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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

November 14, 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: Stuart Eizenstat *Stu*
John P. White *[Signature]*

SUBJECT: Proposed Settlement of
Penn Central Litigation

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The attached memorandum from the Attorney General indicates that he plans to enter into final negotiations in the next few days with the Penn Central Corporation (Penn Central), in an attempt to settle litigation involving the valuation of property transferred from the Penn Central Transportation Corporation (PCTC) to ConRail under the Regional Rail Reorganization Act of 1973, as amended by the Rail Revitalization and Reform Act of 1976 (Rail Act).

Background

The Rail Act required the Government to pay Penn Central and other railroads for the value of property transferred to ConRail, the corporation that provides rail service in the Northeast. About 80 percent of this transferred property was conveyed by Penn Central. A Special Court, established by the Act, has been examining the complex issues involved in determining the appropriate value of this property. In 1977, the Court urged the parties to explore settlement possibilities. Legal problems associated with the bankruptcy of PCTC delayed the negotiations, but in early 1979, discussions between the Government and Penn Central were initiated. The principal issue is the determination of the value of the Certificates of Value that were provided to the transferor railroads as compensation for the transferred assets.

The Government initially asserted that the PCTC transferred assets should be valued at approximately \$500 million, while Penn Central demanded about \$12 billion in compensation. This inflated claim has been substantially reduced during the litigation process, and the Government attorneys now believe that the Penn Central may be willing to settle for a fraction of their still-pending claims. A valuation in the range of \$1.36-\$1.50 billion as of April 1, 1976, may be acceptable to Penn Central.

Advantages of a Settlement

Given the magnitude of the claims, the probability of adverse determinations on a number of outstanding issues before the Court, and the high cost of continuing the litigation (about \$20 million

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annually for the Government), the Attorney General believes this is an advantageous settlement. The Secretary of the Treasury and the Chairman of U.S. Railway Association (U.S.R.A.) concur. ✓

Government attorneys believe this is a propitious time to conclude a settlement because the Penn Central is eager to have the cash available from a settlement to pay off outstanding claims, and to proceed with its other corporate acquisition plans. A pending corporate merger involving Penn Central would be favorably affected by a settlement in the next few days. Furthermore, Penn Central recognizes that settlement negotiations would have to begin anew with a new Administration.

On the other hand, tax rulings which may reduce Penn Central's willingness to agree to a settlement in the \$1.36-\$1.50 billion range were issued by IRS this week. These rulings affect the tax treatment of the proceeds from the settlement. Special Court approval of this settlement would also be required, but is not expected to be a problem if Penn Central is willing to proceed.

Financing the Settlement

A settlement of \$1.5 billion, with accrued interest to the date of redemption of the Certificates of Value, would increase FY 1981 budget authority and outlays, and therefore the deficit, by \$2.16 billion. The redemption would be financed by a Department of Transportation borrowing from the Treasury, as permitted under the Rail Act. Subsequently, the Department of Transportation would seek a congressional appropriation to liquidate its Treasury loan.

Possible Adverse Consequences of Settlement

Although there is general agreement among Justice, Transportation, Treasury, U.S.R.A., and Executive Office staff that a settlement in this range would be in the best interests of the Government, adverse reaction to a settlement can be anticipated. Critics may argue that the Government has legally nationalized ConRail since the Penn Central would convey its ConRail stock to the Government as part of this settlement. They may also assert that the Rail Act did not assume payments of this magnitude, and complain that the payments are being made through a back-door mechanism without specific congressional approval. Finally, some may allege that billions of tax dollars are being spent to pay off banking, insurance and other interests.

There are good responses to these charges. (1) ConRail has been, de facto, a nationalized company since the Rail Act, and transfer of the stock, at least for a temporary period, is necessary to assure that the Government does not have to spend additional billions in future litigation if further restructuring of ConRail is required. (2) The

Rail Act assumed that ConRail would become profitable, causing the value of ConRail stock held by the Penn Central to appreciate; since this has not happened the Government must compensate for the seized assets with a cash payment. (3) The law clearly permits the proposed settlement, and a settlement contingent upon favorable congressional action would be unacceptable to the litigants. (4) The Penn Central settlement will primarily pay off legitimate debts of former creditors of the bankrupt PCTC and a significant portion of the settlement will actually return to the U.S. Treasury as liabilities of the PCTC to the Government are paid off.

Conclusion

There is general agreement among the Executive Branch agencies and private Government counsel, that a 1976 valuation of up to \$1.5 billion (aggregating with interest to \$2.16 billion in 1981) is a favorable settlement of Penn Central's litigation claims against the Government. The Attorney General believes he has the power to authorize such a settlement, which would extinguish about 80 percent of the valuation claims against the Government. However, since negotiations for settlement may be concluded by November 16, please let us know if you wish to discuss this matter further with the Attorney General or other affected agency heads, so we can arrange a meeting as soon as possible.

Attachment





Office of the Attorney General
Washington, D. C. 20530

INFORMATION MEMORANDUM TO THE PRESIDENT

SUBJECT: Settlement of Rail Valuation Case

Attached is a Background Paper detailing a proposed settlement of litigation between the United States, the United States Railway Association (USRA), and the Penn Central Corporation involving payment to Penn Central for its former railway properties which have been subsequently transferred to ConRail. Under the Regional Rail Reorganization Act of 1973, as amended by the Rail Revitalization and Regulatory Reform Act of 1976, the Government is obligated to pay Penn Central and other transferor railroads the value of the property ultimately transferred to ConRail. A Special Federal Court was established to determine that value, and the Government has been involved in proceedings before that Court since 1976. Settlement would terminate a major portion of the pending litigation and save the Federal Government millions of dollars in litigation costs, including substantial payments to private consultants and law firms. It would also facilitate settlement with the remaining transferor railroads, and enable the United States to undertake action to restructure ConRail operations.

Penn Central transferred approximately 80% of the total rail properties conveyed to ConRail. In exchange, Penn Central is entitled to an allocation of ConRail stock and Certificates of Value, which are obligations of USRA. The ConRail stock is now valueless. The Certificates of Value are intended to ensure that the transferor railroads are compensated at the minimum amount required by the Constitution. The Special Court is charged with determining, among other things, the dollar amounts that must be assigned to the Certificates of Value in order to meet Constitutional requirements.

Under the proposed settlement, the Government parties would redeem the Certificates of Value immediately at an

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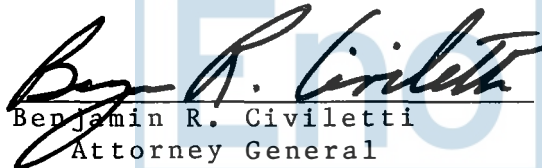
amount to be determined through negotiation with Penn Central. With the concurrence of the Office of Management and Budget, the Department of the Treasury, the Department of Transportation, and USRA, I have authorized our negotiators to enter into a settlement with Penn Central at the lowest possible value, but not to exceed \$1.5 billion for the Certificates of Value as of April 1, 1976. With accrued interest, such a settlement would increase the FY 1981 deficit by up to \$2.16 billion, although no Congressional action is required to settle.

Penn Central would also agree to transfer to USRA the ConRail stock to which it is entitled. The transfer of the stock will enable the Federal Government to undertake a major restructuring of ConRail--action which is necessary because of ConRail's chronic unprofitability and heavy reliance on Federal funding.

Penn Central has shown great interest in settling the litigation, provided certain Revenue Rulings requested by Penn Central from the Internal Revenue Service were favorable to Penn Central. The rulings were issued on November 12 and were not favorable to Penn Central. Thus a settlement does not appear to be as likely as it would have been otherwise. However, a settlement in that range under these circumstances would be even more favorable to the Government. Before an announcement of the agreement, key Senators and Representatives will be informed of the terms of the settlement.] ✓

The Departments of Transportation and Treasury, the Office of Management and Budget, and USRA agree that the proposed settlement is in the best interests of the Government. I believe that I have the necessary authority to enter into the settlement on behalf of the United States, and that the terms of the settlement and actions of Federal agencies required thereby are not inconsistent with the Rail Act or other applicable law.

11/14/80
Date


Benjamin R. Civiletti
Attorney General

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BACKGROUND PAPER ON PROPOSED SETTLEMENT
OF RAIL VALUATION CASE

In the late 1960's and early 1970's several railroads in the northeast and the midwest, 1/ including the Penn Central Transportation Company (PCTC), sought reorganization under Section 77 of the Bankruptcy Act. By early 1973 it became apparent that it would not be possible to reorganize the PCTC under Section 77 and other applicable laws since the financial problems of the railroad required a substantial physical restructuring of the system and both financial restructuring and large scale Federal investment. Existing laws were inadequate to restructure expeditiously the physical system, and there was no vehicle for making the requisite Federal investment. In response to this problem, Congress enacted the Regional Rail Reorganization Act of 1973 (Rail Act). 2/

The Rail Act established the United States Railway Association (USRA) 3/ to devise a plan for physically restructuring the rail systems of the PCTC and those other railroads in the northeast whose problems could not be adequately addressed under existing law. Pursuant to the Rail Act, USRA prepared a "Final System Plan" which called for the conveyance of designated rail properties of the bankrupt railroads to the Consolidated Rail Corporation (ConRail), a new entity, and to certain profitable railroads, in exchange for securities of ConRail, a limited amount of securities of USRA and cash from the profitable railroads. The plan called for large Federal investments in ConRail. Amendments to the Rail Act contained in the Rail Revitalization and Regulatory Reform Act of 1976 provided that the transferors of property would receive new securities of USRA called Certificates of Value to guarantee that the total package of compensation for the conveyed rail properties would meet what Congress then believed would be minimum constitutional requirements. 4/ Under Section 306 of the Rail Act, as amended, the Certificates of Value to be received by each transferor will be in a principal amount equal to the April 1, 1976, net liquidation value of the conveyed properties of that transferor, plus any compensable unconstitutional erosion which may have occurred in the estate of that transferor by the conveyances under the Rail Act. These values are to be determined by a Special Court established under the Rail Act. The principal amount of the Certificates

then accrues interest at a compounded annual rate of 8% from April 1, 1976, to the date of redemption which may be no later than December 31, 1987, but may be set for an earlier date by joint action of the Board of Directors of USRA and the Finance Committee of the Board. 5/ The Certificates of Value will be redeemed at their principal amount, plus accrued interest, less the market value at the redemption date of the ConRail securities allocable to the transferor. The securities of ConRail to be received by transferors are now without value and are unlikely to have any significant value in the foreseeable future.

The designated rail properties of the bankrupts were conveyed to ConRail and the profitable transferees on April 1, 1976, and ConRail securities, Certificates of Value without component values, and cash compensation from profitable transferees were deposited with the Special Court. Valuation proceedings were then commenced in the Special Court to determine the constitutional minimum value of the conveyed properties, 6/ and to establish the component values of the Certificates of Value to be received by each transferor. The Court will also allocate the deposited ConRail securities among all transferors. Those proceedings have been underway for almost five years and a final litigated decision will not be reached until the mid-1980's.

In a decision handed down on October 12, 1977, the Special Court urged the parties to the valuation proceedings to explore the possibilities for settlement of the case. Our position has been that a settlement should first be attempted with PCTC, the transferor of approximately 80% of the conveyed properties. However, since PCTC was at that time in bankruptcy proceedings before the United States District Court for the Eastern District of Pennsylvania, and any settlement of the valuation case may have required approval by that court as well as by the Special Court, substantive negotiations were postponed until the company was reorganized as the Penn Central Corporation (Penn Central) on October 24, 1978.

SETTLEMENT PROCESS

In early 1979 settlement negotiations were resumed with Penn Central. In mid-1979 the attorneys for the Government began preparing detailed analyses of major issues which would be involved in or affected by a settlement of this litigation with Penn Central. In February, 1980, they transmitted to the Attorney General a set of memoranda which analyzed: (1) the advantages and disadvantages of a settlement at this time; (2) the litigation risks to which the Government is exposed; (3) the disposition which should be made of the ConRail

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securities to which Penn Central is entitled under the Rail Act; and (4) certain tax implications of a settlement. Copies of those memoranda were circulated to all involved agencies and offices.

After receiving that analysis, the Justice Department conducted a series of detailed briefings of representatives of the Treasury and Transportation Departments and of the Office of Management and Budget, and obtained their views and recommendations with respect to the major policy issues involved in a settlement. During the course of negotiations those entities were kept informed of developments affecting their interests. The nonmonetary aspects of the proposed final settlement have their support and they have no objection to the monetary range in which settlement is contemplated.

Negotiations are being conducted for the Government by a team now headed by Stephen Ailes of the law firm of Steptoe and Johnson, under the general direction of the Associate Attorney General, John H. Shenefield. Mr. Ailes succeeded to the position as the Government's chief negotiator when Lloyd Cutler became Counsel to the President in 1979. Penn Central has been represented in the negotiations by its Chairman Richard Dicker and by attorneys from the law firms of Covington and Burling in Washington and Willkie, Farr and Gallagher in New York.

TERMS OF SETTLEMENT

The Government's negotiating team has now reached an agreement with the representatives of Penn Central on substantially all the nonmonetary issues involved in a settlement. That agreement, a copy of which is appended as Attachment No. 1, provides as follows with respect to principal nonmonetary policy issues:

1. The Certificates of Value to which Penn Central is entitled will be redeemed upon their delivery to Penn Central.

2. The ConRail securities allocable to Penn Central under the Rail Act are without value at this time. Accordingly, on the redemption of the Certificates of Value to which Penn Central is entitled there will be no deduction from the base value of these Certificates on account of such securities.

3. Penn Central will assign the ConRail securities allocable to it under the Rail Act to a recipient to be designated by the Departments of Treasury and Transportation at the closing.

