

CSX CORP  
Form 10-Q  
October 12, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 23, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission

File

Number

1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(State or other jurisdiction of incorporation or  
organization)

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

500 Water Street, 15th Floor, Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip  
Code)

(Telephone number, including area  
code)

No  
Change

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  Smaller Reporting Company

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Edgar Filing: CSX CORP - Form 10-Q

Yes ( ) No (X)

There were 936,661,112 shares of common stock outstanding on September 23, 2016 (the latest practicable date that is closest to the filing date).

CSX Q3 2016 Form 10-Q p.1

---

Table of Contents

CSX CORPORATION  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 23, 2016  
INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Income Statements (Unaudited) -</u> Quarters Ended September 23, 2016 and September 25, 2015	<u>3</u>
<u>Consolidated Comprehensive Income Statements (Unaudited) -</u> Quarters Ended September 23, 2016 and September 25, 2015	<u>3</u>
<u>Consolidated Balance Sheets -</u> At September 23, 2016 (Unaudited) and December 25, 2015	<u>4</u>
<u>Consolidated Cash Flow Statements (Unaudited) -</u> Nine Months Ended September 23, 2016 and September 25, 2015	<u>5</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>36</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>36</u>
Item 1A. <u>Risk Factors</u>	<u>36</u>
Item 2. <u>CSX Purchases of Equity Securities</u>	<u>37</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>37</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>37</u>
Item 5. <u>Other Information</u>	<u>37</u>
Item 6. <u>Exhibits</u>	<u>38</u>
<u>Signature</u>	<u>39</u>



Table of Contents

## CSX CORPORATION

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Third Quarters		Nine Months	
	2016	2015	2016	2015
Revenue	\$2,710	\$2,939	\$8,032	\$9,030
Expense				
Labor and Fringe	762	787	2,307	2,491
Materials, Supplies and Other	507	580	1,576	1,766
Fuel	174	223	496	756
Depreciation	321	302	953	896
Equipment and Other Rents	105	114	315	328
Total Expense	1,869	2,006	5,647	6,237
Operating Income	841	933	2,385	2,793
Interest Expense	(139)	(136)	(423)	(404)
Other Income - Net	13	2	28	8
Earnings Before Income Taxes	715	799	1,990	2,397
Income Tax Expense	(260)	(292)	(734)	(895)
Net Earnings	\$455	\$507	\$1,256	\$1,502
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$0.48	\$0.52	\$1.32	\$1.52
Net Earnings Per Share, Assuming Dilution	\$0.48	\$0.52	\$1.32	\$1.52
Average Shares Outstanding (In millions)	942	981	952	986
Average Shares Outstanding, Assuming Dilution (In millions)	943	982	953	987
Cash Dividends Paid Per Common Share	\$0.18	\$0.18	\$0.54	\$0.52

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Third Quarters		Nine Months	
	2016	2015	2016	2015
Total Comprehensive Earnings (Note 10)	\$465	\$518	\$1,282	\$1,523

See accompanying notes to consolidated financial statements.

CSX Q3 2016 Form 10-Q p.3

---

Table of Contents

## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	(Unaudited)	
	September 23, December 25,	
	2016	2015
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 603	\$ 628
Short-term Investments	152	810
Accounts Receivable - Net (Note 1)	925	982
Materials and Supplies	397	350
Other Current Assets	86	70
Total Current Assets	2,163	2,840
Properties	42,720	41,574
Accumulated Depreciation	(11,938	) (11,400
Properties - Net	30,782	30,174
Investment in Conrail	830	803
Affiliates and Other Companies	603	591
Other Long-term Assets	303	337
Total Assets	\$ 34,681	\$ 34,745
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$ 859	\$ 764
Labor and Fringe Benefits Payable	450	490
Casualty, Environmental and Other Reserves (Note 4)	124	131
Current Maturities of Long-term Debt (Note 7)	631	20
Income and Other Taxes Payable	90	108
Other Current Liabilities	109	439
Total Current Liabilities	2,263	1,952
Casualty, Environmental and Other Reserves (Note 4)	250	269
Long-term Debt (Note 7)	9,888	10,515
Deferred Income Taxes - Net	9,505	9,179
Other Long-term Liabilities	1,105	1,162
Total Liabilities	23,011	23,077
Shareholders' Equity:		
Common Stock, \$1 Par Value	937	966
Other Capital	125	113
Retained Earnings	11,233	11,238
Accumulated Other Comprehensive Loss (Note 10)	(639	) (665
Noncontrolling Interest	14	16
Total Shareholders' Equity	11,670	11,668
Total Liabilities and Shareholders' Equity	\$ 34,681	\$ 34,745

Certain prior year data has been reclassified to conform to the current presentation.  
See accompanying notes to consolidated financial statements.

CSX Q3 2016 Form 10-Q p.4

---



Table of Contents

## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

	Nine Months	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net Earnings	\$1,256	\$1,502
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	953	896
Deferred Income Taxes	312	82
Gain on Property Dispositions	(4	)(20 )
Other Operating Activities	(47	)47
Changes in Operating Assets and Liabilities:		
Accounts Receivable	68	126
Other Current Assets	(58	)(61 )
Accounts Payable	94	3
Income and Other Taxes Payable	(25	)110
Other Current Liabilities	(61	)(173 )
Net Cash Provided by Operating Activities	2,488	2,512
<b>INVESTING ACTIVITIES</b>		
Property Additions	(1,590	)(1,909 )
Purchase of Short-term Investments	(410	)(1,170 )
Proceeds from Sales of Short-term Investments	1,070	1,040
Proceeds from Property Dispositions	11	46
Other Investing Activities	26	42
Net Cash Used in Investing Activities	(893	)(1,951 )
<b>FINANCING ACTIVITIES</b>		
Long-term Debt Issued (Note 7)	—	600
Long-term Debt Repaid (Note 7)	(19	)(228 )
Dividends Paid	(513	)(512 )
Shares Repurchased	(778	)(546 )
Other Financing Activities	(310	)(3 )
Net Cash Used in Financing Activities	(1,620	)(689 )
Net Decrease in Cash and Cash Equivalents	(25	)(128 )
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and Cash Equivalents at Beginning of Period	628	669
Cash and Cash Equivalents at End of Period	\$603	\$541

See accompanying notes to consolidated financial statements.

CSX Q3 2016 Form 10-Q p.5

---

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

CSX Corporation (“CSX”), together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

CSX's principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Company's intermodal business links customers to railroads via trucks and terminals.

Other entities

In addition to CSXT, the Company's subsidiaries include CSX Intermodal Terminals, Inc. (“CSX Intermodal Terminals”), Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. CSX Intermodal Terminals owns and operates a system of intermodal terminals, predominantly in the eastern United States and also performs drayage services (the pickup and delivery of intermodal shipments) for certain customers and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations. Transflo connects non-rail served customers to the many benefits of rail by transferring products from rail to trucks. The biggest Transflo markets are chemicals and agriculture, which include shipments of plastics and ethanol. CSX Technology and other subsidiaries provide support services for the Company.

CSX's other holdings include CSX Real Property, Inc., a subsidiary responsible for the Company's operating and non-operating real estate sales, leasing, acquisition and management and development activities. These activities are classified in either operating income or other income - net depending upon the nature of the activity. Results of these activities fluctuate with the timing of real estate transactions.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the following:

- Consolidated income statements for the nine months ended September 23, 2016 and September 25, 2015;
- Consolidated comprehensive income statements for the nine months ended September 23, 2016 and September 25, 2015;
- Consolidated balance sheets at September 23, 2016 and December 25, 2015; and
- Consolidated cash flow statements for the nine months ended September 23, 2016 and September 25, 2015.

Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent annual report on Form 10-K and any subsequently filed current reports on Form 8-K.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies, continued

Fiscal Year

CSX follows a 52/53 week fiscal reporting calendar with the last day of each reporting period ending on a Friday: The third fiscal quarters of 2016 and 2015 consisted of 13 weeks ending on September 23, 2016 and September 25, 2015, respectively.

Fiscal year 2016 will consist of 53 weeks ending on December 30, 2016.

Fiscal year 2015 consisted of 52 weeks ending on December 25, 2015.

