	$38	$43	$73	$30
Accounts receivable	592	644	646	614	630
Deferred income taxes	0	227	249	333	293
Materials and supplies	121	132	164	158	139
Other current assets	37	21	23	28	25
Total current assets	790	1,062	1,125	1,206	1,117
Property and equipment	6,013	6,313	6,498	6,408	6,590
Other assets	512	573	699	810	695
Total Assets	**$7,315**	**$7,948**	**$8,322**	**$8,424**	**$8,402**
LIABILITIES AND EQUITY					
Accounts payable	$63	$62	$119	$113	$135
Current portion of long-term debt	207	146	130	181	130
Short-term debt	127	79	112	89	99
Other current liabilities	882	788	840	787	728
Total current liabilities	1,279	1,075	1,201	1,170	1,092
Long-term debt	1,577	1,959	1,940	1,911	1,876
Deferred income taxes	644	1,081	1,203	1,393	1,478
Other long-term liabilities	1,067	1,049	1,053	973	849
Total liabilities	**$4,567**	**$5,164**	**$5,397**	**$5,447**	**$5,295**
Total stockholders' equity	2,748	2,784	2,925	2,977	3,107
Total Liabilities and Equity	**$7,315**	**$7,948**	**$8,322**	**$8,424**	**$8,402**

Sources: Conrail 1993, 1995, and 1996 *Annual Reports.*

Exhibit 2 Conrail Consolidated Income Statement ($ millions, except earnings per share)

	1992	1993	1994	1995	1996
Operating Revenues	$3,345	$3,453	$3,733	$3,686	$3,714
Operating Expenses					
Way and structures	$465	$492	$499	$485	$462
Equipment	692	703	815	766	803
General and administrative	348	384	350	370	328
Transportation	1,306	1,283	1,379	1,324	1,385
Special charges	-	-	84	285	135
Total Expenses	$2,811	$2,862	$3,127	$3,230	$3,113
Income from Operations	$534	$591	$606	$456	$601
Interest expense	(172)	(185)	(192)	(194)	(182)
Other income	98	114	118	130	112
Loss on disposition of subsidiary[a]	-	(80)	-	-	-
Income before taxes	$460	$440	$532	$392	$531
Income taxes	178	206	208	128	189
Changes in accounting principles	-	(74)	-	-	-
Net Income	$282	$160	$324	$264	$342
Average number of primary shares outstanding (thousands)	79,742	79,575	78,620	78,837	77,628
Total number of fully diluted (Acquisition) shares outstanding (thousands)[b]					90,500
Fully Diluted Earnings Per Share before effect of charges[c,d]	$2.97	$3.00	$4.08	$4.69	$4.59

Sources: Conrail 1993 and 1995 *Annual Reports*; Conrail *Form 10-Q*, November 14, 1996; and CSX *Schedule 14D-1*, October 16, 1996.

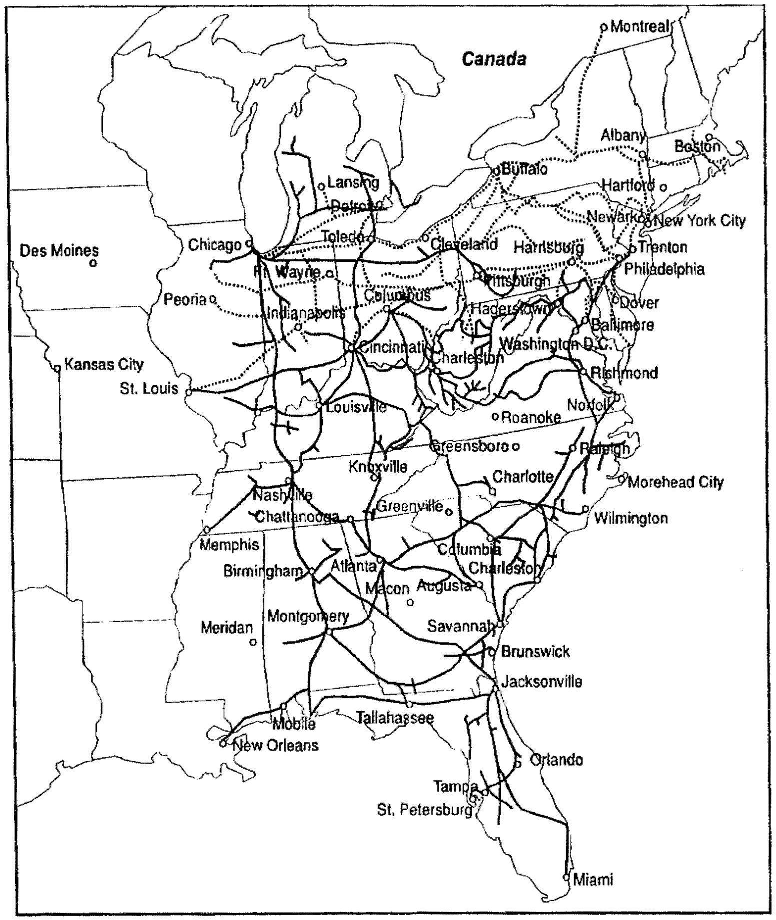
[a]In September 1993, Conrail recorded a loss for the disposition of its investment in Concord Resources Group, Inc.

