

Kirkpatrick & Lockhart LLP

August 28, 2003

VIA HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
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Washington, D.C. 20423-0001



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AUG 28 2003

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Public Record

Re: Finance Docket No. 33388 (Sub-No. 94), CSX Corporation and CSX Transportation, Inc., Norfolk Southern Corporation and Norfolk Southern Railway Company – Control and Operating Leases/Agreements – Conrail Inc. and Consolidated Rail Corporation (Petition for Supplemental Order)

Dear Secretary Williams:

Enclosed for filing in the above-captioned proceeding are an original and ten copies of the **Comments of the Conrail Ad-Hoc Bondholders' Committee**. A 3.5-inch diskette containing the text of the comments in WordPerfect format also is enclosed.

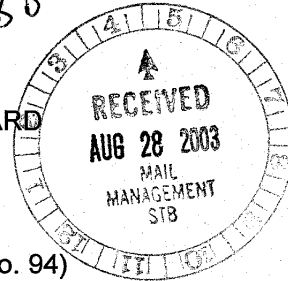
Respectfully submitted,

Edward J. Fishman
Counsel for Dodge & Cox

Enclosure

208802

BEFORE THE
SURFACE TRANSPORTATION BOARD



FINANCE DOCKET NO. 33388 (Sub-No. 94)

CSX CORPORATION AND CSX TRANSPORTATION, INC., NORFOLK SOUTHERN
CORPORATION AND NORFOLK SOUTHERN RAILWAY COMPANY – CONTROL
AND OPERATING LEASES/AGREEMENTS – CONRAIL INC. AND CONSOLIDATED
RAIL CORPORATION (PETITION FOR SUPPLEMENTAL ORDER)

COMMENTS OF THE AD-HOC CONRAIL BONDHOLDERS' COMMITTEE

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**ATTORNEYS FOR DODGE & COX, IN ITS
CAPACITY AS A MEMBER OF THE AD-HOC
CONRAIL BONDHOLDERS' COMMITTEE**

Dated: August 28, 2003

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388 (Sub-No. 94)

CSX CORPORATION AND CSX TRANSPORTATION, INC., NORFOLK SOUTHERN
CORPORATION AND NORFOLK SOUTHERN RAILWAY COMPANY – CONTROL
AND OPERATING LEASES/AGREEMENTS – CONRAIL INC. AND CONSOLIDATED
RAIL CORPORATION (PETITION FOR SUPPLEMENTAL ORDER)

COMMENTS OF THE AD-HOC CONRAIL BONDHOLDERS' COMMITTEE

Pursuant to Decision 1 served in this proceeding by the Surface Transportation Board ("STB" or "Board") on July 9, 2003, the Ad-Hoc Conrail Bondholders' Committee hereby submits these comments on the Petition for Supplemental Order ("Petition") filed by CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc. and Consolidated Rail Corporation (collectively referred to herein as "Petitioners") on June 4, 2003.

I. Background

The Ad-Hoc Conrail Bondholders' Committee ("Bondholders Committee") is an ad-hoc group that was formed to protect the interests of its members in their capacity as holders of a majority of the aggregate principal amount of the \$550,000,000 9.75% debentures due June 15, 2020 and the \$250,000,000 7.875% debentures due May 15, 2043 (together, the "Debentures") issued by Consolidated Rail Corporation ("Conrail") pursuant to an Indenture dated as of May 1, 1990, as amended by a Supplemental Indenture dated as of August 25, 1998 ("Indenture").¹ The members of the Bondholders

¹ Capitalized terms not defined herein shall have the meanings ascribed to them in the proposed Distribution Agreement that was submitted to the Board as Exhibit 4-1 of the Petition.

Committee include Dodge & Cox and four other holders, some of whom hold the Debentures on behalf of their advised accounts.²

The Indenture provides for the issuance from time to time of unsecured debentures and other forms of indebtedness by Conrail in one or more series. The Indenture also includes various protective covenants pertaining to each series of securities outstanding under the Indenture. Among these protective provisions is Section 8.2 of the Indenture, which requires that holders of not less than a majority in aggregate principal amount of the securities outstanding under the Indenture consent to the modification of certain rights belonging to the holders. The Bondholders Committee believes that the Debentures are the only extant series of indebtedness outstanding under the Indenture and, accordingly, are the only securities that will be subject to the consent solicitation.