Immediate Redemption

In the opinion of all involved agencies, immediate redemption of the Certificates of Value to which Penn Central is

entitled is advantageous to the Government since such redemption resolves a difficulty presented by the low interest rate on the Certificates of Value. Our analysis has concluded that in view of the 1987 redemption date and the 8% interest rate, the Certificates of Value would have a market value considerably below their face value plus accrued interest. Thus, even if the April 1, 1976, principal amount of the Certificates of Value were equal to the constitutional minimum to which Penn Central would have been entitled if paid in cash on that date, the current value of the Certificates could well be inadequate to afford Penn Central its constitutional entitlement. It is the view of the involved agencies that early redemption of the Certificates of Value is a more desirable solution to this problem than either increasing the interest rate, inflating the April 1, 1976, value of the properties, or permitting a deficiency judgment to be entered against the United States in the Court of Claims. Early redemption is also advantageous since it may result in the expiration, unused, of substantial tax loss carryforwards which will become available to the Penn Central, in the event the loss recognized on redemption of the Certificates is afforded ordinary loss treatment. Redemption also provides an opportunity for the Government to acquire the ConRail securities which, for the reasons discussed below, is advantageous to the Government.

The alternative of increasing the interest rate on the Certificates of Value in order to eliminate any difference between their face value and their current market value would require Congressional action. Penn Central has repeatedly stated that it is not prepared to enter into any settlement agreement which is contingent upon Congressional action, at least without including a contingency amount in the settlement price to cover any Congressional "whittling" which may occur.

The alternative of inflating the April 1, 1976, value of the conveyed properties of the Penn Central may establish undesirable precedents in other cases. It may also present statutory difficulties since the Special Court is not permitted to include an additional amount in the net liquidation value of the conveyed properties on account of the inadequate interest rate on the Certificates of Value.

The difference between the face value and the market value of the Certificates with their 8% interest rate and 1987 redemption date could be paid to Penn Central through entry of a deficiency judgment in the Court of Claims. This procedure, however, would not lend itself to acquisition of the ConRail securities by the Government, and would leave Certificates of Value trading in the public markets which Treasury believes should be avoided if possible.

Acquisition of ConRail Securities

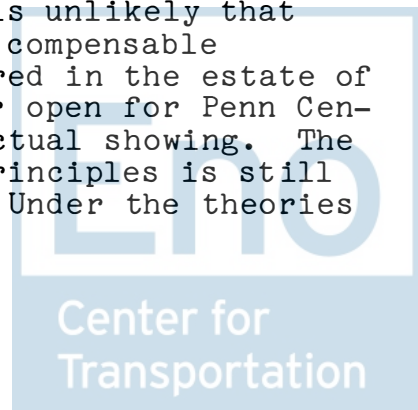
Acquisition of the ConRail securities by the Government, without cost, is in the interest of the United States because of the poor financial performance of ConRail. As mandated by Congress, USRA is now undertaking a study of ConRail to determine what steps need to be taken to remedy its chronic unprofitability and reduce or eliminate its reliance on Federal funding. While no recommendations have yet been made, substantial further restructuring of the rail system may be required as well as major adjustments to the capital structure of the corporation. If the ConRail securities are in the Government's hands, both processes would be considerably simplified and the possibility of a second round of valuation litigation eliminated.

While the Rail Act contemplated that the ConRail securities would provide the bulk of the compensation to which the transferors would be entitled for their conveyed properties, ConRail's financial failure has eliminated any prospect that the securities will have any value for that purpose. ConRail has no going concern value and any liquidation values realizable would be consumed by higher priority debts and other securities held by the Government. Thus, acquisition of the ConRail securities will not result in the payment of any additional cash amount by the United States in redemption of the Certificates of Value.

Value of Conveyed Properties

No agreement has yet been reached by our attorneys with Penn Central with respect to the April 1, 1976, value of the conveyed properties and the other components of the Certificates of Value--the compensable unconstitutional erosion suffered by the estate of the Penn Central and the value of other benefits conferred on the estate by the conveyances under the Rail Act.

A decision of the Special Court in April, 1977, on the principles to govern the determination of compensable unconstitutional erosion suggests that it is unlikely that the Court will recognize any substantial compensable unconstitutional erosion as having occurred in the estate of the Penn Central, though it left the door open for Penn Central to attempt to make the requisite factual showing. The Special Court's decision on applicable principles is still subject to review by the Supreme Court. Under the theories



of value which the Government's attorneys have been advancing, most of the potential components of the "value of other benefits" conferred upon Penn Central by the conveyances under the Rail Act are being taken into account in determining the net liquidation value of the conveyed properties.

Under these circumstances, the Attorney General will not approve any settlement agreement which affords Penn Central any compensation for alleged compensable unconstitutional erosion. He has been informed by the Government's attorneys that it is thus unlikely that Penn Central will consent to any agreement which contains substantial deductions on account of the value of other benefits. The principal and probably only component of the base value of the Certificates of Value will be the April 1, 1976, net liquidation value of the conveyed properties, and the accrued interest thereon at a compounded annual rate of 8% from April 1, 1976.

The analysis of litigation risk that our attorneys have prepared, and which the Attorney General has reviewed and is satisfied was performed in a satisfactory manner in light of the circumstances, led to a conclusion that a decision by the Special Court valuing the conveyed properties of the Penn Central as of April 1, 1976, in excess of \$1.5 billion is more probable than a decision valuing the properties below that amount. The Government attorneys believe that a good opportunity is now presented to reach a settlement at or below that figure.

Penn Central has recently shown great interest in settling this litigation. Since its reorganization in October, 1978, it has embarked upon a major program of acquisitions, acquiring Marathon Manufacturing Co. in 1979, and proposing to acquire GK Technologies, Inc. in December, 1980. Penn Central's attorneys have represented that it would be advantageous to it to settle the valuation litigation before it concluded the GK Technologies acquisition. A settlement of the valuation litigation would enhance the value of Penn Central securities which are to be used to pay GK Technologies, thus reducing the number of such securities to be issued. To whatever degree this is correct, the Government's attorneys believe an opportunity is presented to settle this case with Penn Central on favorable terms to the Government, provided that a settlement is concluded prior to acquisition by Penn Central of GK Technologies. The Government attorneys understand that, in order for the settlement of this litigation to benefit the value of the Penn Central securities to be used in the acquisition, it must be concluded no later than November 14, 1980.

With the approval of Dr. White of the Office of Management and Budget, Secretary Miller, Secretary Goldschmidt and the

Chairman of the Board of Directors of USRA, the Attorney General has informed the Government's attorneys that he will sign a settlement agreement with Penn Central on behalf of the United States which incorporates the terms with respect to redemption of the Certificates of Value and acquisition of the ConRail securities by the Government discussed above, and which values the conveyed properties of the Penn Central as of April 1, 1976, at no more than \$1.5 billion, and provides for no compensation for compensable unconstitutional erosion and no offset for other benefits conferred upon Penn Central.

The Board of Directors of USRA at its November 6, 1980, meeting passed a resolution authorizing the Chairman of the Board to execute such a settlement agreement on behalf of USRA. The Board of Directors also passed a resolution authorizing the redemption of the Certificates of Value upon their delivery to the Penn Central at a closing under the settlement agreement. The Chairman of the Board of Directors of USRA, Secretary Miller and the designee of Secretary Goldschmidt, Thomas G. Allison, the General Counsel of the Department of Transportation, as members of the Finance Committee of USRA, have signed a resolution of the Committee joining in the call for redemption of the Certificates of Value, a prerequisite under the Rail Act to their early redemption. The sole remaining matter is to reach agreement with Penn Central on the April 1, 1976, net liquidation value of the conveyed properties and other components of the principal amount of the Certificates of Value to be inserted therein by order of the Special Court.

The Government attorneys have informed the Attorney General that Penn Central is unlikely to settle the case for an April 1, 1976, valuation of the conveyed properties less than approximately \$1.36 billion. This is the amount which would be required for the valuation case proceeds to be sufficient to redeem all the securities issued under Penn Central's October 1978, plan of reorganization. Any settlement of the litigation which does not redeem the lowest ranking such securities would invite litigation by the holders against Penn Central. In the absence of convincing evidence that a worse result would obtain if the valuation litigation were pursued to a conclusion, Penn Central is unlikely to incur that risk.

The Government attorneys believe that there is a good opportunity within the next few days, and no later than November 16, to reach an agreement with Penn Central on an April 1, 1976, value of the conveyed properties between \$1.36 billion and \$1.5 billion. If such an agreement can be reached and made part of a settlement agreement incorporating the collateral terms discussed above, the Attorney General proposes to approve the settlement, and, in conjunction with USRA,

and the Departments of Treasury and Transportation, to make the appropriate public announcement. It is anticipated that before a public announcement is made the Government attorneys will be able to provide a briefing for key House and Senate committee chairmen and ranking minority members with respect to the terms of the settlement. Penn Central believes, and the Government attorneys concur, that a public announcement of the settlement must be made as soon as possible after final agreement is reached since the value of many securities trading in the public markets will be affected by the settlement.

A settlement of \$1.5 billion, with accrued interest to the date of redemption of the Certificates of Value, would increase the FY 1981 deficit, both budget authority and outlays, by \$2.16 billion. The redemption would be financed by a borrowing transaction under Section 210(e) of the Rail Act, as amended by the Staggers Rail Act of 1980, and an appropriation sought to liquidate the borrowing as soon as practicable.



1/ The railroads were the Central Railroad Company of New Jersey, the Boston & Main Company, the Penn Central Transportation Company, the Reading Company, the Erie Lackawanna Railway Company, the Lehigh Valley Railroad Company, the Ann Arbor Railroad Company and the LeHigh and Hudson Railroad Company.

2/ 45 U.S.C. 701 et. seq.

3/ USRA is a government corporation of the District of Columbia. On its board of directors are the Secretaries of Treasury and Transportation and the Chairman of the Interstate Commerce Commission. Seven private members are drawn from industry, labor and governmental sources and, with the Chairman, are appointed by the President with the advice and consent of the Senate.

4/ Section 306 of the Rail Act.

5/ The Finance Committee consists of the Chairman of the Board and the Secretaries of Treasury and Transportation.

6/ There is a possibility that even under the Rail Act as amended the Court could find that the compensation afforded the transferors would not meet minimum constitutional requirements. This could occur if the Court found that the constitutional minimum value of the properties conveyed was greater than their net liquidation value, or if the Court found that "other benefits" were not an adequate form of compensation for constitutional purposes. The Penn Central's claim for additional compensation will be waived as part of the settlement.



Attachment
No. 1

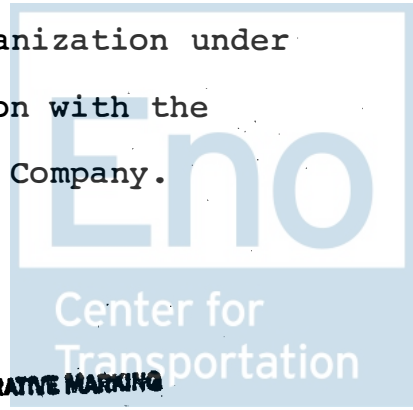
SETTLEMENT AGREEMENT dated as of the ___ day of _____, 1980 among THE UNITED STATES OF AMERICA (the "United States"), UNITED STATES RAILWAY ASSOCIATION ("USRA"), THE PENN CENTRAL CORPORATION ("Penn Central"), the Persons listed in Appendix A-1 (on whose behalf this Agreement is being executed by Penn Central), and the Persons listed in Appendix A-2 who become Parties in the manner specified in Section 3.02.

W I T N E S S E T H

WHEREAS,

A. On June 21, 1970, Penn Central Transportation Company filed a petition for reorganization under Section 77 of the Bankruptcy Act in the United States District Court for the Eastern District of Pennsylvania, which thereafter appointed trustees of its property.

B. On July 12 and 14, 1973, the Secondary Debtors (as defined, as are other terms capitalized in this Agreement, in Article I) filed petitions for reorganization under Section 77 of the Bankruptcy Act in conjunction with the reorganization of Penn Central Transportation Company.

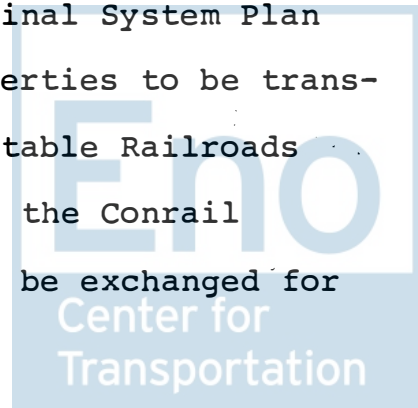


***DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1983***

C. The Rail Act, which became law on January 2, 1974, provided, inter alia, for the creation of USRA, the Special Court, and Conrail; the preparation by USRA of the Final System Plan; the designation by USRA of Rail Properties to be transferred to Conrail and other Transferees; the deposit with the Special Court, by Conrail and other Transferees, of consideration to be exchanged for these Rail Properties; and the determination by the Special Court of the fairness and equity of these exchanges.

D. The Railroad Revitalization and Regulatory Reform Act of 1976, which became law on February 5, 1976, amended the Rail Act to provide, inter alia, for the issuance of Certificates of Value by USRA and their guarantee by the Secretary, deposit with the Special Court, distribution, and redemption.

E. On March 12, 1976, pursuant to Section 209(c) of the Rail Act and an order of the Special Court entered on March 1, 1976, USRA delivered to the Special Court a certified copy of the Final System Plan and a Certification as to (1) Rail Properties to be transferred to Conrail and conveyed to Profitable Railroads and (2) the amount, terms, and value of the Conrail Securities and Certificates of Value to be exchanged for Rail Properties transferred to Conrail.