[b]The number of fully diluted shares assumes conversion of the preferred stock and exercise of all outstanding options (except CSX's lock-up options). It is measured as of the announcement date and equals the total number of shares CSX or Norfolk Southern would have to purchase to acquire Conrail.

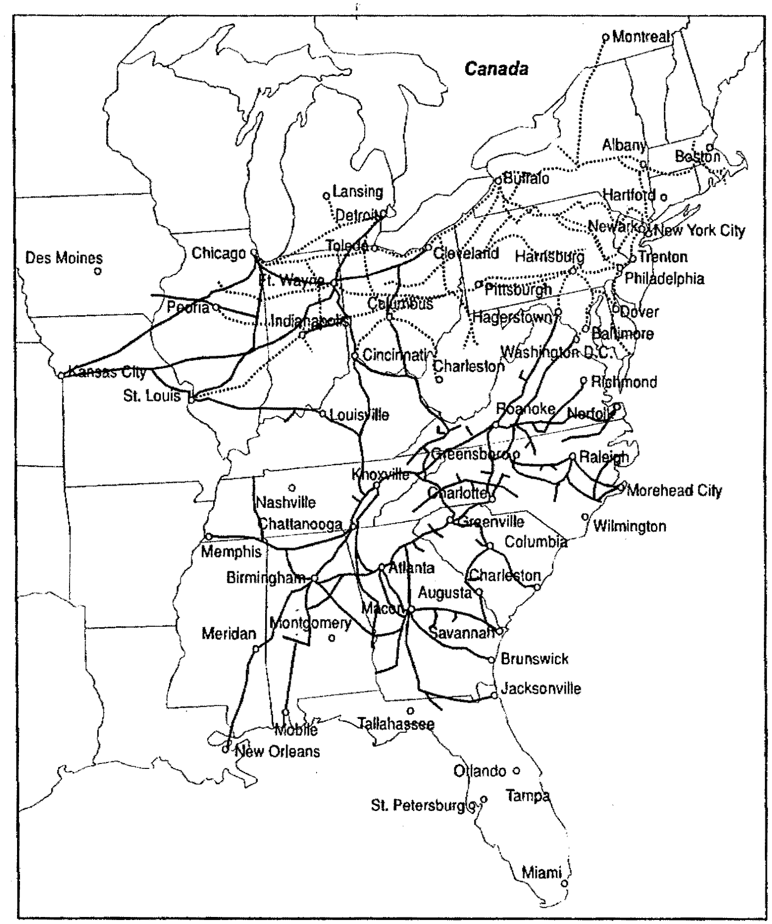
[c]Based on net income adjusted for the effects of preferred dividends, net of income tax benefits.

[d]Adjusted for extraordinary charges, loss on disposition of subsidiary, and changes in accounting principles.

Exhibit 3 Proposed Post-Merger Route Networks



CSX-Conrail Rail Network



Norfolk Southern-Conrail Rail Network

Exhibit 4 CSX and Norfolk Southern Consolidated Balance Sheets ($ millions)