As the reorganization transaction proposed in the Petition will entail retiring the existing Debentures and replacing them with new debt securities to be issued by two new obligors, majority consent of the existing bondholders must be obtained. The members of the Bondholders Committee have a strong interest in ensuring that the contractual arrangements upon which they based their decision to invest in the Debentures, including the supplemental indenture provisions, are honored by the Petitioners.

² These comments are being submitted by Dodge & Cox in its capacity as a member of the Bondholders Committee. The other members of the Bondholders Committee support these comments and are represented by separate counsel.

II. Overview Of Relief Requested By The Petitioners

In this proceeding, the Petitioners seek a supplemental order under 49 U.S.C. § 11323 authorizing the consolidation of New York Central Lines LLC ("NYC") with CSX and the consolidation of Pennsylvania Lines LLC ("PRR") with NS, for the stated purpose of effectuating the acquisition of full ownership and control of the assets and business of NYC by CSX and PRR by NS. Petition at 1-2.³ The proposed transaction requires the consent of the holders of a majority of the aggregate principal amount of the Debentures because it involves the transfer of ownership of a major portion of Conrail's assets (its membership interests in NYC and PRR) to NS and CSX, the cancellation of the tendered Debentures and the replacement of those Debentures with new obligations issued by NYC Newco and PRR Newco. Id. at 12-13.

The Petitioners have indicated that they will offer the bondholders an exchange of their existing Debentures for new unsecured debt securities issued by NYC Newco and PRR Newco on a \$.58/\$.42 pro rata basis. Id. at 13; 21. The new debt securities will have the same maturity dates, interest rates and aggregate principal amount as the Debentures, will be proportionally guaranteed by CSX and NS and will have covenant packages substantially similar to those of the publicly traded unsecured debentures of CSX and NS, respectively. Id. at 21. The Petitioners refer to this proposed exchange offer as the "debt restructuring." Id. at 13.

The Petitioners indicate that they intend to seek the consent of the bondholders to the proposed reorganization transaction and debt restructuring. The Petitioners have asked the Board to authorize the proposed reorganization transaction as consistent with

³ The terms "CSX" and "NS" shall have the meanings set forth in the Petition.

the public interest subject to a condition requiring the Petitioners to resolve any issues pertaining to the bondholders' consents through private negotiations. In the event that such negotiations fail, the Petitioners plan to propose further proceedings to resolve any such issues before the Board. Id. at 24.

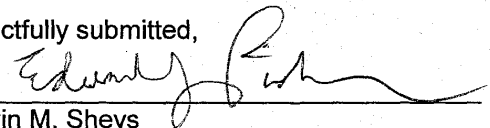
III. Specific Comments On Relief Sought By The Petitioners

In order to allow consent negotiations to proceed in a neutral environment, we request that the Board condition any supplemental order that it may issue in this proceeding on the successful resolution of the consent solicitation process. The STB's silence while negotiations proceed will maximize the opportunity to resolve any bondholder consent issues through the negotiation procedures prescribed by Article VIII of the Indenture and the registration requirements of Form S-4 under the Securities Act of 1933. The condition sought by the Petitioners is material because, absent resolution of the consent solicitation process, any finding that the Board makes with respect to the public interest of the proposed reorganization transaction will not be final.

IV. Conclusion

For the foregoing reasons, the Bondholders Committee requests that the Board condition any supplemental order that it may issue in this proceeding on the successful completion of the consent solicitation process through registered exchange offers on Form S-4 in compliance with the terms of the Indenture.

Respectfully submitted,

By: 

Kevin M. Sheys

Edward J. Fishman

Kirkpatrick & Lockhart LLP

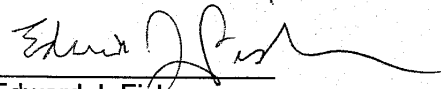
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**ATTORNEYS FOR DODGE & COX, IN
ITS CAPACITY AS A MEMBER OF THE
CONRAIL AD-HOC BONDHOLDERS'
COMMITTEE**

Dated: August 28, 2003

Certificate of Service

I hereby certify that on August 28, 2003, I caused to be served, by first-class mail, postage prepaid, a true and correct copy of the foregoing Comments of the Ad-Hoc Conrail Bondholders' Committee on all parties of record in STB Finance Docket No. 33388 (Sub-No. 94).


Edward J. Fishman

Dated: August 28, 2003