Except as otherwise specified, references to "third quarter(s)" or "nine months" indicate CSX's fiscal periods ending September 23, 2016 and September 25, 2015, and references to "year-end" indicate the fiscal year ended December 25, 2015.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the creditworthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$29 million and \$37 million is included in the consolidated balance sheets as of the end of third quarter 2016 and December 25, 2015, respectively.

New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), Improvements to Employee Share-based Payment Accounting, which requires excess tax benefits and deficiencies to be recorded as income tax expense or benefit in the income statement rather than being recorded in additional paid-in capital. The Company adopted the provisions of this rule during the second quarter of 2016 which did not have a material effect on the Company's financial condition, results of operations or liquidity.

In November 2015, the FASB issued ASU, Balance Sheet Classification of Deferred Taxes, which requires that all deferred income taxes be classified as noncurrent in the balance sheet, rather than being separated into current and noncurrent amounts. The Company adopted the provisions of this rule during second quarter 2016 and applied them retrospectively. Current deferred income tax assets of \$126 million as of December 25, 2015 have been reclassified and reported as a reduction of deferred income tax liabilities on the balance sheet. Adoption did not have a material effect on the Company's financial condition, results of operations or liquidity.

In February 2016, the FASB issued ASU, Leases, which will require lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, and lessors to recognize a net lease investment. Additional qualitative and quantitative disclosures will also be required. This standard is effective for fiscal years beginning after December 15, 2018. While the Company is still assessing the impact of this standard, CSX does not believe this standard will have a material effect on the Company's financial condition, results of operations or liquidity.

CSX Q3 2016 Form 10-Q p.7

---

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share

The following table sets forth the computation of basic earnings per share and earnings per share, assuming dilution:

	Third Quarters		Nine Months	
	2016	2015	2016	2015
Numerator (Dollars in millions):				
Net Earnings	\$455	\$507	\$1,256	\$1,502
Dividend Equivalents on Restricted Stock	—	—	(1 )	(1 )
Net Earnings, Attributable to Common Shareholders	\$455	507	\$1,255	1,501
Denominator (Units in millions):				
Average Common Shares Outstanding	942	981	952	986
Other Potentially Dilutive Common Shares	1	1	1	1
Average Common Shares Outstanding, Assuming Dilution	943	982	953	987
Net Earnings Per Share, Basic	\$0.48	\$0.52	\$1.32	\$1.52
Net Earnings Per Share, Assuming Dilution	\$0.48	\$0.52	\$1.32	\$1.52

Basic earnings per share is based on the weighted-average number of shares of common stock outstanding. Earnings per share, assuming dilution, is based on the weighted-average number of shares of common stock equivalents outstanding adjusted for the effects of common stock that may be issued as a result of potentially dilutive instruments. CSX's potentially dilutive instruments are made up of equity awards, which include long-term incentive awards, and employee stock options.

The Earnings Per Share Topic in the FASB's Accounting Standards Codification ("ASC") requires CSX to include additional shares in the computation of earnings per share, assuming dilution. The additional shares included in diluted earnings per share represent the number of shares that would be issued if all of the above potentially dilutive instruments were converted into CSX common stock.

When calculating diluted earnings per share, this rule requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This number is different from outstanding stock options, which is included in Note 3, Share-Based Compensation, because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately 2.4 million and 3.8 million of total average outstanding stock options for the third quarter and nine months ended 2016, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive. There were no stock options outstanding for third quarter 2015.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2. Earnings Per Share, continued

Share Repurchases

In April 2015, the Company announced a new \$2 billion share repurchase program, which is expected to be completed by April 2017. During the third quarters of 2016 and 2015, the Company repurchased approximately \$263 million, or ten million shares, and \$262 million, or nine million shares, respectively. During the nine months of 2016 and 2015, the Company repurchased \$778 million, or 30 million shares, and \$546 million, or 17 million shares, respectively. Shares are retired immediately upon repurchase. Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

NOTE 3. Share-Based Compensation

Under CSX's share-based compensation plans, awards consist of performance units, restricted stock awards, restricted stock units and stock options for management and stock grants for directors. Awards granted under the various programs are determined and approved by the Compensation Committee of the Board of Directors or, in certain circumstances, by the Chief Executive Officer for awards to management employees other than senior executives. The Board of Directors approves awards granted to the Company's non-management directors upon recommendation of the Governance Committee.

In February 2016, the Company granted performance units, restricted stock units and stock options as part of the Company's long-term share-based compensation plans.

Long-term Incentive Plan

Approximately 839 thousand performance units were granted to certain employees under a new long-term incentive plan ("2016-2018 LTIP"). The 2016-2018 LTIP was adopted under the CSX Stock and Incentive Award Plan. Payouts of performance units for the cycle ending with fiscal year 2018 will be based on the achievement of goals related to both operating ratio and return on assets in each case excluding non-recurring items as disclosed in the Company's financial statements. The cumulative operating ratio and average return on assets over the plan period will each comprise 50% of the payout and will be measured independently of the other.

Grants were made in performance units, with each unit representing the right to receive one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals. Payouts for certain executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups.

Restricted Stock Units

The Company granted approximately 419 thousand restricted stock units. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon attainment of performance goals.



CSX Q3 2016 Form 10-Q p.9

---

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 3. Share-Based Compensation, continued

## Stock Options

The Company granted approximately 2.4 million stock options. The fair value of stock options on the date of grant was \$4.68 per share which was estimated using the Black-Scholes valuation model. Stock options have been granted with ten-year terms and vest three years after the date of grant. The exercise price for stock options granted equals the closing market price of the underlying stock on the date of grant. These awards are time-based and are not based upon attainment of performance goals.

The terms of performance units, restricted stock units and stock options all require participants to be employed through the final day of the respective performance or vesting period as applicable, except in the case of death, disability or retirement. For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent annual report on Form 10-K.

Total pre-tax expense associated with all share-based compensation and the related income tax benefit are as follows:

	Third Quarters 2016	Nine Months 2015
(Dollars in millions)		
Share-Based Compensation Expense	\$ 9 \$ 2	\$24 \$ 20
Income Tax Benefit	3 1	9 8

## NOTE 4. Casualty, Environmental and Other Reserves

Casualty, environmental and other reserves are considered critical accounting estimates due to the need for significant management judgment. They are provided for in the consolidated balance sheets as shown in the table below:

	September 23, 2016		December 25, 2015			
(Dollars in millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$57	\$ 135	\$192	\$57	\$ 147	\$204
Asbestos	4	42	46	9	44	53
Occupational	4	5	9	3	9	12
Total Casualty	65	182	247	69	200	269
Environmental	41	38	79	42	40	82
Other	18	30	48	20	29	49
Total	\$124	\$ 250	\$374	\$131	\$ 269	\$400

These liabilities are accrued when estimable and probable in accordance with the Contingencies Topic in the ASC. Actual settlements and claims received could differ, and final outcomes of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, they could have a material effect on the Company's financial condition, results of operations or liquidity in that particular period.

CSX Q3 2016 Form 10-Q p.10

---

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves of \$247 million and \$269 million as of September 23, 2016 and December 25, 2015, respectively, represent accruals for personal injury, asbestos and occupational injury claims. The Company's self-insured retention amount for these claims is \$50 million per occurrence. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in estimate. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

Personal Injury

Personal injury reserves represent liabilities for employee work-related and third-party injuries. Work-related injuries for CSXT employees are primarily subject to the Federal Employers' Liability Act ("FELA"). In addition to FELA liabilities, employees of other current or former CSX subsidiaries are covered by various state workers' compensation laws, the Federal Longshore and Harbor Workers' Compensation Program or the Maritime Jones Act.

CSXT retains an independent actuary to assist management in assessing the value of personal injury claims. An analysis is performed by the actuary quarterly and is reviewed by management. This analysis for the quarter resulted in an immaterial adjustment to the personal injury reserve. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims. It is based largely on CSXT's historical claims and settlement experience.

Asbestos & Occupational

The Company is party to a number of asbestos claims by employees alleging exposure to asbestos in the workplace. Management reviews asserted asbestos claims quarterly. Unasserted or incurred but not reported ("IBNR") asbestos claims are analyzed by a third-party specialist and reviewed by management annually.