	CSX[a]		Norfolk Southern	
	1995	1996	1995	1996
ASSETS				
Cash	$660	$682	$68	$209
Accounts receivable	832	894	704	704
Deferred income taxes	148	139	145	159
Materials and supplies	220	229	62	63
Other current assets	75	128	365	321
Total current assets	1,935	2,072	1,344	1,456
Property and equipment	11,297	11,906	9,259	9,529
Investment in Conrail	-	1,965	-	-
Other assets	1,050	1,022	303	431
Total Assets	**$14,282**	**$16,965**	**$10,905**	**$11,416**
LIABILITIES AND EQUITY				
Accounts payable	$1,121	$1,189	$733	$709
Current portion of long-term debt	486	101	86	56
Short-term debt	148	335	45	44
Other current liabilities	1,236	1,132	342	381
Total current liabilities	2,991	2,757	1,206	1,190
Long-term debt	2,222	4,331	1,553	1,800
Deferred income taxes	2,560	2,720	2,299	2,412
Other long-term liabilities	2,267	2,162	1,018	1,037
Total liabilities	**$10,040**	**$11,970**	**$6,076**	**$6,439**
Total stockholders' equity	4,242	4,995	4,829	4,977
Total Liabilities and Equity	**$14,282**	**$16,965**	**$10,905**	**$11,416**

Sources: CSX and Norfolk Southern 1995 and 1996 *Annual Reports.*

[a]Includes both CSX's rail and non-rail operations.

Exhibit 5 CSX and Norfolk Southern Consolidated Income Statements ($ millions, except earnings per share data)

	CSX					Norfolk Southern				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Operating Revenues										
Railway	$4,434	$4,380	$4,625	$4,819	$4,909	$3,777	$3,746	$3,918	$4,012	$4,101
Motor carrier	-	-	-	-	-	830	714	663	656	669
Container shipping	3,148	3,246	3,492	4,008	4,051	-	-	-	-	-
Other	968	1,141	1,292	1,477	1,576	-	-	-	-	-
Total Revenues	**$8,550**	**$8,767**	**$9,409**	**$10,304**	**$10,536**	**$4,607**	**$4,460**	**$4,581**	**$4,668**	**$4,770**
Operating Expenses										
Railway	$4,313	$3,643	$3,696	$3,951	$3,782	$2,851	$2,831	$2,875	$2,950	$2,936
Other	3,456	4,291	4,531	4,970	5,232	869	769	641	632	637
Special Charges	699	93	-	257	-	-	-	-	-	-
Total Expenses	**$8,468**	**$8,027**	**$8,227**	**$9,178**	**$9,014**	**$3,720**	**$3,600**	**$3,516**	**$3,582**	**$3,573**
Income from operations	**$266**	**$913**	**$1,182**	**$1,126**	**$1,522**	**$887**	**$860**	**$1,065**	**$1,086**	**$1,197**
Interest expense	(276)	(298)	(281)	(270)	(249)	(109)	(98)	(102)	(113)	(116)
Other income	3	18	105	118	43	98	137	85	142	116
Income before taxes	(7)	633	1,006	974	1,316	875	899	1,049	1,115	1,197
Income taxes	(27)	274	354	356	461	318	350	381	402	427
Accounting adjustments	-	-	-	-	-	-	223	-	-	-
Net Income	**$20**	**$359**	**$652**	**$618**	**$855**	**$558**	**$772**	**$668**	**$713**	**$770**
Average shares outstanding (thousands)	102,907	103,915	209,303	210,270	213,633	141,624	139,350	136,367	131,067	126,437
Earnings Per Share before effect of changes	**$4.61**	**$4.04**	**$3.12**	**$3.73**	**$4.00**	**$3.94**	**$3.94**	**$4.90**	**$5.44**	**$6.09**
Earnings Per Share[a]	**$0.19**	**$3.46**	**$3.12**	**$2.94**	**$4.00**	**$3.94**	**$5.54**	**$4.90**	**$5.44**	**$6.09**

Sources: CSX and Norfolk Southern 1993, 1995 and 1996 *Annual Reports*, and casewriter's estimates.

[a]Adjusted for special charges and accounting adjustments.

Exhibit 6a Selected CSX Financial Projections ($ millions)

	1997E	1998E	1999E	2000E	2001E[a]
CSX ACQUIRES CONRAIL					
Gain in Operating Income from Cost Reduction[b]	$0	$170	$396	$565	$582
Gain in Operating Income from Revenue Increase					
Gain coming from Norfolk Southern	$0	$46	$82	$107	$110
Gain coming from Other Sources	0	25	44	58	59
Total Gain from Revenue Increase	0	71	125	165	170
Total Gain in Operating Income[c]	**$0**	**$240**	**$521**	**$730**	**$752**
Norfolk Southern's Total Loss in Operating Income[d]	**($0)**	**($130)**	**($232)**	**($308)**	**($320)**