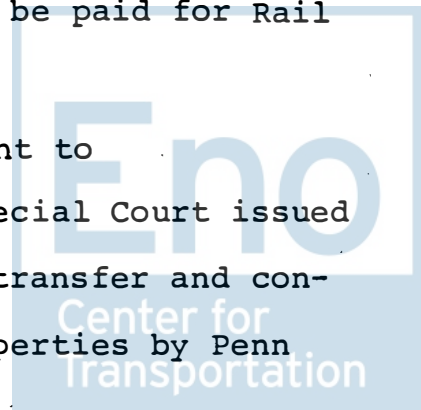


F. On March 22, 1976, pursuant to Section 306(a) of the Rail Act and the order of the Special Court entered on March 1, 1976, USRA deposited with the Special Court a Supplement to the Certification of March 12, 1976 and an instrument, in the name of the Clerk of the Special Court as Custodian, evidencing 31,740,373 Certificates of Value allocated among 72 Transferees of Rail Properties.

G. On March 22, 1976, pursuant to Section 303(a)(1) of the Rail Act and the order of the Special Court entered on March 1, 1976, Conrail deposited with the Special Court two stock certificates, in the name of the Clerk of the Special Court as Custodian, evidencing the Conrail Securities (25,000,000 shares of Common Stock and 31,740,373 shares of Class B Preferred Stock) to be exchanged for Rail Properties to be transferred to Conrail.

H. On March 22, 1976, pursuant to Section 303(a)(2) of the Rail Act, Transferees other than Conrail deposited compensation to be paid for Rail Properties purchased by them.

I. On April 1, 1976, pursuant to Section 303(b) of the Rail Act, the Special Court issued an order for, among other things, the transfer and conveyance to the Transferees of Rail Properties by Penn



Central Transportation Company, by the Secondary Debtors, and by other Persons leased, operated, or controlled by Penn Central Transportation Company or the Secondary Debtors; and Penn Central Transportation Company, the Secondary Debtors, and these other Persons made such transfers and conveyances.

J. On April 28, 1976, pursuant to Section 301(g) of the Rail Act and an order of the Special Court entered on March 31, 1976, the Special Court appointed voting trustees for the Conrail Securities deposited by Conrail, and thereafter, pursuant to the order of the Special Court entered on March 1, 1976, the Clerk of the Special Court surrendered to Conrail the two stock certificates evidencing the Conrail Securities, and Conrail issued and delivered to the Clerk new certificates, in the names of the voting trustees, evidencing the same numbers of Conrail Securities.

K. On November 24, 1976, USRA filed in the Special Court a Correction to Certification, and thereafter, pursuant to an order of the Special Court entered on December 15, 1976, USRA deposited a corrected instrument, in the name of the Clerk of the Special Court, evidencing 31,740,374 Certificates of Value allocated among 73 Transferors of Rail Properties and Conrail deposited a stock certificate, in the name of the voting trustees, evidencing 31,740,374 shares of Series B Preferred Stock.

L. On various dates, the Special Court ordered and various Persons executed documents correcting the descriptions of transfers and conveyances made on April 1, 1976.

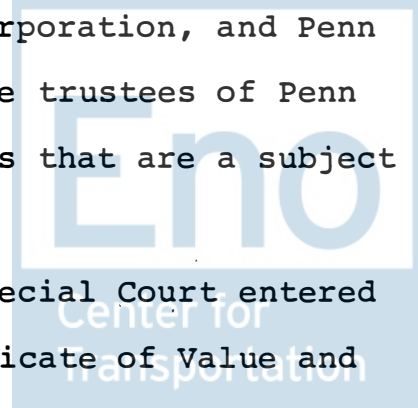
M. Since April 1, 1976, the Special Court has been conducting proceedings pursuant to Sections 303(c) and 306 of the Rail Act, to which the Parties to this Agreement are parties, involving claims that are a subject of this Agreement.

N. No cash dividends have been paid on Series B Preferred Stock or Common Stock.

O. As a result of sales or leases by Conrail of Rail Properties transferred to Conrail, certain Penn Central Transferors have received the amounts set forth in Table 3.

P. On October 24, 1978, plans of reorganization of Penn Central Transportation Company and the Secondary Debtors were consummated, Penn Central Transportation Company was renamed The Penn Central Corporation, and Penn Central succeeded to the interest of the trustees of Penn Central Transportation Company in claims that are a subject of this Agreement.

Q. On March 20, 1980, the Special Court entered an order for distribution of one Certificate of Value and



one share of Series B Preferred Stock to a Transferor that is not a Penn Central Transferor.

R. As a result of the order of the Special Court entered on March 20, 1980, there remain on deposit with the Special Court (1) an instrument, in the name of the Clerk of the Special Court, evidencing 31,740,374 Certificates of Value with a notation thereon by the Clerk that the number of Certificates of Value evidenced thereby has been reduced to 31,740,373, (2) a Conrail certificate, in the name of voting trustees, evidencing 31,740,374 shares of Series B Preferred Stock with a notation thereon by the Clerk that the number of shares evidenced thereby has been reduced to 31,740,373, and (3) a Conrail certificate, in the name of voting trustees, evidencing 25,000,000 shares of Common Stock.

S. On June 30, 1980, Penn Central filed a petition in the United States Court of Claims, on behalf of itself and other Penn Central Transferors, seeking compensation under the Fifth Amendment to the Constitution of the United States with respect to claims that are a subject of this Agreement.

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T. At the invitation of the Special Court the Parties have been considering settlement, and the Parties have now concluded that their respective interests would be better served by the settlement provided for in this Agreement than by continuing to litigate claims that are the subject of this Agreement.



NOW, THEREFORE, the Parties hereby agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. For all purposes of this Agreement, unless the context otherwise requires:

"Approval Order" means an order of the Special Court making the findings required by Sections 303(c) and 306(c) of the Rail Act with respect to Penn Central Transferors and directing the Clerk of the Special Court to distribute Certificates of Value in the aggregate Principal Amount of \$ _____, Conrail Securities, and Other Compensation to Penn Central Transferors in accordance with Sections 6.02(c) and 6.04.

"Base Value" of Certificates of Value to be distributed to a Penn Central Transferor means, as of any date, their aggregate Principal Amount plus CV Interest to that date.

"Certificate of Value" means a certificate issued by USRA and deposited with the Special Court pursuant to Section 306 of the Rail Act and includes the guaranty of the Secretary thereon.

"Closing" means the completion of the steps specified in Section 6.02(c).



"Closing Date" means the date for the Closing specified in, or selected or agreed upon in accordance with, Section 6.01.

"Common Stock" means one or more shares of the authorized and issued common stock of Conrail.

"Conrail" means Consolidated Rail Corporation, a Pennsylvania corporation established pursuant to Section 301(a) of the Rail Act.

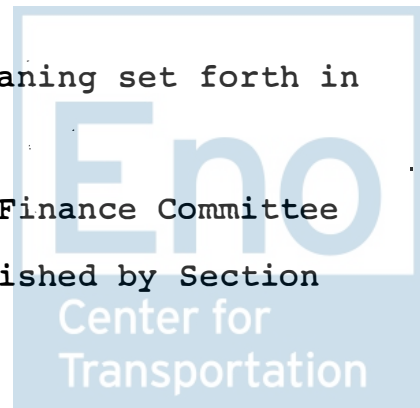
"Conrail Securities" means Common Stock or Series B Preferred Stock or both.

"CUE" is an abbreviation for "compensable unconstitutional erosion" and has the same meaning as that term has in Sections 303(c) and 306 of the Rail Act.

"CV Interest" means interest from April 1, 1976 at the rate of eight percent per annum, computed on the basis of a 365- or 366-day year, as the case may be, and compounded on December 31, 1976 and each December 31 thereafter, on the Principal Amount of one or more Certificates of Value.

"Final System Plan" has the meaning set forth in Section 102(6) of the Rail Act.

"Finance Committee" means the Finance Committee of the Board of Directors of USRA established by Section 201(i) of the Rail Act.



"Government Parties" means the United States and USRA.

"NLV" is an abbreviation for "net liquidation value" and has the same meaning as that term has in Section 306 of the Rail Act.

"Other Compensation" means the amounts deposited with the Special Court by Transferees other than Conrail pursuant to Section 303(a)(2) of the Rail Act, plus any income earned on such amounts while on deposit.

"Parties" means the United States, USRA, Penn Central, the Persons listed in Appendix A-1, and the Persons listed in Appendix A-2 who become parties in the manner specified in Section 3.02.

"Penn Central" means The Penn Central Corporation, a Pennsylvania corporation.

"Penn Central System" means the Rail Properties at any time owned, leased, or controlled by Penn Central Transportation Company; by a Secondary Debtor; by a Person leased, operated, or otherwise controlled by Penn Central Transportation Company or a Secondary Debtor; or by Penn Central.

"Penn Central Transferor" means Penn Central or any of the Persons listed in Appendix A-1 or Appendix A-2.

"Penn Central Transportation Company" means the Debtor in Proceedings for the Reorganization of a Railroad, No. 70-347, United States District Court for the Eastern District of Pennsylvania.

"Person" means an individual, corporation, partnership, joint venture, trust, unincorporated organization, association, or government, or any agency or subdivision of a government.

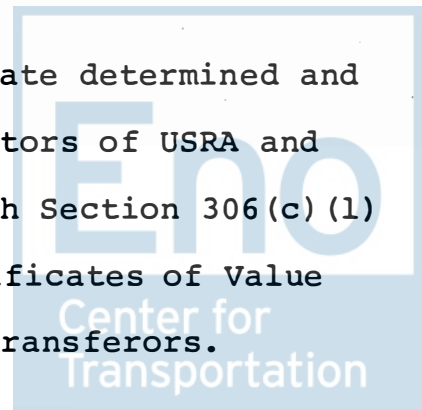
"Principal Amount" of Certificates of Value to be distributed to a Penn Central Transferor means their aggregate face amount as of April 1, 1976, determined by following the steps prescribed in Section 306(c)(4)(A), (B), and (C) of the Rail Act.

"Profitable Railroad" has the meaning set forth in Section 102(11) of the Rail Act.

"Rail Act" means the Regional Rail Reorganization Act of 1973, as amended to the date of this Agreement.

"Rail Properties" has the meaning set forth in Section 102(12) of the Rail Act.

"Redemption Date" means the date determined and specified jointly by the Board of Directors of USRA and the Finance Committee in accordance with Section 306(c)(1) of the Rail Act for redemption of Certificates of Value to be distributed to the Penn Central Transferors.



"Redemption Price" of Certificates of Value distributed to a Penn Central Transferor means their Base Value as of their Redemption Date minus the Statutory Adjustment.

"Reorganization Court" means the United States District Court for the Eastern District of Pennsylvania sitting in proceedings for the reorganization of Penn Central Transportation Company and the Secondary Debtors.

"Responsible Person" has the same meaning as "responsible person" has in Section 303(b) and (c) of the Rail Act.

"Secondary Debtor" means one of the fifteen Penn Central Transferors indicated by an asterisk in Appendix A-1.

"Secretary" means the Secretary of Transportation of the United States.

"Series B Preferred Stock" means one or more shares of the authorized and issued Series B Preferred Stock of Conrail.

"Special Court" means the court that is described in Section 209(b) of the Rail Act.

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"Statutory Adjustment" means the amount, if any, to be subtracted, under Section 306(c) (2) of the Rail Act, from the Base Value of Certificates of Value distributed to a Penn Central Transferor, in order to arrive at their Redemption Price.

"Subsequent Closing" means the completion, in accordance with Section 6.04, of the steps specified in Section 6.02(c) with respect to a Penn Central Transferor listed in Appendix A-2 with respect to which the effectiveness of the Approval Order was stayed at the time of the Closing.

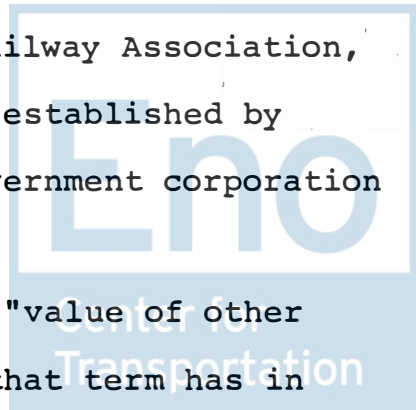
"Subsequent Closing Date" means a date for a Subsequent Closing specified in accordance with Section 6.04.

"Transferee" means Conrail or any Profitable Railroad, State, or Responsible Person to which Rail Properties were transferred or conveyed by order of the Special Court under Section 303(b) of the Rail Act.

"Transferor" means a Person whose Rail Properties were transferred or conveyed by order of the Special Court under Section 303(b) of the Rail Act.

"USRA" means United States Railway Association, the incorporated nonprofit association established by Section 201(a) of the Rail Act as a government corporation of the District of Columbia.

"VOB" is an abbreviation for "value of other benefits" and has the same meaning as that term has in Section 306(c) (4) of the Rail Act.



Section 1.02. Gender and Number; References.

Except where the context otherwise requires, words importing one gender include the other genders, and words importing the singular number include the plural number, and vice versa. Except as otherwise indicated, references to sections, subsections, paragraphs, and other subdivisions refer to subdivisions of this Agreement, and references to Appendices, Tables, and Exhibits refer to attachments to this Agreement.



ARTICLE II

REPRESENTATIONS AND WARRANTIES; OPINIONS OF COUNSEL

Section 2.01. Representations and Warranties of Penn Central. Penn Central represents and warrants to each of the Government Parties as follows:

(a) Penn Central is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania, with full corporate power to execute, deliver, and perform this Agreement.