CSXT's historical claim filings, settlement amounts, and dismissal rates are analyzed to determine future anticipated claim filing rates and average settlement values for asbestos claims reserves. The potentially exposed population is estimated by using CSXT's employment records and industry data. From this analysis, the specialist estimates the IBNR claims liabilities.

Occupational claims arise from allegations of exposure to certain materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as "irritants") and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries, carpal tunnel syndrome and hearing loss.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Environmental

Environmental reserves were \$79 million and \$82 million as of September 23, 2016 and December 25, 2015, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 225 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

In any such proceedings, the Company is subject to environmental clean-up and enforcement actions under the Superfund Law, as well as similar state laws that may impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. These costs could be substantial.

In accordance with the Asset Retirement and Environmental Obligations Topic in the ASC, the Company reviews its role with respect to each site identified at least quarterly, giving consideration to a number of factors such as:

- type of clean-up required;
- nature of the Company's alleged connection to the location (e.g., generator of waste sent to the site or owner or operator of the site);
- extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- number, connection and financial viability of other named and unnamed potentially responsible parties at the location.

Based on the review process, the Company has recorded amounts to cover contingent anticipated future environmental remediation costs with respect to each site to the extent such costs are estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. Payments related to these liabilities are expected to be made over the next several years. Environmental remediation costs are included in materials, supplies and other on the consolidated income statement.

Currently, the Company does not possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, conditions that are currently unknown could, at any given location, result in additional exposure, the amount and materiality of which cannot presently be reasonably estimated. Based upon information currently available, however, the Company believes its environmental reserves accurately reflect the estimated cost of remedial actions currently required.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Other

Other reserves of \$48 million and \$49 million as of September 23, 2016 and December 25, 2015, include liabilities for various claims, such as property, automobile and general liability. Also included in other reserves are longshoremen disability claims related to a previously owned international shipping business (these claims are in runoff) as well as claims for current port employees.

NOTE 5. Commitments and Contingencies

Insurance

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the property and liability programs. The Company has a \$25 million retention per occurrence for the non-catastrophic property program (such as a derailment) and a \$50 million retention per occurrence for the liability and catastrophic property programs (such as hurricanes and floods). While the Company believes its insurance coverage is adequate, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

Legal

The Company is involved in litigation incidental to its business and is a party to a number of legal actions and claims, various governmental proceedings and private civil lawsuits, including, but not limited to, those related to fuel surcharge practices, tax matters, environmental and hazardous material exposure matters, FELA and labor claims by current or former employees, other personal injury or property claims and disputes and complaints involving certain transportation rates and charges. Some of the legal proceedings include claims for compensatory as well as punitive damages and others are, or are purported to be, class actions. While the final outcome of these matters cannot be reasonably determined, considering, among other things, the legal defenses available and liabilities that have been recorded along with applicable insurance, it is currently the opinion of management that none of these pending items is likely to have a material adverse effect on the Company's financial condition, results of operations or liquidity. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be \$6 million to \$115 million in aggregate at September 23, 2016. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Fuel Surcharge Antitrust Litigation

In May 2007, class action lawsuits were filed against CSXT and three other U.S.-based Class I railroads alleging that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. In November 2007, the class action lawsuits were consolidated in federal court in the District of Columbia, where they are now pending. The suit seeks treble damages allegedly sustained by purported class members as well as attorneys' fees and other relief. Plaintiffs are expected to allege damages at least equal to the fuel surcharges at issue.

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, but rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. The District Court remand proceedings are underway and the class certification hearing was held in September 2016. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification remand proceedings. The court has given no indication of timing on its ruling regarding class certification.

CSXT believes that its fuel surcharge practices were arrived at and applied lawfully and that the case is without merit. Accordingly, the Company intends to defend itself vigorously. However, penalties for violating antitrust laws can be severe, and resolution of this matter or an unexpected adverse decision on the merits could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.

Environmental

CSXT is indemnifying Pharmacia LLC (formerly known as Monsanto Company) for certain liabilities associated with real estate located in Kearny, New Jersey along the Lower Passaic River (the "Property"). The Property, which was formerly owned by Pharmacia, is now owned by CSXT. CSXT's indemnification and defense duties arise with respect to several matters. The U.S. Environmental Protection Agency ("EPA"), using its CERCLA authority, seeks cleanup and removal costs and other damages associated with the presence of hazardous substances in the 17-mile Lower Passaic River Study Area (the "Study Area"). CSXT, on behalf of Pharmacia, and a significant number of other potentially responsible parties are together conducting a Remedial Investigation and Feasibility Study of the Study Area pursuant to an Administrative Settlement Agreement and Order on Consent with the EPA.

In March 2016, EPA issued its Record of Decision detailing the agency's mandated remedial process for the lower 8 miles of the Study Area, which was based on a Focused Feasibility Study. EPA has estimated that it will take the potentially responsible parties approximately ten years to complete the work. At a later date, EPA will select a remedy for the remainder of the Study Area and is expected to again seek the participation of private parties to implement the selected remedy using EPA's CERCLA authority to compel such participation, if necessary.

CSXT is also defending and indemnifying Pharmacia in a cooperative natural resource damages assessment process related to the Property. Based on currently available information, the Company does not believe any indemnification or remediation costs potentially allocable to CSXT with respect to the Property and the Study Area would be material to the Company's financial condition, results of operations or liquidity.



CSX Q3 2016 Form 10-Q p.14

---

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to January 1, 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation.

In addition to these plans, the Company sponsors a post-retirement medical plan and a life insurance plan that provide certain benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Eligible retirees who are age 65 years or older (Medicare-eligible) are covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Eligible retirees younger than 65 years (non-Medicare eligible) are covered by a self-insured program partially funded by participating retirees. The life insurance plan is non-contributory.

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company determines are appropriate based on historical trends, current market rates and future projections. These amounts are reviewed by management. The following table describes the components of expense / (income) related to net benefit expense recorded in labor and fringe on the income statement.

(Dollars in millions)	Pension Benefits			
	Third		Nine	
	Quarters		Months	
	2016	2015	2016	2015
Service Cost	\$12	\$12	\$36	\$34
Interest Cost	29	29	89	87
Expected Return on Plan Assets	(39)	(41)	(118)	(122)
Amortization of Net Loss	12	17	36	52
Net Periodic Benefit Cost	14	17	43	51
Special Termination Benefits – Workforce Reduction Program <sup>(a)</sup>	—	—	—	7
Total Expense	\$14	\$17	\$43	\$58

(Dollars in millions)	Other Post-retirement Benefits			
	Third		Nine	
	Quarters		Months	
	2016	2015	2016	2015
Service Cost	\$—	\$2	\$1	\$3
Interest Cost	3	3	9	10
Amortization of Net Loss	1	1	2	3
Amortization of Prior Service Costs	—	(1)	—	(1)
Total Expense	\$4	\$5	\$12	\$15

(a) Special termination benefits were charges in 2015 that resulted from a management workforce reduction program initiated in 2014.



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 6. Employee Benefit Plans, continued

Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting or exceeding minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. Although no contributions to the Company's qualified pension plans were required, CSX made a \$30 million voluntary contribution during September 2016. The Company may make an additional voluntary contribution in 2016.

## NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of third quarter 2016 is shown in the table below. For fair value information related to the Company's long-term debt, see Note 9, Fair Value Measurements.

(Dollars in millions)	Current Portion	Long-term Portion	Total
Long-term debt as of December 2015 <sup>(a)</sup>	\$ 20	\$ 10,515	\$ 10,535
2016 activity:			
Long-term debt repaid	(19 )	—	(19 )
Reclassifications	631	(631 )	—
Discount, premium and other activity	(1 )	(2 )	(3 )
Debt issue cost activity	—	6	6
Long-term debt as of September 2016	\$ 631	\$ 9,888	\$ 10,519

(a) Long-term debt as of December 2015 includes debt issue costs of \$168 million that were reclassified from long-term assets to long-term debt on the consolidated balance sheet as a result of ASU, Interest - Imputation of Interest, which became effective for CSX during first quarter 2016.

## Credit Facility

CSX has a \$1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This facility expires in May 2020, and as of the date of this filing, the Company has no outstanding balances under this facility. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. As of third quarter 2016, CSX was in compliance with all covenant requirements under this facility.