Exhibit 6b Selected Norfolk Southern Financial Projections ($ millions)

	1997E	1998E	1999E	2000E	2001E[a]
NORFOLK SOUTHERN ACQUIRES CONRAIL					
Gain in Operating Income from Cost Reduction[b]	$0	$180	$335	$515	$530
Gain in Operating Income from Revenue Increase					
Gain Coming from CSX	$0	$33	$61	$94	$97
Gain Coming from Other Sources	0	18	33	51	52
Total Gain from Revenue Increase	0	51	94	145	149
Total Gain in Operating Income[c]	**$0**	**$231**	**$429**	**$660**	**$680**
CSX's Total Loss in Operating Income[d]	**($0)**	**($66)**	**($123)**	**($189)**	**($196)**

Sources: Casewriter's estimates based on data from: *1996 NatWest Analyst Reports.*

[a]Grows at the rate of inflation (3%) after the year 2000.

[b]Net of Merger Costs.

[c]Pre-tax gain; the applicable federal income tax rate was 35%.

[d]The amount of operating income a firm might lose if its competitor acquired Conrail. The model makes specific assumptions about the loser's operating ratio and cost structure.

Exhibit 7a Projected Impact of a CSX-Conrail Merger on Operating Ratios

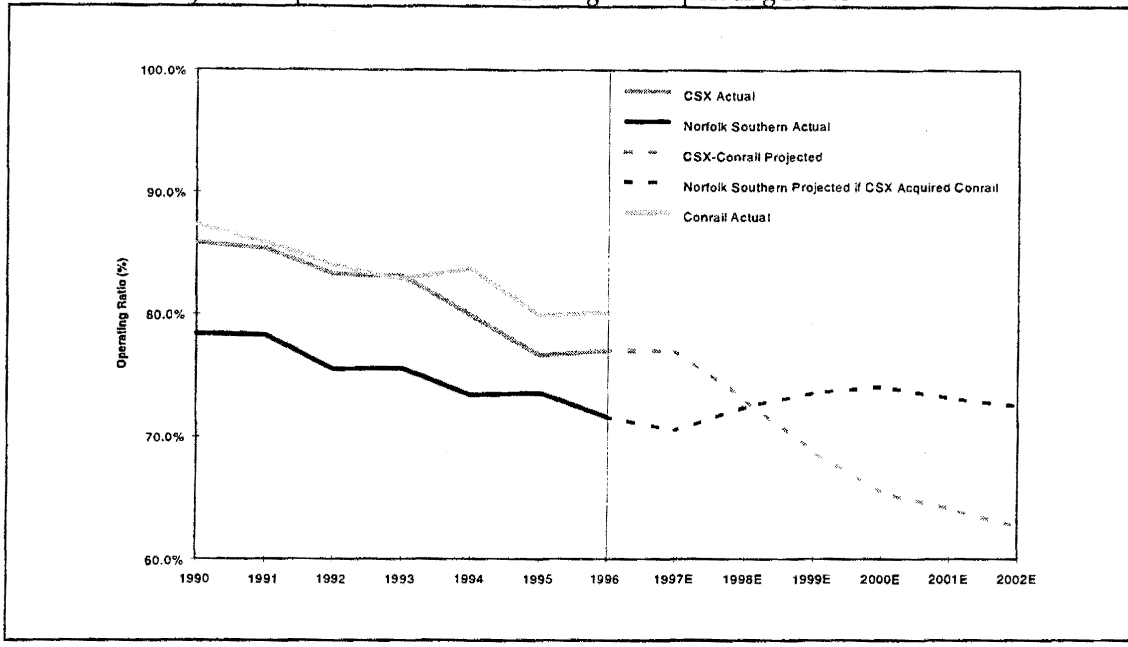
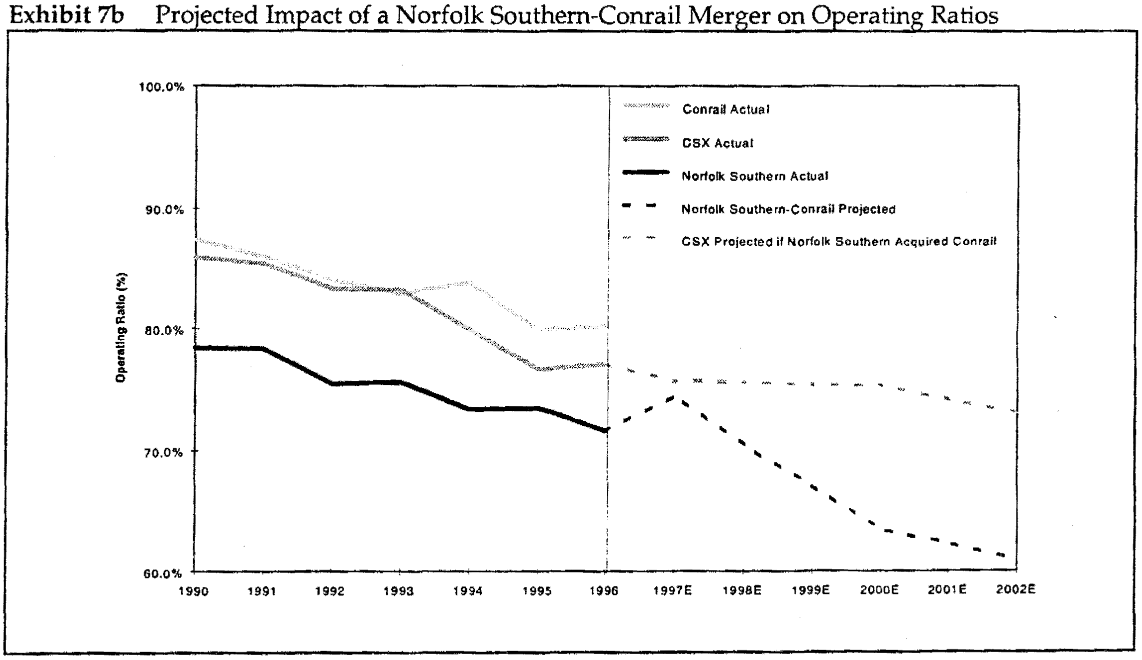