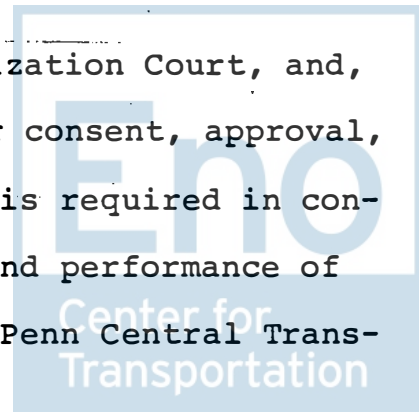
(b) All corporate action necessary to authorize each Penn Central Transferor to execute, deliver, and perform this Agreement has been (or, in the case of a Penn Central Transferor listed in Appendix A-2, will at the time of its execution and delivery of a counterpart of this Agreement have been) duly and properly taken.

(c) Penn Central is authorized to execute and deliver this Agreement on behalf of each Penn Central Transferor listed in Appendix A-1, and at the time of execution and delivery of a counterpart of this Agreement on behalf of each Penn Central Transferor listed in Appendix A-2 as provided in Section 3.02, Penn Central or such other Person as so executes and delivers this Agreement will be authorized to do so.

(d) This Agreement has been (or, in the case of a Penn Central Transferor listed in Appendix A-2, will upon its execution and delivery of a counterpart of this Agreement have been) duly executed and delivered by each Penn Central Transferor and is (or, in the case of a Penn Central Transferor listed in Appendix A-2, will upon its execution and delivery of a counterpart of this Agreement be) the legal, valid, and binding obligation of each Penn Central Transferor, enforceable in accordance with its terms.

(e) The execution, delivery, and performance of this Agreement by the Penn Central Transferors do not and will not conflict with, or constitute a breach of or a default (or event that with notice, lapse of time, or both would constitute a default) under, the certificate of incorporation or by-laws or other governing documents of any Penn Central Transferor or any agreement, indenture, or other instrument to which any Penn Central Transferor is a party or by which it is bound, or any applicable law, regulation, or court decree.

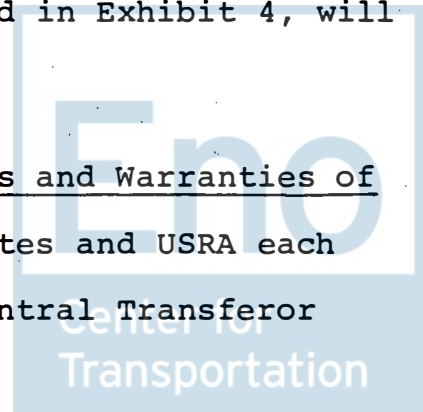
(f) No action of the Reorganization Court, and, except for the Approval Order, no other consent, approval, authorization, or order of any Person, is required in connection with the execution, delivery, and performance of this Agreement by Penn Central and the Penn Central Transferors listed in Appendix A-1.



(g) Penn Central has the corporate power to cause each Penn Central Transferor listed in Appendix A-2 to become a Party to this Agreement by executing and delivering a counterpart of this Agreement as provided in Section 3.02, and at the time of such execution and delivery, except for the Approval Order, no other consent, approval, authorization, or order of any Person will be required in connection with the execution, delivery, and performance of this Agreement by such Penn Central Transferor.

(h) The Penn Central Transferors are the owners of all claims against the United States, or any department or agency thereof, or USRA for compensation for the transfer or conveyance, under the Rail Act, to any Transferee, of Rail Properties or any interest in Rail Properties included in, or for CUE or other erosion with respect to, the Penn Central System (except for any claim of such nature owned by any Person listed in paragraph (ii) of Exhibit 4), and upon the release of claims as provided in Section 4.04(a) all such claims, to the extent specified in Exhibit 4, will be released and extinguished.

Section 2.02. Representations and Warranties of the Government Parties. The United States and USRA each represents and warrants to each Penn Central Transferor as follows:



(a) All action of the United States and all corporate action of USRA necessary to authorize the United States and USRA to execute, deliver, and perform this Agreement have been duly and properly taken.

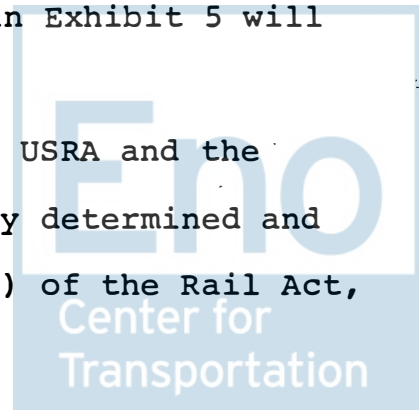
(b) This Agreement has been duly executed and delivered by the United States and USRA and is the legal, valid, and binding obligation of the United States and USRA, enforceable in accordance with its terms.

(c) No further action of Congress is required to authorize or enable the United States or USRA to execute, deliver, and perform this Agreement.

(d) The execution, delivery, and performance of this Agreement by USRA do not and will not conflict with the articles of incorporation or by-laws of USRA, or any agreement, indenture, or other instrument to which USRA is a party or by which it is bound, or any applicable law, regulation, or court decree.

(e) Upon the release of claims as provided in Section 4.04(b), the claims specified in Exhibit 5 will be released and extinguished.

(f) The Board of Directors of USRA and the Finance Committee have duly and properly determined and specified, pursuant to Section 306(c)(1) of the Rail Act,



the Redemption Date for the Certificates of Value to be distributed to the Penn Central Transferors pursuant to this Agreement. A copy of the joint determination is attached as Exhibit 3.

(g) The names of all Transferors appearing in the records of USRA are listed in Appendix C.

Section 2.03. Opinions of Counsel. The following opinions of counsel are being or shall be delivered in connection with the execution and delivery of this Agreement:

(a) At the time of the execution and delivery of this Agreement by Penn Central, Penn Central is delivering to the Government Parties an opinion of its counsel in the form of Exhibit 6(a).

(b) At the time of the execution and delivery of this Agreement by a Penn Central Transferor listed in Appendix A-2, Penn Central shall deliver to the Government Parties an opinion of its counsel in the form of Exhibit 6(b) with respect to such Penn Central Transferor.

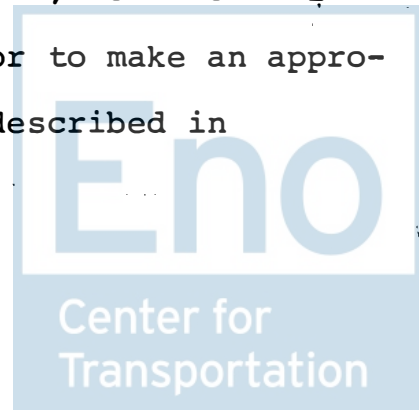
(c) At the time of the execution and delivery of this Agreement by the Government Parties, the Government Parties are delivering to Penn Central an opinion of counsel for USRA in the form of Exhibit 6(c).

ARTICLE III

ACTIONS TO BE TAKEN BEFORE CLOSING

Section 3.01. Motion for Approval Order. Promptly after the execution of this Agreement, the Government Parties and Penn Central, on behalf of itself and the Penn Central Transferors listed in Appendix A-1, shall jointly file with the Special Court copies of this Agreement and a petition in the form of Exhibit 1 asking the Special Court to issue the Approval Order in the form of Exhibit 2.

Section 3.02. Additional Penn Central Transferors. Within 30 days after the execution of this Agreement or as soon as practicable thereafter, Penn Central shall cause each of the Penn Central Transferors listed in Appendix A-2 to execute and deliver a counterpart of this Agreement. By and upon such execution and delivery, such Penn Central Transferor shall become a Party to this Agreement for all purposes. Promptly after such execution and delivery by a Penn Central Transferor listed in Appendix A-2, Penn Central shall cause such Penn Central Transferor to make an appropriate filing joining in the petition described in Section 3.01.



ARTICLE IV

SETTLEMENT

Section 4.01. Stipulation as to Section 306(c)(4) Findings. In consideration of all of the provisions of this Agreement, and in order to permit the Special Court to make the determinations required under Section 306(c)(4) of the Rail Act, the Parties hereby stipulate, solely for purposes of settlement, that --

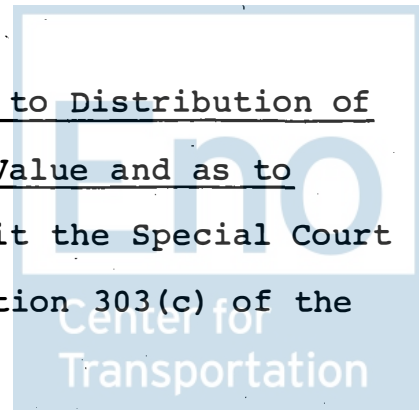
(a) the NLV to which each Penn Central Transferor is entitled by virtue of transfers of Rail Properties,

(b) the VOB provided to each such Transferor under the Rail Act,

(c) the amount of CUE with respect to each such Transferor, and

(d) the Principal Amount of the Certificates of Value to be distributed to each such Transferor are as set forth in Table 1. Table 1 also shows the amount of CV Interest on each such Principal Amount through, and the Base Values of such Certificates of Value as of, _____, 198_.

Section 4.02. Stipulation as to Distribution of Conrail Securities and Certificates of Value and as to Section 303 Findings. In order to permit the Special Court to make the findings required under Section 303(c) of the



Rail Act, and in consideration of all of the provisions of this Agreement, the Parties hereby stipulate, solely for purposes of settlement, that --

(a) the numbers of shares of Series B Preferred Stock and shares of Common Stock and the number and series of Certificates of Value to be distributed to each Penn Central Transferor shall be as set forth in Table 2;

(b) the transfers and conveyances of Rail Properties by the Penn Central Transferors to Transferees, under the Rail Act, in exchange for the Conrail Securities and Certificates of Value stipulated in subsection (a) of this Section and the Other Compensation and the other benefits accruing to each such Penn Central Transferor as a result of such exchange, are fair and equitable to each such Penn Central Transferor and are not more fair and equitable to any Penn Central Transferor than is required as a constitutional minimum;

(c) each of the conveyances of Rail Properties by a Penn Central Transferor to a Profitable Railroad, in exchange for Other Compensation, is fair and equitable to such Penn Central Transferor and is not more fair and equitable than is required as a constitutional minimum;

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(d) no portion of any proceeds received by a Penn Central Transferor from an entity other than Conrail for the sale, lease, or transfer of property reflects value attributable, within the meaning of Section 303(c)(1)(C) of the Rail Act, to the maintenance or improvement of property pursuant to an agreement under Section 213 or 215 of the Rail Act.

Section 4.03. Stipulation as to Redemption Price.

In consideration of all of the provisions of this Agreement including the assignment of Conrail Securities to USRA pursuant to Section 6.02, the Government Parties hereby stipulate, solely for purposes of settlement, that --

(a) the Conrail Securities to be distributed to each Penn Central Transferor pursuant to Section 6.02 are without fair market value,

(b) the amount of the Statutory Adjustment with respect to each Penn Central Transferor is as set forth in Table 3, and

(c) the Redemption Price of the Certificates of Value to be distributed to each Penn Central Transferor under Section 4.02(a) is their Base Value minus the amount, of Statutory Adjustment, if any, set forth with respect to such Penn Central Transferor in Table 3.

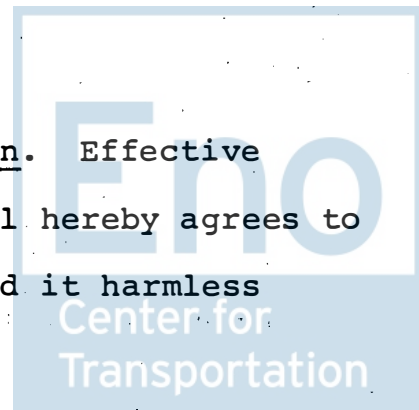
Section 4.04. Release of Claims. Effective from and after the Closing (or, with respect to a Penn Central Transferor listed in Appendix A-2 with respect to which the effectiveness of the Approval Order is stayed at the time of the Closing, from and after the appropriate Subsequent Closing) --

(a) each Penn Central Transferor hereby releases all of its claims, to the extent specified in Exhibit 4, against each Government Party and each Transferee, and

(b) each Government Party hereby releases all of its claims, to the extent specified in Exhibit 5, against each Penn Central Transferor.

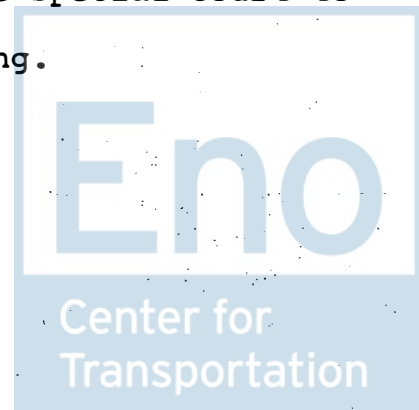
Section 4.05. Allocations. If the Special Court declines to make the determinations as to NLV, CUE, and VOB set forth in Table 1 unless one or more of the figures set forth in Table 1 are changed, Table 1 shall be amended to set forth figures acceptable to the Special Court, provided that the aggregate NLV, the aggregate CUE, and the aggregate VOB shown on Table 1 shall be neither increased or decreased.

Section 4.06. Indemnification. Effective from and after the Closing, Penn Central hereby agrees to indemnify each Government Party and hold it harmless against --



(a) any claim (other than a claim listed as an excluded claim in Exhibit 4), by any Person other than a Penn Central Transferor, against the United States, or any agency thereof, or USRA, for compensation for the transfer or conveyance, under the Rail Act, to any Transferee, of Rail Properties or any interest in Rail Properties included in the Penn Central System, or for CUE or other erosion with respect to the Penn Central System (except for any claim of such nature owned by any Person listed in paragraph (ii) of Exhibit 4); and

(b) if at the time of Closing the effectiveness of the Approval Order was stayed with respect to any Penn Central Transferor listed in Appendix A-2, any right of such Transferor to receive any compensation, on account of any claim that would otherwise have been released by such Transferor effective from and after the Closing, in excess of the Base Value (at the time of the receipt of such compensation) of the Certificates of Value that the Approval Order directed the Clerk of the Special Court to deliver to such Transferor at the Closing.