## Receivables Securitization Facility

Subsequent to the third quarter, on September 28, 2016, the Company renewed and modified its existing receivables securitization facility. The facility was to expire in June 2017 and is now extended with a similar three-year term scheduled to expire in September 2019. It was also modified to provide liquidity of up to \$200 million, changed from \$250 million, along with modifications to other terms. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility.

## NOTE 8. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 25, 2015.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 9. Fair Value Measurements

The Financial Instruments Topic in the ASC requires disclosures about fair value of financial instruments in annual reports as well as in quarterly reports. For CSX, this statement applies to certain investments and long-term debt. Disclosure of the fair value of pension plan assets is only required annually. Also, this rule clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

Various inputs are considered when determining the value of the Company's investments, pension plan assets and long-term debt. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. These inputs are summarized in the three broad levels listed below.

- Level 1 - observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.); and
- Level 3 - significant unobservable inputs (including the Company's own assumptions about the assumptions market participants would use in determining the fair value of investments).

The valuation methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments

The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds, government securities and auction rate securities and are carried at fair value on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. There are several valuation methodologies used for those assets as described below.

- Certificates of Deposit and Commercial Paper (Level 2): Valued at amortized cost, which approximates fair value;
- Corporate Bonds and Government Securities (Level 2): Valued using broker quotes that utilize observable market inputs; and
- Auction Rate Securities (Level 3): Valued using pricing models for which the assumptions utilize management's estimates of market participant assumptions, because there is currently no active market for trading.

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. Additionally, the amortized cost basis of these investments was \$223 million and \$920 million as of September 23, 2016 and December 25, 2015, respectively.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

(Dollars in Millions)	September 23, 2016			December 25, 2015				
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	\$150	\$—	\$—	\$150	\$810	\$—	\$—	\$810
Corporate Bonds	—	62	—	62	73	—	—	73
Government Securities	—	14	—	14	32	—	—	32
Auction Rate Securities	—	—	—	—	—	4	—	4
Total investments at fair value	\$226	\$—	\$—	\$226	\$915	\$4	\$—	\$919

These investments have the following maturities:

(Dollars in millions)	September 23, 2016	December 25, 2015
Less than 1 year	\$ 152	\$ 810
1 - 2 years	7	9
2 - 5 years	2	27
Greater than 5 years	65	73
Total	\$ 226	\$ 919

## Long-term Debt

Long-term debt is reported at carrying amount on the consolidated balance sheets and is the Company's only financial instrument with fair values significantly different from their carrying amounts. The majority of the Company's long-term debt is valued with assistance from an independent third party adviser that utilizes closing transactions, market quotes or market values of comparable debt. For those instruments not valued by the independent adviser, the fair value has been estimated by applying market rates of similar instruments to the scheduled contractual debt payments and maturities. These market rates are provided by the same independent adviser. All of the inputs used to determine the fair value of the Company's long-term debt are Level 2 inputs.

The fair value of outstanding debt fluctuates with changes in a number of factors. Such factors include, but are not limited to, interest rates, market conditions, credit ratings, values of similar financial instruments, size of the transaction, cash flow projections and comparable trades. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value of a company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules.

The fair value and carrying value of the Company's long-term debt is as follows:

(Dollars in millions)	September 23, 2016	December 25, 2015
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 12,235	\$ 11,340
Carrying Value	10,519	10,535





Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Other Comprehensive Income (Loss)

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the ASC in the Consolidated Comprehensive Income Statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equal net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$465 million and \$518 million for third quarters, and \$1,282 million and \$1,523 million for nine months 2016 and 2015, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement benefit adjustments and CSX's share of AOCI of equity method investees.

Changes in the AOCI balance by component are shown in the table below. Amounts reclassified in pension and other post-employment benefits to net earnings relate to the amortization of actuarial losses and are included in labor and fringe on the consolidated income statements. See Note 6. Employee Benefit Plans for further information. Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified in other to net earnings are included in materials, supplies and other on the consolidated income statements.

	Pension and Other Post-Employment Benefits	Other	Accumulated Other Comprehensive Income (Loss)
(Dollars in millions)			
Balance December 25, 2015, Net of Tax	\$ (601 )	\$(64)	\$ (665 )
Other Comprehensive Income (Loss)			
Amounts Reclassified to Net Earnings	38	4	42
Tax Expense	(14 )	(2 )	(16 )
Total Other Comprehensive Income (Loss)	24	2	26
Balance September 23, 2016, Net of Tax	\$ (577 )	\$(62)	\$ (639 )

## NOTE 11. Summarized Consolidating Financial Data

In 2007, CSXT, a wholly-owned subsidiary of CSX Corporation, sold secured equipment notes maturing in 2023 in a registered public offering. CSX has fully and unconditionally guaranteed the notes. In connection with the notes, the Company is providing the following condensed consolidating financial information in accordance with SEC disclosure requirements. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation and the allocation of certain expenses of CSX incurred for the benefit of its subsidiaries. Condensed consolidating financial information for the obligor, CSXT, and parent guarantor, CSX, is shown in the tables below.



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

Third Quarter 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
Revenue	\$ —	\$ 2,691	\$ 19	\$ 2,710	
Expense	(63	) 1,960	(28	) 1,869	
Operating Income	63	731	47	841	
Equity in Earnings of Subsidiaries	505	1	(506	) —	
Interest (Expense) / Benefit	(141	) (7	) 9	(139	)
Other Income / (Expense) - Net	—	9	4	13	
Earnings Before Income Taxes	427	734	(446	) 715	
Income Tax Benefit / (Expense)	28	(268	) (20	) (260	)
Net Earnings	\$ 455	\$ 466	\$ (466	) \$ 455	
Total Comprehensive Earnings	\$ 465	\$ 467	\$ (467	) \$ 465	
Third Quarter 2015	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
Revenue	\$ —	\$ 2,920	\$ 19	\$ 2,939	
Expense	(154	) 2,182	(22	) 2,006	
Operating Income	154	738	41	933	
Equity in Earnings of Subsidiaries	496	—	(496	) —	
Interest (Expense) / Benefit	(134	) (8	) 6	(136	)
Other Income / (Expense) - Net	(1	) 5	(2	) 2	
Earnings Before Income Taxes	515	735	(451	) 799	
Income Tax (Expense) / Benefit	(8	) (273	) (11	) (292	)
Net Earnings	\$ 507	\$ 462	\$ (462	) \$ 507	
Total Comprehensive Earnings	\$ 518	\$ 462	\$ (462	) \$ 518	

CSX Q3 2016 Form 10-Q p.20

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

Nine Months 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
Revenue	\$ —	\$ 7,974	\$ 58	\$ 8,032	
Expense	(202	) 5,985	(136	) 5,647	
Operating Income	202	1,989	194	2,385	
Equity in Earnings of Subsidiaries	1,399	1	(1,400	) —	
Interest (Expense) / Benefit	(425	) (27	) 29	(423	)
Other Income / (Expense) - Net	1	24	3	28	
Earnings Before Income Taxes	1,177	1,987	(1,174	) 1,990	
Income Tax (Expense) / Benefit	79	(735	) (78	) (734	)
Net Earnings	\$ 1,256	\$ 1,252	\$ (1,252	) \$ 1,256	
Total Comprehensive Earnings	\$ 1,282	\$ 1,253	\$ (1,253	) \$ 1,282	
Nine Months 2015	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
Revenue	\$ —	\$ 8,972	\$ 58	\$ 9,030	
Expense	(448	) 6,765	(80	) 6,237	
Operating Income	448	2,207	138	2,793	
Equity in Earnings of Subsidiaries	1,482	—	(1,482	) —	
Interest (Expense) / Benefit	(399	) (24	) 19	(404	)
Other Income / (Expense) - Net	(4	) 18	(6	) 8	
Earnings Before Income Taxes	1,527	2,201	(1,331	) 2,397	
Income Tax (Expense) / Benefit	(25	) (824	) (46	) (895	)
Net Earnings	\$ 1,502	\$ 1,377	\$ (1,377	) \$ 1,502	
Total Comprehensive Earnings	\$ 1,523	\$ 1,374	\$ (1,374	) \$ 1,523	