Exhibit 7b Projected Impact of a Norfolk Southern-Conrail Merger on Operating Ratios



Sources: Actual operating ratios are based on data from: CSX, Norfolk Southern, and Conrail 1993 and 1995, and 1996 *Annual Reports*; and *Morgan Stanley Dean Witter*, U.S. and the Americas Investment Research Report, "Investment Case for Railroads," November 1997. Projections are casewriter's estimates based on these sources and additional data from *1996 and 1997 NatWest Analyst Reports*.

Note: The operating ratio measures a company's operating efficiency. In this case, it is defined as the ratio of operating expenses to operating revenues, excluding one-time charges.

Exhibit 8 Bidding Chronology and Returns

Date	Event
14-Oct-96	Day prior to CSX-Conrail merger announcement.
15-Oct-96	CSX and Conrail announce merger.
23-Oct-96	Norfolk Southern announces hostile bid.
6-Nov-96	CSX increases front-end offer.
8-Nov-96	Norfolk Southern increases cash offer.
19-Dec-96	CSX increases back-end offer. Norfolk Southern increases cash offer.
13-Jan-97	Norfolk Southern offers to buy 9.9% of Conrail after shareholder vote.
16-Jan-97	Eve of shareholder vote.

71

	CSX Bid ($ per share)			Norfolk Southern Bid	Length of	CSX		Norfolk Southern		Conrail		S&P 500
Date	Front-end Offer	Back-end Offer[a]	Blended Value[b]	($ per share) in Cash	No-Talk Clause	Stock Price	3-day Return[c]	Stock Price	3-day Return[c]	Stock Price	3-day Return[c]	3-day Return[c]
14-Oct-96						$49.50		$92.00		$71.00		
15-Oct-96	$92.50	$86.77	$89.07		6 months	46.75	(6.8%)	95.00	1.6%	85.13	20.1%	0.5%
23-Oct-96				$100.00		45.50	(5.9)	94.13	(2.1)	95.63	10.0	(1.1)
6-Nov-96	110.00	80.06	92.04		9 months	43.13	(1.4)	87.13	(4.1)	93.63	(0.7)	3.0
8-Nov-96				110.00		43.13	2.3	86.63	1.3	96.38	3.1	1.0
19-Dec-96	110.00	97.21	100.41[d]	115.00	24 months	43.75	(3.9)	88.38	5.3	100.75	1.8	3.1
13-Jan-97						44.38	1.7	89.00	0.3	103.00	2.6	1.9
16-Jan-97	110.00	99.53	102.16[d]	115.00		45.00	6.3	88.13	(1.1)	103.50	1.1	1.0

Sources: *Datastream and The Wall Street Journal*, and casewriter's estimates.