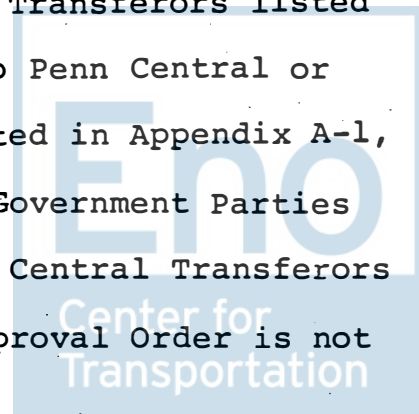
ARTICLE V

CONDITIONS TO CLOSING

Section 5.01. Conditions to the Government Parties' Obligation To Consummate the Closing. The obligation of the Government Parties to consummate the Closing is subject to the performance, by each of the Penn Central Transferors, of all of its obligations under this Agreement and to the fulfillment, before or on the Closing Date, of the following conditions:

(a) All of the Penn Central Transferors listed in Appendix A-2 shall have become Parties to this Agreement in the manner specified in Section 3.02.

(b) The Special Court shall have entered the Approval Order, and the time to seek review shall have expired, and whether or not review has been sought, the Approval Order shall not have been in any respect reversed, stayed, modified, or amended; provided, however, that a stay of the effectiveness of the Approval Order with respect only to one or more of the Penn Central Transferors listed in Appendix A-2, and not with respect to Penn Central or any of the Penn Central Transferors listed in Appendix A-1, shall not affect the obligation of the Government Parties to consummate the Closing with the Penn Central Transferors as to which the effectiveness of the Approval Order is not stayed.



(c) The representations and warranties made by Penn Central in Section 2.01 shall be true and correct as of the Closing Date as though each such representation and warranty had been made on and as of the Closing Date, and the Government Parties shall have been furnished with a certificate of the Chief Executive Officer of Penn Central, dated the Closing Date, certifying to the best of his knowledge the fulfillment of this condition.

(d) The Government Parties shall have received an opinion of Penn Central's counsel, dated the Closing Date, confirming as of the Closing Date the opinions of counsel delivered pursuant to Section 2.03.

Section 5.02. Conditions to the Penn Central Transferors' Obligation to Consummate the Closing. The obligation of each of the Penn Central Transferors to consummate the Closing is subject to the performance, by each of the Government Parties, of all of its obligations under this Agreement and to the fulfillment, before or on the Closing Date, of the following conditions:

(a) The Special Court shall have entered the Approval Order, and the time to seek review shall have expired, and whether or not review has been sought, the

Approval Order shall not have been in any respect reversed, stayed, modified, or amended; provided, however, that a stay of the effectiveness of the Approval Order with respect only to one or more of the Penn Central Transferors listed in Appendix A-2, and not with respect to Penn Central or any of the Penn Central Transferors listed in Appendix A-1, shall not affect the obligation of the Penn Central Transferors as to which the effectiveness of the Approval Order is not stayed to consummate the Closing.

(b) The representations and warranties made by the Government Parties in Section 2.02 shall be true and correct as of the Closing Date as though each such representation and warranty had been made on and as of the Closing Date, and Penn Central shall have been furnished with a certificate of the Chairman of USRA, dated the Closing Date, certifying to the best of his knowledge the fulfillment of this condition.



ARTICLE VI

CLOSING

Section 6.01. Time and Place. The Closing shall take place at the offices of _____, beginning at 10:00 A.M., local time, on _____, 1981 or, if the conditions set forth in Section 5.01(b) and 5.02(a) are not met on that date, then at such other time and place not more than ten business days after such conditions are met as the United States may specify in a notice given to Penn Central at least five business days in advance of the date specified, or at such other time and place as the Parties may agree upon. Each Penn Central Transferor hereby waives any right it might otherwise have to any other or further notice of the redemption of Certificates of Value.

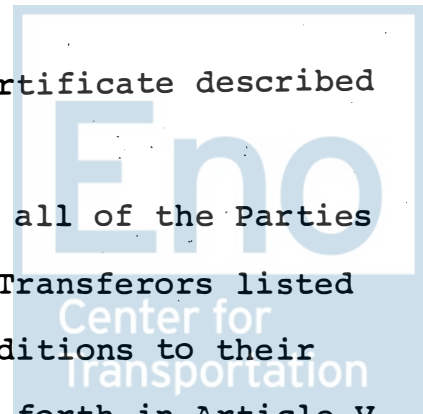
Section 6.02. Actions To Be Taken at the Closing.

At the Closing --

(a) Penn Central shall deliver the certificate described in Section 5.01(c) and the opinion described in Section 5.01(d);

(b) USRA shall deliver the certificate described in Section 5.02(b);

(c) if all of the Parties (or all of the Parties except one or more of the Penn Central Transferors listed in Appendix A-2) determine that the conditions to their respective obligations to close, as set forth in Article V,



have been satisfied, or if no Party elects to exercise any right it may have to decline to close on account of non-satisfaction of any such condition, then the settlement provided for in this Agreement shall be consummated by the taking of the following steps each of which shall be deemed to have occurred only when all of them have been completed:

(i) the Clerk of the Special Court, acting pursuant to the Approval Order, shall obtain from Conrail and deliver to each Penn Central Transferor (other than any Penn Central Transferor listed in Appendix A-2 as to which the effectiveness of the Approval Order is stayed) a certificate or certificates evidencing the shares of Series B Preferred Stock and Common Stock specified in the Approval Order;

(ii) the Clerk of the Special Court, acting pursuant to the Approval Order, shall obtain from USRA and deliver to each such Penn Central Transferor an instrument evidencing the number of Certificates of Value specified in the Approval Order, such Certificates of Value to have the aggregate Principal Amount specified in the Approval Order;

(iii) each such Penn Central Transferor shall assign and deliver to USRA, duly endorsed or accompanied by an appropriate instrument of transfer, the certificates for shares of Series B Preferred Stock and Common Stock delivered to it by the Clerk of the Special Court;

(iv) the Certificates of Value evidenced by the instrument delivered by the Clerk of the Special Court to each such Penn Central Transferor shall be redeemed at their Redemption Price, which shall be paid in immediately available federal funds into such account or accounts as Penn Central may specify;

(v) each such Penn Central Transferor shall surrender to USRA the instrument evidencing Certificates of Value delivered to it by the Clerk of the Special Court;

(vi) the Clerk of the Special Court, acting pursuant to the Approval Order, shall distribute to each such Penn Central Transferor the amount of Other Compensation shown in Table 4; and

(vii) Penn Central and The Michigan Central Railroad Company shall deliver to the United States instruments assigning and conveying to the United States any and all right, title, and interest

either of them may have in the stock of The Canada Southern Railway Company or in any lease of the operating properties of such company.

Section 6.03. Representations Survive Closing.

The representations and warranties of Penn Central and the Government Parties set forth in Article II shall survive the Closing.

Section 6.04. Subsequent Closings. If the

effectiveness of the Approval Order is stayed, at the time of the Closing, with respect to a Penn Central Transferor listed in Appendix A-2, and if that stay is later lifted and no such stay is in effect, then a Subsequent Closing between the Government Parties and such Transferor shall be held at a time and place specified by the United States (in a notice given to such Transferor at least five business days in advance of the date specified) not more than 30 days after the first day on which no such stay is in effect. The conditions to the Government Parties' obligations to consummate a Subsequent Closing shall be the conditions specified in Section 5.01, and the conditions to such Transferor's obligation to consummate a Subsequent Closing shall be the conditions specified in Section 5.02, except that the terms "Closing" and "Closing Date" as used in those sections shall be understood to refer to the Subsequent Closing and the Subsequent Closing Date, respectively. At the Subsequent Closing,

the actions described in Section 6.02(a) and (b) shall be taken by Penn Central and USRA, and each of the actions described in Section 6.02(c) shall be taken with respect to such Transferor.

Section 6.05. Effect of Nonissuance of Approval Order. If the Special Court has not issued the Approval Order on or before _____, 198_, the provisions of Article IV shall be of no further force and effect, and no Party shall be under any further obligation to close. In that event, no provision of this Agreement shall be admissible in any litigation or other proceeding as evidence of the value of any property or of the existence or amount of any claim set forth in Exhibit 4 or Exhibit 5.



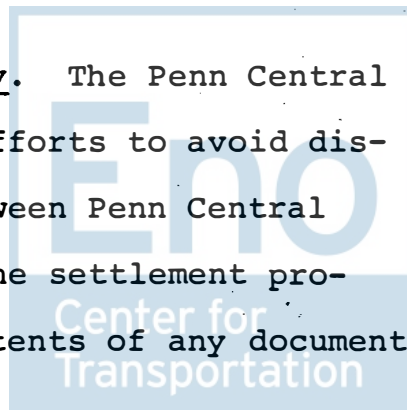
ARTICLE VII

COOPERATION; VALUATION PROCEEDINGS; CONFIDENTIALITY

Section 7.01. Cooperation. Each of the Government Parties shall, upon the request of any Penn Central Transferor, and each Penn Central Transferor shall, upon the request of either Government Party, do, execute, acknowledge, and deliver or cause to be done, executed, acknowledged, and delivered all such further acts, deeds, assignments, assurances, or other instruments as may be reasonably required for the full and effective consummation of the transactions contemplated by this Agreement.

Section 7.02. Valuation Proceedings. Promptly after the execution of this Agreement, the Government Parties and Penn Central shall file in the Special Court motions and other papers with respect to (a) the filing of briefs, now scheduled for December 2, 1980, in Special Court Misc. No. 76-1; and (b) the conduct of other litigation activities by the Parties in those proceedings.

Section 7.03. Confidentiality. The Penn Central Transferors shall make all reasonable efforts to avoid disclosing any confidential discussion between Penn Central and the Government Parties concerning the settlement provided for in this Agreement, or the contents of any document



prepared by or received from the Government Parties in connection with the negotiation of the settlement, to any Transferor other than a Penn Central Transferor or a Transferor indicated by an asterisk in Appendix C. Nothing in the preceding sentence shall be deemed to preclude Penn Central from making such disclosure as may be required by order of any court or as it may deem advisable in connection with any proceeding brought by any Person against it in which the terms, validity, or propriety of the settlement is in issue.

Section 7.04. Additional Transferors. Settlement agreements similar in all significant respects to this Agreement shall be entered into between the Government Parties and The Dayton Union Railway Company ("Dayton") and Pennsylvania-Reading Seashore Lines ("PRSL") at such times as all necessary corporate action of such Transferors, including any necessary consents of minority interests, has been accomplished. Penn Central shall seek the accomplishment of such action, but no failure to accomplish such action shall affect the rights and obligations of the Parties set forth elsewhere in this Agreement. Such settlement agreements, if any, shall be on the basis of the following determinations:

The Dayton Union
Railway Company

Pennsylvania-Reading
Seashore Lines

NLV

CUE

VOB

Principal Amount
of CVs

Shares of Conrail
Series B
Preferred Stock

Shares of Conrail
Common Stock

Penn Central hereby agrees to indemnify each Government Party and hold it harmless against any claim by Dayton or PRSL to receive any compensation, on account of any claim that would otherwise have been released by it pursuant to such a settlement agreement, other than or in addition to the Conrail Securities and Certificates of Value listed above, provided that such indemnification shall be limited to 66 2/3 percent and 73 percent, respectively, of the amount recovered by Dayton or PRSL, as the case may be, in excess of the Base Value (at the time of the receipt of such other or additional compensation) of such Certificates of Value, and further provided that this indemnification shall cease to be effective with respect to Dayton or PRSL,

as the case may be, if such a settlement agreement is tendered to the Government Parties by Dayton or PRSL and is not accepted by them, or if such a settlement agreement is not approved by the Special Court within 120 days after its submission to the Special Court.

Section 7.05. Remedies. Failure by any Party, subsequent to the Closing, to comply with any of its undertakings in this Agreement, or the breach subsequent to the Closing of any warranty or representation in this Agreement, shall not give rise to a right of any other Party for rescission of this Agreement. Any remedy for such failure or breach shall be limited to an action for damages by the injured Party.



ARTICLE VIII

MISCELLANEOUS

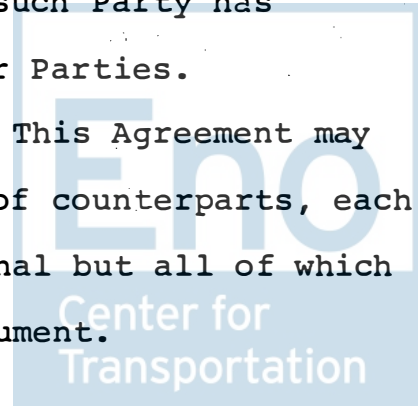
Section 8.01. Assignment. No Party may assign its rights or obligations under this Agreement to any other Person, except that any Penn Central Transferor may assign its rights (but not its obligations) under this Agreement to Penn Central.

Section 8.02. Benefit of Agreement. Nothing in this Agreement is intended to confer upon any Person, other than the Parties and permitted assigns, any legal or equitable right, claim, or remedy.

Section 8.03. Entire Agreement. This Agreement contains the entire agreement between the Parties with respect to the subject matter of this Agreement.