CSX Q3 2016 Form 10-Q p.21

---

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

September 23, 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 448	\$ 130	\$ 25	\$ 603
Short-term Investments	150	—	2	152
Accounts Receivable - Net	(3	) 197	731	925
Receivable from Affiliates	1,158	2,504	(3,662	) —
Materials and Supplies	—	397	—	397
Other Current Assets	11	56	19	86
Total Current Assets	1,764	3,284	(2,885	) 2,163
Properties	1	40,052	2,667	42,720
Accumulated Depreciation	(1	) (10,508	) (1,429	) (11,938 )
Properties - Net	—	29,544	1,238	30,782
Investments in Conrail	—	—	830	830
Affiliates and Other Companies	(39	) 628	14	603
Investments in Consolidated Subsidiaries	23,678	—	(23,678	) —
Other Long-term Assets	3	403	(103	) 303
Total Assets	\$ 25,406	\$ 33,859	\$ (24,584	) \$ 34,681
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities				
Accounts Payable	\$ 150	\$ 679	\$ 30	\$ 859
Labor and Fringe Benefits Payable	36	371	43	450
Payable to Affiliates	3,601	445	(4,046	) —
Casualty, Environmental and Other Reserves	—	109	15	124
Current Maturities of Long-term Debt	613	19	(1	) 631
Income and Other Taxes Payable	(334	) 394	30	90
Other Current Liabilities	—	107	2	109
Total Current Liabilities	4,066	2,124	(3,927	) 2,263
Casualty, Environmental and Other Reserves	—	202	48	250
Long-term Debt	9,127	761	—	9,888
Deferred Income Taxes - Net	(206	) 9,470	241	9,505
Other Long-term Liabilities	763	468	(126	) 1,105
Total Liabilities	\$ 13,750	\$ 13,025	\$ (3,764	) \$ 23,011
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 937	\$ 181	\$ (181	) \$ 937
Other Capital	125	5,094	(5,094	) 125

Edgar Filing: CSX CORP - Form 10-Q

Retained Earnings	11,233	15,575	(15,575	) 11,233
Accumulated Other Comprehensive Loss	(639	) (30	) 30	(639 )
Noncontrolling Interest	—	14	—	14
Total Shareholders' Equity	\$ 11,656	\$ 20,834	\$ (20,820	) \$ 11,670
Total Liabilities and Shareholders' Equity	\$ 25,406	\$ 33,859	\$ (24,584	) \$ 34,681

Certain prior year data has been reclassified to conform to the current presentation.

CSX Q3 2016 Form 10-Q p.22

---



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

December 25, 2015	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 444	\$ 175	\$ 9	\$ 628
Short-term Investments	810	—	—	810
Accounts Receivable - Net	1	198	783	982
Receivable from Affiliates	1,092	2,038	(3,130)	)—
Materials and Supplies	—	350	—	350
Other Current Assets	(59)	) 120	9	70
Total Current Assets	2,288	2,881	(2,329)	) 2,840
Properties	1	38,964	2,609	41,574
Accumulated Depreciation	(1	) (10,016	) (1,383	) (11,400
Properties - Net	—	28,948	1,226	30,174
Investments in Conrail	—	—	803	803
Affiliates and Other Companies	(39	) 658	(28	) 591
Investment in Consolidated Subsidiaries	22,755	—	(22,755	)—
Other Long-term Assets	8	399	(70	) 337
Total Assets	\$ 25,012	\$ 32,886	\$ (23,153	) \$ 34,745
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities				
Accounts Payable	\$ 108	\$ 626	\$ 30	\$ 764
Labor and Fringe Benefits Payable	36	407	47	490
Payable to Affiliates	2,954	437	(3,391)	)—
Casualty, Environmental and Other Reserves	—	115	16	131
Current Maturities of Long-term Debt	1	19	—	20
Income and Other Taxes Payable	(87	) 183	12	108
Other Current Liabilities	—	437	2	439
Total Current Liabilities	3,012	2,224	(3,284	) 1,952
Casualty, Environmental and Other Reserves	—	219	50	269
Long-term Debt	9,732	783	—	10,515
Deferred Income Taxes - Net	(188	) 9,141	226	9,179
Other Long-term Liabilities	804	484	(126	) 1,162
Total Liabilities	\$ 13,360	\$ 12,851	\$ (3,134	) \$ 23,077
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 966	\$ 181	\$ (181	) \$ 966
Other Capital	113	5,091	(5,091	) 113
Retained Earnings	11,238	14,774	(14,774	) 11,238

Edgar Filing: CSX CORP - Form 10-Q

Accumulated Other Comprehensive Loss	(665	) (31	) 31	(665	)
Noncontrolling Minority Interest	—	20	(4	) 16	
Total Shareholders' Equity	\$ 11,652	\$ 20,035	\$ (20,019	) \$ 11,668	
Total Liabilities and Shareholders' Equity	\$ 25,012	\$ 32,886	\$ (23,153	) \$ 34,745	

Certain prior year data has been reclassified to conform to the current presentation.

CSX Q3 2016 Form 10-Q p.23

---

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

Nine Months 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	\$ 644	\$ 2,089	\$ (245 )	\$ 2,488
Investing Activities				
Property Additions	—	(1,469	) (121	) (1,590 )
Purchases of Short-term Investments	(410	) —	—	(410 )
Proceeds from Sales of Short-term Investments	1,070	—	—	1,070
Proceeds from Property Dispositions	—	11	—	11
Other Investing Activities	(3	) 96	(67	) 26
Net Cash Provided by (Used in) Investing Activities	657	(1,362	) (188	) (893 )
Financing Activities				
Long-term Debt Issued	—	—	—	—
Long-term Debt Repaid	—	(18	) (1	) (19 )
Dividends Paid	(513	) (450	) 450	(513 )
Stock Options Exercised	—	—	—	—
Shares Repurchased	(778	) —	—	(778 )
Other Financing Activities	(6	) (304	) —	(310 )
Net Cash Provided by (Used in) Financing Activities	(1,297	) (772	) 449	(1,620 )
Net Increase (Decrease) in Cash and Cash Equivalents	4	(45	) 16	(25 )
Cash and Cash Equivalents at Beginning of Period	444	175	9	628
Cash and Cash Equivalents at End of Period	\$ 448	\$ 130	\$ 25	\$ 603

CSX Q3 2016 Form 10-Q p.24

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

Nine Months 2015	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	\$ 637	\$ 2,313	\$ (438 )	\$ 2,512
Investing Activities				
Property Additions	—	(1,794 )	(115 )	(1,909 )
Purchases of Short-term Investments	(1,170 )	—	—	(1,170 )
Proceeds from Sales of Short-term Investments	995	—	45	1,040
Proceeds from Property Dispositions	—	46	—	46
Other Investing Activities	(11 )	93	(40 )	42
Net Cash Provided by (Used in) Investing Activities	(186 )	(1,655 )	(110 )	(1,951 )
Financing Activities				
Long-term Debt Issued	600	—	—	600
Long-term Debt Repaid	(200 )	(28 )	—	(228 )
Dividends Paid	(512 )	(563 )	563	(512 )
Stock Options Exercised	—	—	—	—
Shares Repurchased	(546 )	—	—	(546 )
Other Financing Activities	8	1	(12 )	(3 )
Net Cash Provided by (Used in) Financing Activities	(650 )	(590 )	551	(689 )
Net Increase (Decrease) in Cash and Cash Equivalents	(199 )	68	3	(128 )
Cash and Cash Equivalents at Beginning of Period	510	100	59	669
Cash and Cash Equivalents at End of Period	\$ 311	\$ 168	\$ 62	\$ 541

CSX Q3 2016 Form 10-Q p.25

Table of Contents

## CSX CORPORATION

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

## THIRD QUARTER 2016 HIGHLIGHTS

Revenue declined \$229 million to \$2.7 billion or 8 percent from a year ago.

Expenses of \$1.9 billion improved \$137 million or 7 percent year over year.

Operating income of \$841 million decreased \$92 million or 10 percent year over year.

Operating ratio of 69.0% increased 70 basis points versus last year's quarter.

Earnings per share of \$0.48 decreased \$0.04 or 8 percent year over year.