[a]Back-end offer = 1.85619 * CSX share price.

[b]Blended value = weighted average of front-end and back-end offers.

[c]The 3-day return is the return on the stock from the day before to the day after the event (except for 1/16/97 which is a two-day return).

[d]The blended value is adjusted to reflect the completion of CSX's first stage tender offer.

Exhibit 9a Norfolk Southern Announcement

TO CONRAIL SHAREHOLDERS:

It's bad enough:

They want you to settle for inferior value.

They want you to accept an offer worth $1 billion less than what Norfolk Southern is offering, approximately $15 per share less.*

They want you to assume equity risks.

They want you to receive much of CSX's remaining offer in the form of CSX stock, which has already declined 13%* since the CSX offer for Conrail was announced. Its value will continue to be subject to market risk. With Norfolk Southern's offer, you know exactly what you will be getting: $115. All cash. No risk. Period.

They want to take away your right to receive fair value.

They want you to approve an amendment to the Conrail charter that will deprive you of the important protection of the Pennsylvania Fair Value Statute, which requires that shareholders be able to receive fair value, in cash, for their shares in takeover transactions such as the one CSX has proposed.

And they want you to help them pull it off.

Don't help the Conrail Board cram down CSX's inferior offer. Remind the Board that you actually own the company, that you elected the Board in the first place, and that you can replace them if they ignore your interests. Put a stop to their complete disregard of your shareholder rights and abdication of their responsibility to represent those rights. Take back control of your company.

Protect your interests. Vote now AGAINST Conrail's proposals to "opt out" of Pennsylvania's Fair Value Statute and to adjourn the special meeting.

VOTE AGAINST

Conrail Shareholders
Protect the value of your shares. Vote now on Norfolk Southern's GOLD proxy card AGAINST Conrail's proposals. Be sure Norfolk Southern receives your proxy before January 17.

Conrail ESOP Participants
Your vote is confidential, and is very important since each ESOP share represents a significantly greater voting interest—by our calculations, equal to at least seven shares. Use your GREEN instruction card to instruct your Trustee to vote AGAINST Conrail's proposals. The Trustee must receive your instruction card by January 15.

NORFOLK SOUTHERN

Important: If you have any questions, please call our solicitor, Georgeson & Company Inc. toll free at 800-223-2064. Banks and brokers call 212-440-9800.

* Based on the closing price of CSX common stock on January 9, 1997.

January 13, 1997

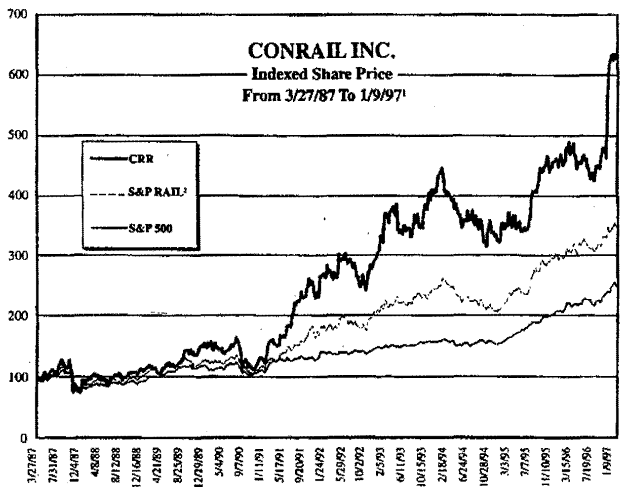
Source: *The Wall Street Journal*, January 13, 1997, p. C15.

Exhibit 9b Conrail Announcement

Attention All Conrail Shareholders—

READ BETWEEN THE LINES…

CONRAIL DELIVERS VALUE



The Return On Conrail's Stock Has Been Greater Than 640%.[3]
You Don't Create This Kind Of Value Without Making The Right Choices.

CSX-CONRAIL—

THE RIGHT CHOICE

THE RIGHT TIME

THE RIGHT MERGER

The Conrail Board Is Fully Committed To The CSX-Conrail Merger.

The Special Meeting of Shareholders Will Be Held On January 17, 1997.