Section 8.04. Notices. Any notice or other communication under this Agreement shall be in writing and shall be deemed to have been duly given to any Party if mailed, delivered, or telegraphed or telexed and confirmed by letter to such Party at the address set forth in Appendix B or at such other address as such Party has specified in a notice given to the other Parties.

Section 8.05. Counterparts. This Agreement may be executed by any Party in any number of counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same instrument.



Section 8.06. Table of Contents; Headings.

The Table of Contents and article and section headings in this Agreement are for convenience only and shall not affect its construction.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first above written.

THE UNITED STATES OF AMERICA

THE PENN CENTRAL CORPORATION

by _____
Attorney General of the
United States

by _____
Chairman of the Board and
Chief Executive Officer

UNITED STATES RAILWAY ASSOCIATION

THE PERSONS LISTED IN APPENDIX A-1

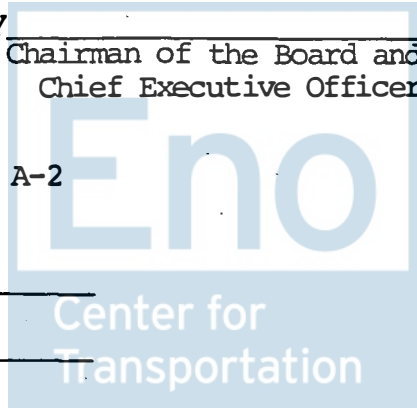
by _____
Chairman

by The Penn Central Corporation

by _____
Chairman of the Board and
Chief Executive Officer

A PERSON LISTED IN APPENDIX A-2

by _____
date _____



APPENDICES, TABLES, AND EXHIBITS

Appendix A-1: Corporations on Whose Behalf This Agreement
Is Being Executed by Penn Central

Appendix A-2: Corporate Subsidiaries of Penn Central
With Stock or Debt Securities Held by Persons Other
Than Penn Central

Appendix B: Addresses for Notices

Appendix C: Transferors

Table 1: Statutory Values: Section 3.06

Table 2: Distribution of Conrail Securities and Certifi-
cates of Value

Table 3: Amounts Described in Section 306(c) (2) (B)

Table 4: Other Compensation

Exhibit 1: Form of Joint Petition to the Special Court

Exhibit 2: Form of Approval Order

Exhibit 3: Copy of Resolution of Board of Directors of
USRA and Finance Committee Jointly Determining and
Specifying Redemption Date of Certificates of Value

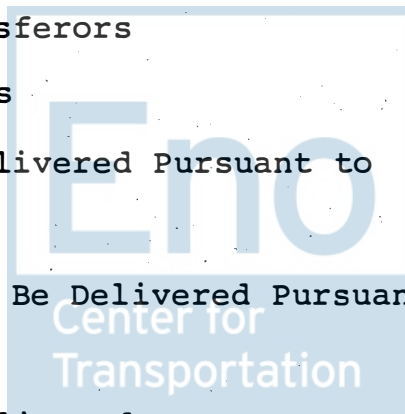
Exhibit 4: Claims of Penn Central Transferors

Exhibit 5: Claims of Government Parties

Exhibit 6(a): Form of Legal Opinion Delivered Pursuant to
Section 2.03(a)

Exhibit 6(b): Form of Legal Opinion To Be Delivered Pursuant
to Section 2.03(b)

Exhibit 6(c): Form of Legal Opinion Delivered Pursuant to
Section 2.03(c)



APPENDIX A-1

- Baltimore and Eastern Railroad Company
- *Beech Creek Railroad Company
- Central Indiana Railway Company
- Chicago, Kalamazoo and Saginaw Railway Company
- The Chicago River and Indiana Railroad Company
- *The Cleveland, Cincinnati, Chicago and St. Louis Railway Company
- *The Cleveland and Pittsburgh Railroad Company
- *The Connecting Railway Company
- *The Delaware Railroad Company
- Despatch Shops, Inc.
- D T B Corporation
- *Erie and Pittsburgh Railroad Company
- Fort Wayne and Jackson Railroad Company
- The Hudson River Bridge Company at Albany
- Joliet and Northern Indiana Railroad Company
- The Little Miami Railroad Company
- Manor Real Estate Company
- *The Michigan Central Railroad Company
- New York Central Development Corporation
- *The Northern Central Railway Company
- *The Pennndel Company
- Penndiana Improvement Corporation
- Pennsylvania and Atlantic Railroad Company
- Pennsylvania Tunnel and Terminal Railroad Company
- *The Philadelphia, Baltimore and Washington Railroad Company
- *The Philadelphia and Trenton Rail Road Company
- *Pittsburgh, Fort Wayne and Chicago Railway Company
- *The Pittsburgh, Youngstown & Ashtabula Railway Company
- Providence Produce Warehouse Company
- Shamokin Valley and Pottsville Railroad Company
- South Manchester Railroad Company
- Union Depot Company (Columbus, Ohio)
- *Union Railroad Company of Baltimore
- *The United New Jersey Railroad and Canal Company

* Indicates a Secondary Debtor



APPENDIX A-2

American Contract Company

Detroit Manufacturers' Railroad Company

The Indianapolis Union Railway Company

The Mahoning Coal Railroad Company

The Mahoning and Shenango Valley Co.

The New York Connecting Railroad Company

The Peoria and Eastern Railway Company

Waynesburg and Washington Railroad Company

Waynesburg Southern Railroad Company

West Jersey and Seashore Railroad Company



Addresses for Notices



Transferors



Statutory Values

NAME OF TRANSFEROR	NLV	VOB	CUE	PRINCIPAL AMOUNT OF CVs	CV INTEREST (AS OF)	BASE VALUE OF CVs (AS OF)
The Penn Central Corporation						
Baltimore and Eastern Railroad Company						
Beech Creek Railroad Company						
Central Indiana Railway Company						
Chicago, Kalamazoo and Saginaw Railway Company						
The Chicago River and Indiana Railroad Company						
The Cleveland, Cincinnati, Chicago and St. Louis Railway Company						
The Cleveland and Pittsburgh Railroad Company						

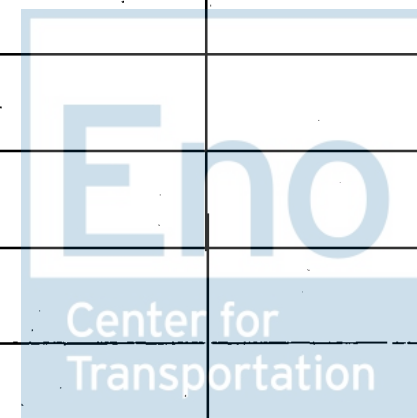


TABLE 1

Page 2 of 6 pages

Statutory Values

NAME OF TRANSFEROR	NLV	VOB	CUE	PRINCIPAL AMOUNT OF CVs	CV INTEREST (AS OF)	BASE VALUE OF CVs (AS OF)
The Connecting Railway Company						
The Delaware Railroad Company						
Despatch Shops, Inc.						
D T B Corporation						
Erie and Pittsburgh Railroad Company						
Fort Wayne and Jackson Railroad Company						
The Hudson River Bridge Company at Albany						
Joliet and Northern Indiana Railroad Company						

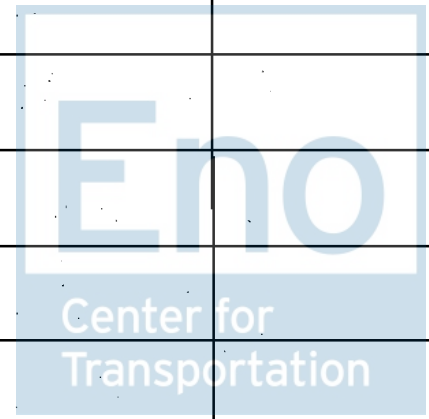


TABLE 1

Page 3 of 6 pages

Statutory Values

NAME OF TRANSFEROR	NLV	VOB	CUE	PRINCIPAL AMOUNT OF CVs	CV INTEREST (AS OF)	BASE VALUE OF CVs (AS OF)
The Little Miami Railroad Company						
Manor Real Estate Company						
The Michigan Central Railroad Company						
New York Central Development Corporation						
The Northern Central Railway Company						
The Pennel Company						
Pennsylvania Improvement Corporation						
Pennsylvania and Atlantic Railroad Company						

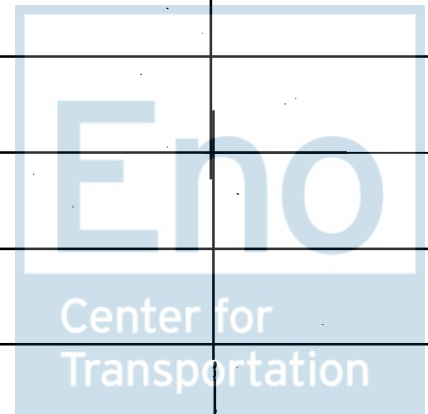


TABLE 1

Page 4 of 6 pages

Statutory Values

NAME OF TRANSFEROR	NLV	VOB	CUE	PRINCIPAL AMOUNT OF CVs	CV INTEREST (AS OF)	BASE VALUE OF CVs (AS OF)
Pennsylvania Tunnel and Terminal Railroad Company						
The Philadelphia, Baltimore and Washington Railroad Company						
The Philadelphia and Trenton Rail Road Company						
Pittsburgh, Fort Wayne and Chicago Railway Company						
The Pittsburgh, Youngstown & Ashtabula Railway Company						
Providence Produce Warehouse Company						
Shamokin Valley and Pottsville Railroad Company						
South Manchester Railroad Company						

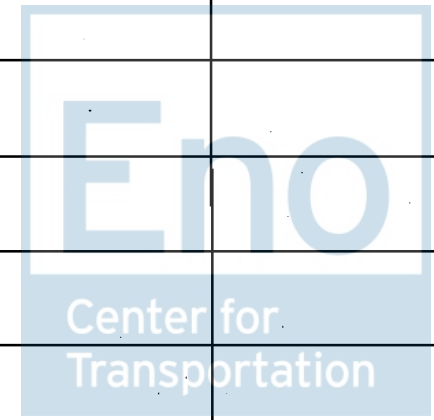


TABLE 1

Page 5 of 6 pages

Statutory Values

NAME OF TRANSFEROR	NLV	VOB	CUE	PRINCIPAL AMOUNT OF CVs	CV INTEREST (AS OF)	BASE VALUE OF CVs (AS OF)
Union Depot Company (Columbus, Ohio)						
Union Railroad Company of Baltimore						
The United New Jersey Railroad and Canal Company						
American Contract Company						
Detroit Manufacturers' Railroad Company						
The Indianapolis Union Railway Company						
The Mahoning Coal Railroad Company						
The Mahoning and Shenango Valley Co.						

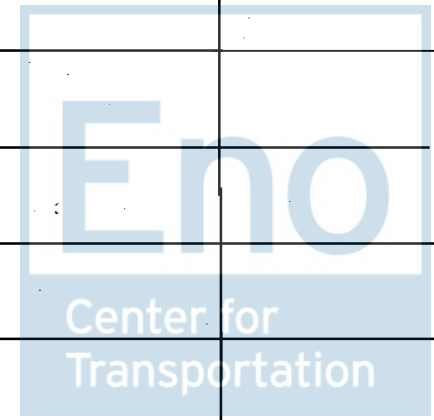
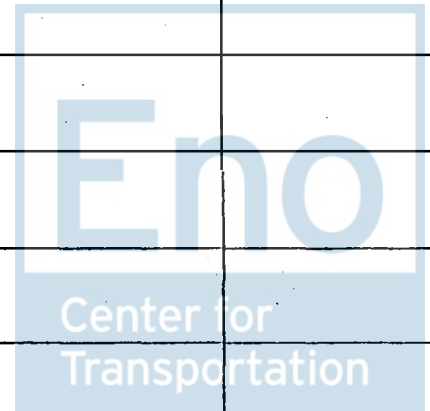


TABLE 1

Page 6 of 6 pages

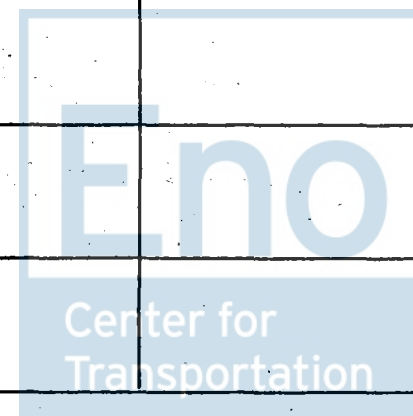
Statutory Values

NAME OF TRANSFEROR	NLV	VOB	CUE	PRINCIPAL AMOUNT OF CVs	CV INTEREST' (AS OF)	BASE VALUE OF CVs (AS OF)
The New York Connecting Railroad Company						
The Peoria and Eastern Railway Company						
Waynesburg and Washington Railroad Company						
Waynesburg Southern Railroad Company						
West Jersey and Seashore Railroad Company						



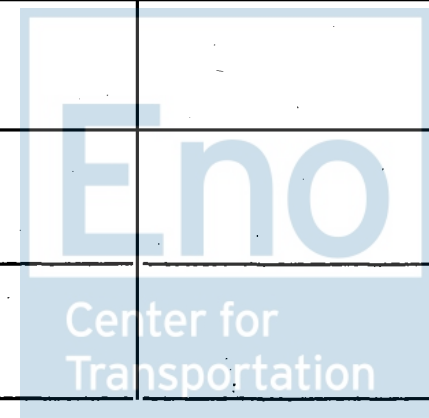
Distribution of Conrail Securities and Certificates of Value

Name of Transferor	Number of Shares of Series B Preferred Stock	Number of Shares of Common Stock	Number and Series of Certificates of Value
The Penn Central Corporation			
Baltimore and Eastern Railroad Company			
Beech Creek Railroad Company			
Central Indiana Railway Company			
Chicago, Kalamazoo and Saginaw Railway Company			
The Chicago River and Indiana Railroad Company			
The Cleveland, Cincinnati, Chicago and St. Louis Railway Company			
The Cleveland and Pittsburgh Railroad Company			