	Third Quarters				Nine Months			
	2016	2015	Fav / (Unfav)	% Change	2016	2015	Fav / (Unfav)	% Change
Volume (in thousands)	1,574	1,712	(138)	(8)%	4,720	5,106	(386)	(8)%
(in millions)								
Revenue	\$2,710	\$2,939	\$(229)	(8)%	\$8,032	\$9,030	\$(998)	(11)%
Expense	1,869	2,006	137	7%	5,647	6,237	590	9%
Operating Income	\$841	\$933	\$(92)	(10)%	\$2,385	\$2,793	\$(408)	(15)%
Operating Ratio	69.0	%68.3	%(70)	) bps	70.3	%69.1	%(120)	) bps
Earnings Per Diluted Share	\$0.48	\$0.52	\$(0.04)	(8)%	\$1.32	\$1.52	\$(0.20)	(13)%

For additional information, refer to Results of Operations discussed on pages 27 through 30.



Table of Contents

## CSX CORPORATION

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

## RESULTS OF OPERATIONS

## Volume and Revenue (Unaudited)

Volume (Thousands of units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)

## Third Quarters

	Volume			Revenue			Revenue Per Unit		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Agricultural									
Agricultural and Food Products <sup>(a)</sup>	109	121	(10 )%	\$295	\$321	(8 )%	\$2,706	\$2,653	2 %
Fertilizers <sup>(a)</sup>	72	71	1	104	111	(6 )	1,444	1,563	(8 )
Industrial									
Chemicals <sup>(a)</sup>	173	187	(7 )	542	582	(7 )	3,133	3,112	1
Automotive	115	109	6	304	287	6	2,643	2,633	—
Metals and Equipment <sup>(a)</sup>	63	72	(13 )	180	190	(5 )	2,857	2,639	8
Housing and Construction									
Minerals <sup>(a)</sup>	86	87	(1 )	125	125	—	1,453	1,437	1
Forest Products	68	73	(7 )	191	203	(6 )	2,809	2,781	1
Total Merchandise	686	720	(5 )	1,741	1,819	(4 )	2,538	2,526	—
Coal	207	261	(21 )	467	583	(20 )	2,256	2,234	1
Intermodal	681	731	(7 )	425	451	(6 )	624	617	1
Other			—	77	86	(10 )	—	—	—
Total	1,574	1,712	(8 )%	\$2,710	\$2,939	(8 )%	\$1,722	\$1,717	— %

## Nine Months

	Volume			Revenue			Revenue Per Unit		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Agricultural									
Agricultural and Food Products <sup>(a)</sup>	346	378	(8 )%	\$925	\$1,010	(8 )%	\$2,673	\$2,672	— %
Fertilizers <sup>(a)</sup>	220	227	(3 )	345	369	(7 )	1,568	1,626	(4 )
Industrial									
Chemicals <sup>(a)</sup>	520	550	(5 )	1,622	1,736	(7 )	3,119	3,156	(1 )
Automotive	349	330	6	907	867	5	2,599	2,627	(1 )
Metals and Equipment <sup>(a)</sup>	196	219	(11 )	531	555	(4 )	2,709	2,534	7
Housing and Construction									
Minerals <sup>(a)</sup>	230	228	1	345	346	—	1,500	1,518	(1 )
Forest Products	204	220	(7 )	572	603	(5 )	2,804	2,741	2
Total Merchandise	2,065	2,152	(4 )	5,247	5,486	(4 )	2,541	2,549	—
Coal	602	845	(29 )	1,282	1,851	(31 )	2,130	2,191	(3 )
Intermodal	2,053	2,109	(3 )	1,249	1,316	(5 )	608	624	(3 )
Other	—	—	—	254	377	(33 )	—	—	—
Total	4,720	5,106	(8 )%	\$8,032	\$9,030	(11 )%	\$1,702	\$1,769	(4 )%

(a) At the beginning of the quarter, in order to better align markets with the Company's business strategy, changes were made in the categorization of certain lines of business. Prior periods have been reclassified to conform to the

current presentation and are posted on the Company's website at [csx.com](http://csx.com) under the investors section.

Agricultural and Food Products includes the combination of the previous Agricultural Products and Food and Consumer markets.

Fertilizers was previously named Phosphates and Fertilizers.

Metals and Equipment includes the Equipment portion of the previous Waste and Equipment market.

Chemicals includes the Waste portion of the previous Waste and Equipment market. Chemicals also includes fly ash for remediation purposes (a form of waste) which was previously included within the Minerals market.

CSX Q3 2016 Form 10-Q p.27

---



Table of Contents

CSX CORPORATION

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

Third Quarter 2016

Revenue

Revenue was down \$229 million to \$2.7 billion from the prior year's third quarter as price gains were more than offset by volume declines, lower fuel surcharge revenue and negative business mix.

Merchandise

Agricultural Sector

Agricultural and Food Products - Volume decline, primarily in grain products, reflected additional local truck sourcing to feed mills in lieu of longer-haul rail moves, spurred by a large southeastern crop. In addition, the strong U.S. dollar continued to support import grain as a supplement to domestic, rail-sourced grain.

Fertilizers - Volume increased modestly, as robust demand in Brazil drove strength in export phosphates. This growth was partially offset as oversupply hampered nitrogen shipments leading to declines in domestic fertilizer.

Industrial Sector

Chemicals - Lower volume reflected ongoing difficulties in energy markets, specifically crude oil, in which economics are increasingly challenged for crude-by-rail to the East Coast. The continued ramp up of shipments of fly ash, a by-product of burning coal that requires environmental remediation and is now included in the realigned chemicals market, partially offset overall volume decline.

Automotive - Volume increased as North American light vehicle production continued at a high level and CSX experienced growth across several key customers. Movement of trucks and SUV's continued to outpace passenger cars, which was consistent with consumer buying patterns.

Metals and Equipment - Volume declined as CSX continued to cycle mill closures and lower production levels at remaining mills brought on by persistent, above-average import steel levels resulting from the strong U.S. dollar.

Housing and Construction Sector

Forest Products - Volume declined in paper products due to continued industry consolidation, electronic substitution and near-term losses to truck as a result of excess capacity and low prices. Further, a strong U.S. dollar challenged exports and increased imports that do not generally move by rail.

Minerals - Volume was down modestly, primarily as a result of reduced steel production, which hampered demand for lime, an input to steel making. However, aggregates movement continued at high levels, reflecting road and non-residential construction momentum, particularly in the south.



Table of Contents

CSX CORPORATION

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

Coal

Domestic Utility Coal - Volume declines, though still significant, began to moderate as hot summer weather drove additional demand despite high coal inventories and low natural gas prices.

Domestic Coke, Iron Ore and Other - Volumes remained weak in the face of an oversupplied coke market driven by continued softness in domestic integrated steel production and the idling of a customer facility.

Export Coal - Volume was down due to oversupply in the world market and a strong U.S. dollar that continued to hinder U.S. producer competitiveness. However, both metallurgical and thermal benchmarks improved during the quarter such that the rate of volume decline became considerably less when compared to previous quarters.

Intermodal

Domestic - Volume decreased three percent driven by the competitive loss of some short-haul interchange traffic. Despite ample over-the-road truck capacity, the balance of the domestic portfolio remained near historic highs, reflecting success with CSX's highway-to-rail conversion program and improved network service offerings and service levels.

International - Volume was down 12 percent, reflecting the continued cycling of a prior account loss and the weaker global freight environment.

Expenses

Expenses decreased \$137 million to \$1.9 billion year over year, primarily driven by efficiency savings and lower volume-related costs. Variances versus the prior year's third quarter are described below.

Labor and Fringe expense decreased \$25 million due to the following:

- Incentive compensation was \$37 million higher reflecting the expected award payouts on existing plans.
- Inflation resulted in \$28 million of additional cost driven primarily by increased health and welfare costs.
- Efficiency savings of \$53 million were driven by lower operating support costs as a result of structural changes and reduced crew training.
- Volume-related costs were \$35 million lower.
- Other costs decreased \$2 million.

Materials, Supplies and Other expense decreased \$73 million due to the following:

- Inflation resulted in \$9 million of additional cost.
- Efficiency savings of \$38 million were primarily related to lower operating support costs, driven by structural changes, and lower non-operating support costs, driven by broad cost containment.
- Train accidents, casualty and freight loss were \$22 million lower, primarily due to prior year train accidents costs that were higher than the current period.
- Volume-related costs were \$7 million lower.
- Various other costs decreased \$15 million.