Vote "FOR" Approval Of The Opt-Out Of The Pennsylvania Statute On The White Proxy Card Today

If you have any questions regarding the Special Meeting of Shareholders or need assistance in voting, please contact our proxy solicitor, **D.F. King & Co., Inc.**, toll free, at **1-800-549-6746**.

CONRAIL

January 14, 1997

[1] Source: FactSet Research Systems Inc.
[2] The S&P Rail Index presently includes the share prices of Burlington Northern Santa Fe Corporation, Conrail Inc., CSX Corporation, Norfolk Southern Corporation and Union Pacific Corporation.
[3] Return does not include dividends.

Source: *The Wall Street Journal*, January 14, 1997, p. C9.

Exhibit 10 Selected Financial Market Data

	Week Ending January 10, 1997
Yields on US Treasury Bills, Notes, and Bonds	
3-month	5.42%
6-month	5.53
1-year	5.61
2-year	5.99
5-year	6.33
10-year	6.57
30-year	6.80
Yields on Long-term Corporate Bonds	
Aaa	7.42
Aa	7.62
A	7.71
Baa	8.11
Interest Rates	
Federal Funds	5.28
3-month Commercial Paper	5.45
3-month Certificate of Deposit	5.42
Prime Rate	8.25
Value Line Equity Betas	
Conrail	1.30
CSX	1.35
Norfolk Southern	1.15

Source: *Federal Reserve Bulletin*, April 1997; and Value Line Investment Survey, January 17, 1997.

Endnotes

[1] Rip Watson," CSX, NS Likely to Dig In for Endurance Fight to Win Conrail," *The Journal of Commerce*, October 25, 1996, p. 12B.

[2] "Norfolk Southern Issues Statement on Proposed Conrail-CSX Merger," *Norfolk Southern Press Release*, October 15, 1996.

[3] "Surviving a Head-on Collision," *Fortune*, April 14, 1997, pp. 159-160.

[4] "Sharing the Wealth," *Mergers & Acquisitions*, May/June 1997, p. 5.

[5] Anthony Hatch and Jeff Julkowski, "CSX: CSX and CRR Strengthen Their Marriage," *NatWest Securities*, November 7, 1996, p. 1.

[6] Anthony Hatch and Jeff Julkowski, "Norfolk Southern: Here We Go," *NatWest Securities*, October 24, 1996, p. 2.

[7] Christopher Dinsmore, "High Stakes Battle for the East," *Virginian-Pilot*, October 27, 1996, p. D1.

[8] "Sharing the Wealth," *Mergers & Acquisitions*, May/June 1997, p. 5.

[9] "CSX dismisses Norfolk Southern's Announcement as a Confusing Non-bid," *CSX Press Release*, October 23, 1996.

[10] "Norfolk Southern Says Conrail Directors Continue to Ignore Fiduciary Duty," *Norfolk Southern Press Release*, November 13, 1996.

[11] "Norfolk Southern Asks Court To Block Conrail 'Poison Pill,'" *Norfolk Southern Press Release*, November 1, 1996.

[12] Steven Lipin and Anna Wilde Mathews, "CSX's Move to Derail Norfolk's Offer has Conrail Investors Feeling Railroaded," *Wall Street Journal*, November 1, 1996, p. C2.

[13] "Conrail Advises Shareholders To Await Board Response To Norfolk Southern Unsolicited Offer Before Taking Any Action," *Conrail Press Release*, October 23, 1996.

[14] "AFL-CIO, Rail Labor Unions Unite on Conrail Merger Proposals," *American Federation of Labor and Congress of Industrial Organizations*, October 30, 1996, p. 1.

[15] "PA Judge Says Takeover Law Provides Ample Protection for Conrail Board's Choice," *Corporate Officers and Directors Liability Litigation Reporter*, November 27, 1996, p. 20316.

[16] Ibid.

[17] Ibid.

[18] Steven Lipin and Anna Wilde Mathews, "CSX's Move to Derail Norfolk's Offer has Conrail Investors Feeling Railroaded," *The Wall Street Journal*, November 1, 1996, p. C2.

[19] Jack Burke, "Conrail Sticks with CSX; Is Being Acquired by CSX," *Traffic World*, November 18, 1996, p. 58.

[20] "Norfolk Southern Studying 11th-hour CSX Offer," *Norfolk Southern Press Release*, December 19, 1996.

[21] Daniel Dunaief, "Loan in Hostile Bid for Conrail Oversold," *American Banker*, January 8, 1997, p. 21.