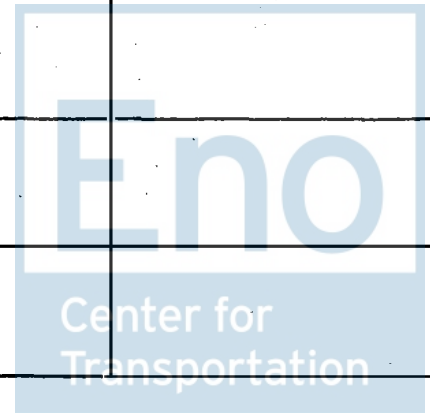
Distribution of Conrail Securities and Certificates of Value

Name of Transferor	Number of Shares of Series B Preferred Stock	Number of Shares of Common Stock	Number and Series of Certificates of Value
The Connecting Railway Company			
The Delaware Railroad Company			
Despatch Shops, Inc.			
D T B Corporation			
Erie and Pittsburgh Railroad Company			
Fort Wayne and Jackson Railroad Company			
The Hudson River Bridge Company at Albany			
Joliet and Northern Indiana Railroad Company			



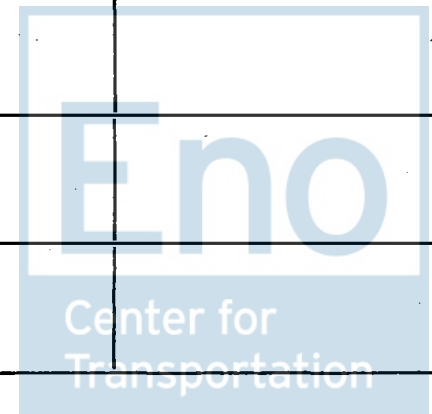
Distribution of Conrail Securities and Certificates of Value

Name of Transferor	Number of Shares of Series B Preferred Stock	Number of Shares of Common Stock	Number and Series of Certificates of Value
The Little Miami Railroad Company			
Manor Real Estate Company			
The Michigan Central Railroad Company			
New York Central Development Corporation			
The Northern Central Railway Company			
The Penndel Company			
Penndiana Improvement Corporation			
Pennsylvania and Atlantic Railroad Company			



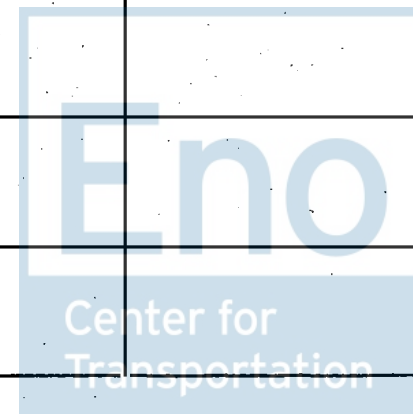
Distribution of Conrail Securities and Certificates of Value

Name of Transferor	Number of Shares of Series B Preferred Stock	Number of Shares of Common Stock	Number and Series of Certificates of Value
Pennsylvania Tunnel and Terminal Railroad Company			
The Philadelphia, Baltimore and Washington Railroad Company			
The Philadelphia and Trenton Rail Road Company			
Pittsburgh, Fort Wayne and Chicago Railway Company			
The Pittsburgh, Youngstown & Ashtabula Railway Company			
Providence Produce Warehouse Company			
Shamokin Valley and Pottsville Railroad Company			
South Manchester Railroad Company			



Distribution of Conrail Securities and Certificates of Value

Name of Transferor	Number of Shares of Series B Preferred Stock	Number of Shares of Common Stock	Number and Series of Certificates of Value
Union Depot Company (Columbus, Ohio)			
Union Railroad Company of Baltimore			
The United New Jersey Railroad and Canal Company			
American Contract Company			
Detroit Manufacturers' Railroad Company			
The Indianapolis Union Railway Company			
The Mahoning Coal Railroad Company			
The Mahoning and Shenango Valley Co.			



Distribution of Conrail Securities and Certificates of Value

Name of Transferor	Number of Shares of Series B Preferred Stock	Number of Shares of Common Stock	Number and Series of Certificates of Value
The New York Connecting Railroad Company			
The Peoria and Eastern Railway Company			
Waynesburg and Washington Railroad Company			
Waynesburg Southern Railroad Company			
West Jersey and Seashore Railroad Company			

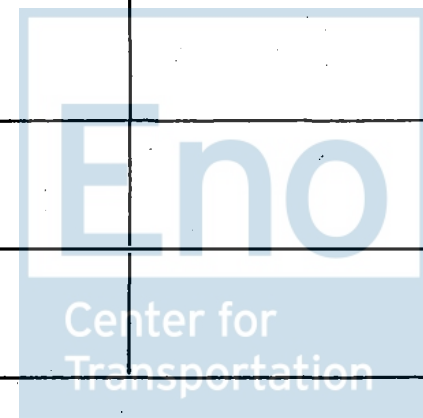


TABLE 3: Amounts Described in
Section 306(c)(2)(B)*/

The Cleveland, Cincinnati, Chicago and St. Louis Railway Company	\$ 20,128.50
The Connecting Railway Company	18,944.00
The Little Miami Railroad Company	1,280.50
The Michigan Central Railroad Company	115,800.00
The Northern Central Railway Company	62,500.00
The Pennel Company	58,112.50
The Peoria and Eastern Railway Company	2,366.50
The Philadelphia, Baltimore and Washington Railroad Company	765.00
Pittsburgh, Fort Wayne and Chicago Railway Company	27,000.00
Penn Central Transportation Company	285,543.50
All Other Penn Central Transferors	<u>-0-</u>
	\$592,440.50

*/ These amounts were distributed to the Penn
Central Transferors pursuant to the settlement of
Special Court Civil Action No. 76-15.



Other Compensation



SPECIAL COURT
REGIONAL RAIL REORGANIZATION ACT OF 1973

IN THE MATTER OF THE VALUATION)
PROCEEDINGS UNDER §§ 303(c) and 306)
OF THE REGIONAL RAIL REORGANIZATION)
ACT)

Special Court
Misc. No. 76-1

PETITION FOR AN ORDER TO SHOW CAUSE
WHY AN ORDER SHOULD NOT BE ENTERED APPROVING
THE SETTLEMENT AGREEMENT AMONG THE UNITED
STATES OF AMERICA, UNITED STATES RAILWAY
ASSOCIATION, THE PENN CENTRAL CORPORATION,
AND OTHER PERSONS; MAKING CERTAIN FINDINGS
AND DETERMINATIONS PURSUANT TO SECTIONS 303(c) (1)
AND 306(c) (4) OF THE REGIONAL RAIL
REORGANIZATION ACT OF 1973;
AND DIRECTING DISTRIBUTION OF SECURITIES

The United States of America, United States
Railway Association, and The Penn Central Corporation on
behalf of itself and certain other transferors, by their
undersigned attorneys, request the issuance of an Order
to Show Cause why an order should not be entered by the
Court, in substantially the form attached hereto, approv-
ing a Settlement Agreement among the United States, United
States Railway Association, The Penn Central Corporation,

Eno

Center for
Transportation

and other persons, a copy of which is attached to the proposed order, and making certain findings and determinations pursuant to Sections 303(c) (1) and 306(c) (4) of the Regional Rail Reorganization Act of 1973; and directing the distribution of securities.

Respectfully submitted,

Counsel for The United States
of America

Counsel for United States
Railway Association

Counsel for The Penn Central
Corporation

Date _____



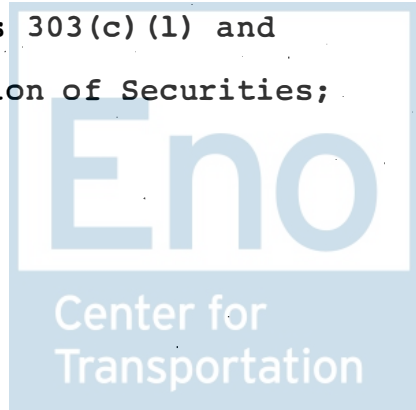
SPECIAL COURT

REGIONAL RAIL REORGANIZATION ACT OF 1973

IN THE MATTER OF THE VALUATION PROCEEDINGS UNDER §§ 303(c) AND 306 OF THE REGIONAL RAIL REORGANIZATION ACT))))))))	Special Court Misc. No. 76-1
---	--------------------------------------	---------------------------------

ORDER TO SHOW CAUSE WHY AN ORDER SHOULD
 NOT BE ENTERED APPROVING THE SETTLEMENT
 AGREEMENT AMONG THE UNITED STATES OF AMERICA,
 UNITED STATES RAILWAY ASSOCIATION, THE
 PENN CENTRAL CORPORATION, AND OTHER PERSONS;
 MAKING CERTAIN FINDINGS AND DETERMINATIONS
 PURSUANT TO SECTIONS 303(c)(1) AND 306(c)(4)
 OF THE REGIONAL RAIL REORGANIZATION ACT OF 1973;
 AND DIRECTING DISTRIBUTION OF SECURITIES

Upon consideration that on _____,
 1980, The United States of America, United States Railway
 Association, and The Penn Central Corporation on behalf of
 itself and other persons filed with the Court a Settlement
 Agreement among them, together with an application for an
 Order To Show Cause Why an Order Should Not Be Entered
 Approving the Settlement Agreement, Making Certain Findings
 and Determinations Pursuant to Sections 303(c)(1) and
 306(c)(4), and Directing the Distribution of Securities;
 and together with a proposed order,



IT IS ORDERED that the United States, USRA, and Penn Central shall file memoranda in support of their request for the entry of such an order on or before _____, 1980; and

IT IS FURTHER ORDERED that any party wishing to object to the entry of an order approving the Agreement and making the requested findings and determinations and directing the distribution of securities as requested shall show cause by way of written objection, which shall be filed with the Court on or before _____, 1980.



Form of Approval Order

SPECIAL COURT

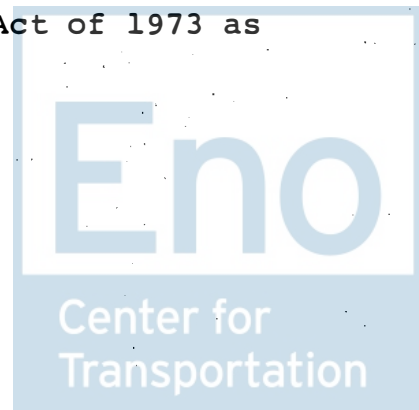
REGIONAL RAIL REORGANIZATION ACT OF 1973

IN THE MATTER OF THE VALUATION)
PROCEEDINGS UNDER §§ 303(c))
AND 306 OF THE REGIONAL RAIL)
REORGANIZATION ACT)

Special Court
Misc. No. 76-1

ORDER APPROVING SETTLEMENT AGREEMENT, MAKING
 CERTAIN FINDINGS AND DETERMINATIONS PURSUANT
 TO SECTIONS 303(c)(1) AND 306(c)(4) OF THE REGIONAL RAIL
 REORGANIZATION ACT OF 1973, AND DIRECTING DISTRIBUTION
 OF SECURITIES

On _____, 1980, the United States of America, United States Railway Association (together, the "Government Parties"), The Penn Central Corporation ("Penn Central"), and certain other persons entered into a Settlement Agreement ("Agreement") resolving all matters in dispute among them in this case under the Regional Rail Reorganization Act of 1973 as amended ("Rail Act").



On _____, 1980, the Government Parties, Penn Central and the Penn Central Transferors (as defined in the Agreement) listed in Appendix A-1 of the Agreement submitted the Agreement to this Court and petitioned the Court to approve the Agreement and make certain findings and determinations and issue certain orders to implement the settlement. The Penn Central Transferors listed in Appendix A-2 of the Agreement have entered into the Agreement and joined in the petition to this Court.

Consummation of the closing of the settlement provided for in the Agreement is conditioned upon the entry by the Court of the findings, determinations, and orders for which the parties have petitioned. On _____, 1980, the Court entered an order to show cause why the Agreement should not be approved and the findings, determinations, and orders, including an order pursuant to Section 303(c)(4) of the Rail Act relating to a distribution of securities, should not be entered. [No objection was filed in response to the order to show cause.] [Each objection was duly considered and found to be without merit.]

Eno

Center for
Transportation

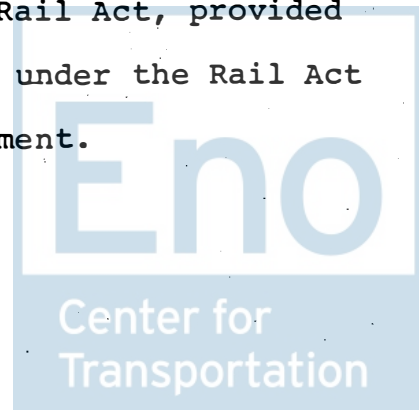
The Court has considered the terms of the Agreement, a copy of which is annexed hereto, and the memoranda submitted by the parties to the Agreement and has taken due note of all prior submissions and proceedings in this case.

The Court hereby finds and determines as follows:

1. The Agreement constitutes a fair and equitable compromise of the claims at issue in this proceeding, and the stipulations of the parties as to the matters of fact and law set forth in Paragraphs 2-7 below are reasonable, and such stipulations are within the reasonable range of probable outcomes in these proceedings had such proceedings been litigated to a conclusion.

2. The net liquidation value, within the meaning of Section 306(c)(4)(A) of the Rail Act, as of April 1, 1976, of the rail properties conveyed by each of the Penn Central Transferors to Conrail pursuant to Section 303(b) of the Rail Act is as set forth in Table 1 of the Agreement.