Fuel expense decreased \$49 million due to the following:

- An 11 percent price decline was the primary driver for \$20 million in fuel expense savings.
-

Efficiency savings of \$15 million were primarily related to locomotive fuel reduction technology and process improvement.

Volume-related costs were \$14 million lower.

Depreciation expense increased \$19 million due to a larger asset base.

CSX Q3 2016 Form 10-Q p.29

---

Table of Contents

CSX CORPORATION

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

Equipment and Other Rents expense decreased \$9 million due to the following:

- Inflation resulted in \$3 million of additional cost due to higher rates on automotive freight cars.
- Volume-related costs were \$3 million higher due to increases in automotive volume.
- Efficiency savings of \$6 million were due to improved car cycle times.
- Other costs decreased \$9 million primarily due to lower intermodal and other equipment rents.

Interest expense increased \$3 million primarily due to higher average debt balances partially offset by lower average interest rates.

Other income - net increased \$11 million primarily due to a prior year environmental cleanup cost related to non-operating activities that did not repeat in the current year, as well as miscellaneous income items.

Income tax expense decreased \$32 million primarily due to lower earnings.

Nine Months Results of Operations

Revenue decreased \$998 million reflecting significant volume declines, lower fuel recoveries and a \$99 million year-over-year decline in other revenue related to payments received in 2015 from customers that did not meet volume commitments. These impacts more than offset any pricing gains.

Expenses were lower by \$590 million driven by efficiency savings of \$341 million and lower volume-related costs of \$202 million as a result of structural changes and broad cost containment in the face of the dynamic market environment. In addition, the reduction in the price of fuel resulted in an expense decline of \$154 million year-to-date.

Operating income decreased \$408 million primarily due to volume declines, partially offset by efficiency savings.

Interest expense increased \$19 million primarily due to higher average debt balances partially offset by lower average interest rates associated with newer debt.

Other income - net increased \$20 million due to several non-operating items, none of which were individually significant.

Income tax expense decreased \$161 million primarily due to lower earnings.

Table of Contents

## CSX CORPORATION

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

## Operating Statistics (Estimated)

	Third Quarters			Nine Months		
	2016	2015	Improvement/ (Deterioration)	2016	2015	Improvement/ (Deterioration)
Safety and Service Measurements						
FRA Personal Injury Frequency Index	1.23	1.06	(16 )%	1.02	0.88	(16 )%
FRA Train Accident Rate	2.22	2.88	23 %	2.38	2.52	6 %
On-Time Originations	84	%76	%11 %	84	%64	%31 %
On-Time Arrivals	64	%54	%19 %	66	%48	%38 %
Train Velocity	20.8	20.5	1 %	21.0	20.3	3 %
Dwell	25.6	25.2	(2 )%	25.6	25.9	1 %
Cars-On-Line	207,964	204,082	(2 )%	207,092	206,075	— %

Certain operating statistics are estimated and can continue to be updated as actuals settle.

## Key Performance Measures Definitions

FRA Personal Injury Frequency Index - Number of FRA-reportable injuries per 200,000 man-hours.

FRA Train Accident Rate - Number of FRA-reportable train accidents per million train-miles.

On-Time Originations - Percent of scheduled road trains that depart the origin yard on-time or ahead of schedule.

On-Time Arrivals - Percent of scheduled road trains that arrive at the destination yard on-time to two hours late (30 minutes for intermodal trains).

Train Velocity - Average train speed between terminals in miles per hour (does not include locals, yard jobs, work trains or passenger trains).

Dwell - Average amount of time in hours between car arrival at and departure from the yard. It does not include cars moving through the yard on the same train.

Cars-On-Line - An average count of all cars on the network (does not include locomotives, cabooses, trailers, containers or maintenance equipment).

The Company measures and reports safety and service performance. The Company strives for continuous improvement in these measures through training, innovation and investment. CSX's safety and train accident prevention programs rely on the latest tools, programs and employee participation that are designed to continuously strengthen the safety culture. Increased investment in training and technology also is designed to allow CSX employees to have an additional layer of protection that can detect and avoid many types of human factor incidents. The Company's safety programs are designed to prevent incidents that can adversely impact employees, customers and communities.

Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance. CSX has established formal relationships with industry groups, leading universities and suppliers to develop, implement and deploy the latest technology that can detect infrastructure problems before they happen. To illustrate, through a waiver granted by the Federal Railroad Administration ("FRA"), CSX is using advanced continuous rail testing methods that are being adopted by other railroads as the system's value is proven.

The Company constantly collaborates with the FRA and industry organizations as well as federal, state and local governments on safety innovations and initiatives. For example, CSX and other freight railroads have actively worked with the U.S. Department of Transportation and other key stakeholders to evaluate and implement far-reaching safety enhancements for transportation of certain flammable materials, including essential energy products, on the nation's freight railroad network.

CSX Q3 2016 Form 10-Q p.31

---

Table of Contents

CSX CORPORATION

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

CSX's FRA reportable personal injury frequency index of 1.23 for the quarter was 16 percent unfavorable as a reduction in the number of injuries was more than offset by a significant decline in man-hours due to fewer employees. The FRA train accident frequency rate of 2.22 for the quarter improved 23 percent from the prior year. The Company remains committed to ongoing improvement, with a focus on avoiding catastrophic events.

CSX's operating performance in the third quarter was improved versus last year and stable sequentially. On-time originations were 84 percent, an 11 percent improvement year-over-year, and on-time arrivals increased 19 percent, to 64 percent. Average train velocity of 20.8 miles per hour and terminal dwell of 25.6 hours remained stable when compared to the prior year. The Company expects to sustain or improve this level of performance while continuing to drive productivity and resource efficiency.

LIQUIDITY AND CAPITAL RESOURCES

The following are material changes in the consolidated balance sheets and sources of liquidity and capital, which provide an update to the discussion included in CSX's most recent annual report on Form 10-K.

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

Consolidated Balance Sheets

Total assets decreased \$64 million from prior year due to net cash outflows, including short-term investment activity, of \$683 million partially offset by the increase in net properties of \$608 million. Total liabilities and shareholders' equity combined decreased \$64 million from year end due to \$307 million repayment of seller-financed assets and lower pension and other post-retirement benefit liabilities of \$36 million, offset by an increase in deferred income taxes of \$326 million.

Significant Cash Flows

The following chart highlights net cash activity of \$25 million as compared to \$128 million for operating, investing and financing activities for nine months ended 2016 and 2015.

Cash provided by operating activities decreased \$24 million driven by voluntary contributions to the Company's qualified pension plans and working capital activities, partially offset by lower incentive compensation payments.

Cash used in investing activities declined \$1,058 million primarily driven by lower purchases of short-term investments and lower property additions.

Cash used in financing activities increased \$931 million due to lower net debt issued, the repayment of seller-financed assets and higher share repurchases.



Table of Contents

CSX CORPORATION

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

Projected capital investments for 2016 are expected to be \$2.7 billion, including approximately \$300 million for Positive Train Control ("PTC"). This \$2.7 billion excludes investments related to partially or wholly reimbursable public-private partnerships where reimbursements may not be fully received in the year the reimbursement obligation arises. Of the 2016 investment, approximately 40 percent will be used to sustain the core infrastructure. The remaining amounts will be allocated to locomotives, freight cars and high return projects supporting long-term profitable growth, productivity initiatives and service improvements. CSX intends to fund capital investments through cash generated from operations.

The Company has incurred significant capital costs in connection with the implementation of PTC and has substantial work ahead. CSX estimates that the total multi-year cost of PTC implementation will be approximately \$2.2 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending through September 2016 was \$1.7 billion.

**Liquidity and Working Capital**

As of the end of third quarter 2016, CSX had \$755 million of cash, cash equivalents and short-term investments. CSX has a \$1 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in May 2020 and as of the date of this filing, the Company has no outstanding balances under this facility. CSX uses current cash balances for general corporate purposes, which may include reduction or refinancing of outstanding indebtedness, capital expenditures, working capital requirements, contributions to the Company's qualified pension plan, redemptions and repurchases of CSX common stock and dividends to shareholders. See Note 7, Debt and Credit Agreements.

Subsequent to the third quarter, on September 28, 2016, the Company renewed and modified its existing receivables securitization facility. The facility was to expire in June 2017 and is now extended with a similar three-year term scheduled to expire in September 2019. It was also modified to provide liquidity of up to \$200 million, changed from \$250 million, along with modifications to other terms. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital deficit of \$100 million and surplus of \$888 million as of September 23, 2016 and December 25, 2015, respectively. This large change since year-end in working capital of \$988 million relates to cash used for property additions of \$1,590 million, share repurchases of \$778 million and dividends of \$513 million more than offsetting cash generated from operations of \$2,488 million. Also, debt due in the next 12 months increased \$611 million.

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. The Company continues to maintain adequate liquidity to satisfy current liabilities and maturing obligations when they come due. Furthermore, CSX has sufficient financial capacity, including its revolving credit facility, trade receivable facility and shelf registration statement to manage its day-to-day cash requirements and any anticipated obligations. The Company from time to time accesses the credit markets for additional liquidity.



Table of Contents

CSX CORPORATION

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and certain revenues and expenses during the reporting period. Actual results may differ from those estimates. These estimates and assumptions are discussed with the Audit Committee of the Board of Directors on a regular basis. Consistent with the prior year, significant estimates using management judgment are made for the areas below. For further discussion of CSX's critical accounting estimates, see the Company's most recent annual report on Form 10-K.

casualty, environmental and legal reserves;  
pension and post-retirement medical plan accounting;  
depreciation policies for assets under the group-life method; and  
income taxes.

FORWARD-LOOKING STATEMENTS

Certain statements in this report and in other materials filed with the SEC, as well as information included in oral statements or other written statements made by the Company, are forward-looking statements. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements within the meaning of the Private Securities Litigation Reform Act may contain, among others, statements regarding:

projections and estimates of earnings, revenues, margins, volumes, rates, cost-savings, expenses, taxes or other financial items;  
expectations as to results of operations and operational initiatives;  
expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition, results of operations or liquidity;  
management's plans, strategies and objectives for future operations, capital expenditures, dividends, share repurchases, safety and service performance, proposed new services and other matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and  
future economic, industry or market conditions or performance and their effect on the Company's financial condition, results of operations or liquidity.

Forward-looking statements are typically identified by words or phrases such as "will," "should," "believe," "expect," "anticipate," "project," "estimate," "preliminary" and similar expressions. The Company cautions against placing undue reliance on forward-looking statements, which reflect its good faith beliefs with respect to future events and are based on information currently available to it as of the date the forward-looking statement is made. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the timing when, or by which, such performance or results will be achieved.

Table of Contents

CSX CORPORATION

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

Forward-looking statements are subject to a number of risks and uncertainties and actual performance or results could differ materially from those anticipated by any forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement. If the Company does update any forward-looking statement, no inference should be drawn that the Company will make additional updates with respect to that statement or any other forward-looking statements. The following important factors, in addition to those discussed in Part II, Item 1A (Risk Factors) of CSX's most recent annual report on Form 10-K and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation and initiatives to further regulate the rail industry;
- the outcome of litigation, claims and other contingent liabilities, including, but not limited to, those related to fuel surcharge, environmental matters, taxes, shipper and rate claims subject to adjudication, personal injuries and occupational illnesses;
- changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation) and the level of demand for products carried by CSXT;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property or equipment;
- competition from other modes of freight transportation, such as trucking and competition and consolidation or financial distress within the transportation industry generally;
- the cost of compliance with laws and regulations that differ from expectations (including those associated with PTC implementation), as well as costs, penalties and operational and liquidity impacts associated with noncompliance with applicable laws or regulations;
- the impact of increased passenger activities in capacity-constrained areas, including potential effects of high speed rail initiatives, or regulatory changes affecting when CSXT can transport freight or service routes;
- unanticipated conditions in the financial markets that may affect timely access to capital markets and the cost of capital, as well as management's decisions regarding share repurchases;
- changes in fuel prices, surcharges for fuel and the availability of fuel;
- the impact of natural gas prices on coal-fired electricity generation;
- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;
- the inherent business risks associated with safety and security, including the transportation of hazardous materials or a cybersecurity attack which would threaten the availability and vulnerability of information technology;

Table of Contents

CSX CORPORATION

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

adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;

labor and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or customers' ability to deliver goods to the Company for shipment;

the Company's success in implementing its strategic, financial and operational initiatives;

changes in operating conditions and costs or commodity concentrations; and

the inherent uncertainty associated with projecting economic and business conditions.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and the Company's website at [www.csx.com](http://www.csx.com). The information on the CSX website is not part of this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided under Part II, Item 7A (Quantitative and Qualitative Disclosures about Market Risk) of CSX's most recent annual report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

As of September 23, 2016, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of September 23, 2016, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the third quarter of 2016 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

For further details, please refer to Note 5. Commitments and Contingencies of this quarterly report on Form 10-Q. Also refer to Part I, Item 3. Legal Proceedings in CSX's most recent annual report on Form 10-K.

Environmental Proceedings That Could Result in Fines Above \$100,000

In connection with a CSXT train derailment in Mount Carbon, West Virginia in February 2015, the Company has entered into discussions with the U.S. Department of Justice and the U.S. Environmental Protection Agency concerning a regulatory penalty related to a release of product into the environment. Although final resolution of this matter is subject to further discussions and potential litigation, the Company does not believe that the outcome will have a material effect on its financial position, results of operations or liquidity.

Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed under Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of CSX's most recent annual report on Form 10-K. See also Part I, Item 2 (Forward-Looking Statements) of this quarterly report on Form 10-Q.



Table of Contents

CSX CORPORATION

PART II

## Item 2. CSX Purchases of Equity Securities

CSX purchases its own shares for two primary reasons: (1) to further its goals under its share repurchase program and (2) to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan that covers certain union employees.

In April 2015, the Company announced a new \$2 billion share repurchase program, which is expected to be completed by April 2017. During the third quarter of 2016, the Company repurchased approximately \$263 million, or ten million shares. Shares are retired immediately upon repurchase. Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings are only impacted by net earnings and dividends.

Share repurchase activity for the third quarter 2016 was as follows:

CSX Purchases of Equity Securities for the Quarter				
Third Quarter (a)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				\$810,810,259
July	3,078,740	\$ 26.65	2,972,000	731,808,366
August	2,940,485	28.28	2,940,100	648,648,448
September	3,492,370	28.58	3,492,100	548,855,151
Ending Balance	9,511,595	\$ 27.86	9,404,200	\$548,855,151

(a) Third quarter 2016 consisted of the following fiscal periods: July (June 25, 2016 - July 22, 2016), August (July 23, 2016 - August 19, 2016), September (August 20, 2016 - September 23, 2016).

(b) The difference of 107,395 shares between the "Total Number of Shares Purchased" and the "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" for the quarter represents shares purchased to fund the Company's contribution to a 401(k) plan that covers certain union employees.

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not Applicable

## Item 5. Other Information

None

CSX Q3 2016 Form 10-Q p.37

---



Table of Contents

CSX CORPORATION  
PART II

Item 6. Exhibits

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
10.1	CSX Executives' Deferred Compensation Plan Effective January 1, 2017*	
Officer certifications:		
31*	Rule13a-14(a) Certifications	
32*	Section 1350 Certifications	
Interactive data files:		
101*	The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended September 23, 2016 filed with the SEC on October 12, 2016, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended September 23, 2016 and September 25, 2015, (ii) consolidated comprehensive income statements for the fiscal periods ended September 23, 2016 and September 25, 2015, (iii) consolidated balance sheets at September 23, 2016 and December 25, 2015, (iv) consolidated cash flow statements for the fiscal periods ended September 23, 2016 and September 25, 2015, and (v) the notes to consolidated financial statements.	

\* Filed  
herewith

CSX Q3 2016 Form 10-Q p.38

---

Table of Contents

CSX CORPORATION

PART II

SIGNATURE

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

CSX CORPORATION

(Registrant)

By: /s/ Carolyn T. Sizemore  
Carolyn T. Sizemore  
Vice President and Controller  
(Principal Accounting Officer)

Dated: October 12, 2016

CSX Q3 2016 Form 10-Q p.39