3. The value of other benefits, within the meaning of Section 306(c)(4)(B) of the Rail Act, provided to each of the Penn Central Transferors under the Rail Act is as set forth in Table 1 of the Agreement.



4. The compensable unconstitutional erosion, within the meaning of Sections 303(c)(1)(A)(i) and Section 306(c)(4)(C) of the Rail Act, suffered by each of the Penn Central Transferors is as set forth in Table 1 of the Agreement.

5. The transfers and conveyances of rail properties by the Penn Central Transferors, in exchange for (a) the shares of Conrail Series B Preferred Stock and Conrail Common Stock set forth in Table 2 of the Agreement, (b) the Certificates of Value set forth in Table 2 of the Agreement having the principal amounts set forth in Table 1 of the Agreement, (c) the "Other Compensation" (as defined in the Agreement) set forth in Table 4 of the Agreement, and (d) the other benefits accruing to the Penn Central Transferors as a result of such exchange, are in the public interest and are fair and equitable to the Penn Central Transferors in accordance with the standard of fairness and equity applicable to the approval of a plan of reorganization or a step in such a plan under Section 77 of the Bankruptcy Act (11 U.S.C. § 205), as it was in effect at the time of the commencement of these proceedings, and with the standard of fairness and equity applicable to a railroad that is not itself in

reorganization but which is leased, operated, or controlled by a railroad in reorganization, and are not more fair and equitable than is required as a constitutional minimum.

6. Each conveyance of rail properties to a profitable railroad, in exchange for Other Compensation, is fair and equitable and is not more fair and equitable than is required as a constitutional minimum.

7. No portion of any proceeds received by a Penn Central Transferor for the sale, lease, or transfer of property reflects value attributable to the maintenance or improvement of property pursuant to an agreement under Section 213, 215(a)(1), or 215(a)(2) of the Rail Act.

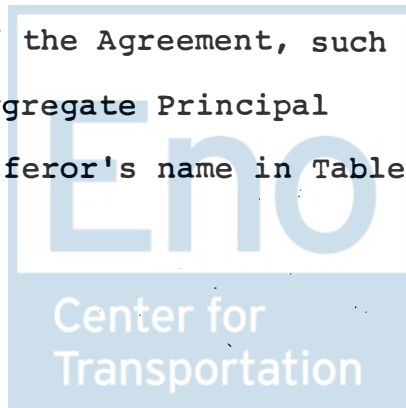
8. There is no just reason for delay in the entry of a final judgment with respect to the claims of the Penn Central Transferors against the Government Parties and of the Government Parties against the Penn Central Transferors in these proceedings.

In view of the Agreement and the findings and determinations made herein, it is hereby ORDERED AND ADJUDGED that at the Closing (as defined in the Agreement) or, in the case of a Penn Central Transferor with respect to which the effectiveness of this order is stayed at the time of the Closing, at the appropriate Subsequent Closing (as defined in the Agreement):

1. Conrail shall deliver to the Clerk of this Court and the Clerk shall deliver to each Penn Central Transferor a certificate or certificates evidencing the shares of Series B Preferred Stock and a certificate or certificates evidencing the shares of Common Stock set forth opposite such Transferor's name in Table 2 of the Agreement.

2. The Clerk shall endorse upon the consolidated Conrail Series B Preferred Stock certificate and the consolidated Conrail Common Stock certificate deposited by Conrail pursuant to Section 303(a) of the Rail Act a notation that such shares have been distributed pursuant to this Order and that the numbers of shares represented by such consolidated certificates have been accordingly reduced.

3. United States Railway Association shall deliver to the Clerk and the Clerk shall deliver to each Penn Central Transferor an instrument evidencing the number of Certificates of Value set forth opposite such Transferor's name in Table 2 of the Agreement, such Certificates of Value to have the aggregate Principal Amount set forth opposite such Transferor's name in Table 1 of the Agreement.



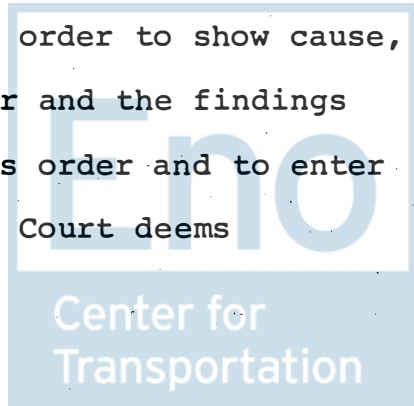
4. The Clerk shall endorse upon the consolidated instrument evidencing Certificates of Value deposited with the Court pursuant to Section 306(a) of the Rail Act a notation that Certificates of Value in the number and amount listed in Table 2 of the Agreement have been distributed pursuant to this Order and that the number of Certificates of Value evidenced by that consolidated instrument is accordingly reduced.

5. The Clerk shall distribute the Other Compensation to each Penn Central Transferor entitled thereto.

It is further ORDERED AND ADJUDGED that:

(a) This order and the findings and determinations made in it shall be [effective from and after the date of its entry] [effective from and after _____, 1981 unless further stayed by the Supreme Court of the United States].

(b) If consummation of the closing of the settlement with a Penn Central Transferor has not occurred by _____, 1981, the Court will entertain a motion, by any party to the Agreement, upon order to show cause, to set aside the terms of this order and the findings and determinations set forth in this order and to enter such other or further orders as the Court deems appropriate.



(c) Upon being advised that the closing has been consummated with a Penn Central Transferor, the Clerk shall enter a final judgment dismissing with prejudice the claims of such Transferor against the Government Parties and the claims of the Government Parties against such Transferor.



Copy of Joint Determination
of Board of Directors of USRA
and Finance Committee
Specifying Redemption Date
of Certificates of Value



but excluding

(i) any claim arising under Section 211(h) of the Rail Act,

(ii) the claim of USRA against Penn Central, under Section 215 of the Rail Act, which is pending in the Reorganization Court in Docket No. 70-347, and

(iii) any claim arising under the tax laws of the United States.



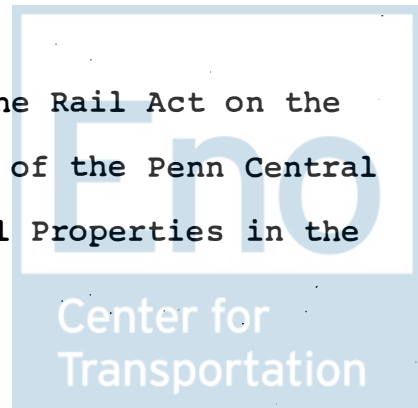
Claims of Penn Central Transferors

The claims referred to in Section 4.04(a) of the Agreement are all claims of each Penn Central Transferor, against either of the Government Parties or any Transferee, under the Constitution of the United States or the Rail Act or any other provision or rule of law, whenever arisen or arising, whether for compensation or damages or other relief, whether or not set forth in any pleading or other document filed in any court, on account of --

(a) the transfer or conveyance, by any Person, of any right, title, or interest in Rail Properties in the Penn Central System, pursuant to or in consequence of any order of the Special Court, to Conrail or any State or any Profitable Railroad or any Responsible Person;

(b) transportation operations, before or after April 1, 1976, on the Penn Central System, including but not limited to all claims on account of losses or expenses or decline in the value of Rail Properties incurred in connection with such operations, whether or not denominated claims for "erosion" or "CUE";

(c) restrictions imposed by the Rail Act on the termination of rail service on any part of the Penn Central System or on the abandonment of any Rail Properties in the Penn Central System;



(d) damage to or decline in the value of any property retained by any Person, to the extent such damage or decline is alleged to result from transfers and conveyances of Rail Properties in the Penn Central System ordered by the Special Court;

(e) any claim with respect to the constitutionality of the Rail Act or the constitutional adequacy of any procedure permitted or required by the Rail Act or of the form of consideration provided for in the Rail Act;

(f) any claim that the enforcement of any "direct claim" against any Penn Central Transferor under Section 211(h) (4) or (5) of the Rail Act was or would be an unconstitutional taking of property; and

(g) any claim for interest or delay compensation on any claim described in paragraph (a), (b), (c), (d), (e), (f), or this paragraph (g);

but excluding

(i) Any claim (other than a claim listed in paragraph (f) above) against USRA or Conrail arising under Section 211(h) of the Rail Act.

(ii) Any participation by any Penn Central Transferor, whether as stockholder, creditor, or otherwise, in claims of the nature specified in paragraph (a), (b), (c),

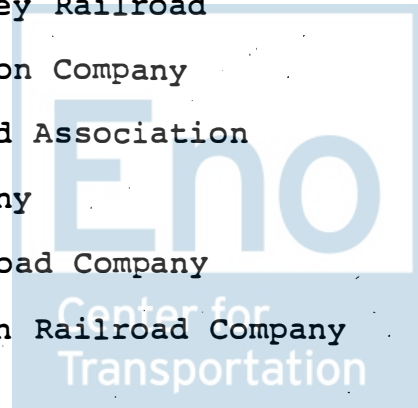
(d), (e), (f), or (g) above, against either of the Government Parties or any Transferee, which have been brought or may be brought by any of the following Persons (which include all of the Persons known by USRA to have transferred Rail Properties under the Rail Act other than the Penn Central Transferors):

1. The Allentown Terminal Railroad Company
2. The Ann Arbor Railroad Company
3. The Bay Shore Connecting Railroad Company
4. The Central Railroad Company of New Jersey
5. Central Railroad Company of Pennsylvania
6. Communipaw Central Land Company
7. Consolidated Real Estate Company
8. The Delaware & Bound Brook Railroad Company
9. The Dover & Rockaway Railroad Company
10. East Pennsylvania Railroad Company
11. Eastern Real Estate Company
12. Erie & Kalamazoo Railroad Co.
13. Erie Land & Improvement Company
14. Erie Land & Improvement Company of Pennsylvania
15. Erie Lackawanna Railway Company
16. The Hoboken Ferry Company
17. Holyoke & Westfield Railroad Company
18. The Hudson Realty Company

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19. The Ironton Railroad Company
20. The Kalamazoo, Allegan & Grand Rapids Railroad Company
21. Lackawanna & Wyoming Valley Railway Company
22. Lawroy Land Company
23. The Lehigh & Hudson River Railway Company
24. Lehigh & New England Railroad Company
25. Lehigh Valley Railroad Company
26. The Mount Hope Mineral Railroad Company
27. The New York & Long Branch Railroad Company
28. Niagara Junction Railway Company
29. North Brookfield Railroad Company
30. The North Pennsylvania Railroad Company
31. Norwich & Worcester Railroad Company
32. The Philadelphia, Germantown & Norristown Railroad Company
33. The Plymouth Railroad Company
34. The Port Reading Railroad Company
35. Reading Company
36. Rochester & Genesee Valley Railroad
37. Trenton-Princeton Traction Company
38. Troy & Greenbush Railroad Association
39. United Real Estate Company
40. Wharton & Northern Railroad Company
41. The Wilmington & Northern Railroad Company



(iii) Any claim for compensation or damages by any Penn Central Transferor in the event that the Special Court shall order the conveyance or transfer to Conrail or any other Person of any property not so conveyed or transferred prior to the date of this Agreement including but not limited to:

(a) the ownership interest of Penn Central in Rail Properties between the New York-Connecticut Line and New Haven, Connecticut, which were leased to Connecticut Transportation Authority and which National Railroad Passenger Corporation has alleged, in a case pending in the Special Court, Docket No. 77-26, should have been transferred to it pursuant to the Rail Act; and

(b) the ownership interest of Pennel Company in certain Rail Properties located in Lake County, Indiana comprised principally of a rail line extending approximately six miles between Clark and Pine Junction, Indiana and the Indiana-Illinois state line, and which are the subject of a case pending in the Special Court, Docket No. 77-31.

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(iv) Any claim by any Penn Central Transferor against either of the Government Parties or Conrail for additional compensation or damages on account of the transfer to Conrail by Penn Central and Michigan Central Railroad Company ("Michigan Central") of stock of the Canada Southern Railway Company ("Canada Southern"), or on account of the assignment to Conrail by Penn Central and Michigan Central of their leasehold interests in the property of Canada Southern, to the extent such claim arises on account of the recovery of money by Canada Southern on its claims (filed against Penn Central and Michigan Central in the Reorganization Court, and in the Supreme Court of Ontario, or in any other proceeding in any other forum including arbitration panels seeking amounts allegedly owned to Canada Southern by Penn Central and Michigan Central because of the alleged termination of their leasehold interests in Canada Southern upon the transfer of those interests to Conrail as of April 1, 1976.



Claims of Government Parties

The claims referred to in Section 4.04(b) of the Agreement are the following claims of each Government Party against each Penn Central Transferor and each other Person whose claims are released pursuant to Section 4.04(a) of the Agreement:

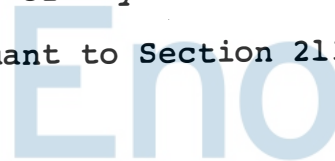
(a) any claim that the terms of transfer or conveyance of Rail Properties by such Transferor or Person under Section 303 of the Rail Act were more fair and equitable than required as a constitutional minimum;

(b) any claim for recovery of VOB in excess of the amount set forth in Table 1;

(c) any claim for the recovery of any amount pursuant to Section 215(b)(2) of the Rail Act; and

(d) any claim for adjustment to the value of transferred or conveyed Rail Properties in the Penn Central System on account of value attributable to maintenance or improvement provided pursuant to an agreement under Section 213 or Section 215 of the Rail Act; and

(e) any claim (other than the claim described in paragraph (ii) below) for the recovery of any amount paid to any Penn Central Transferor pursuant to Section 213 or 215 of the Rail Act;

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