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CSX CORP

Form 10-Q

April 17, 2019

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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 March 31, 2019

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

(State or other jurisdiction of incorporation or organization)

62-1051971

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

500 Water Street, 15th Floor, Jacksonville, FL

(Address of principal executive offices)

32202

(Zip Code)

(904) 359-3200

(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 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 such files).

Yes (X) No ()

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 (X) Accelerated Filer () Non-accelerated Filer () Smaller Reporting Company () Emerging growth company ()

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ()

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

Yes () No (X)

There were 809,163,666 shares of common stock outstanding on March 31, 2019 (the latest practicable date that is closest to the filing date).

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FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019
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	First Quarters	
	2019	2018
Revenue	\$3,013	\$2,876
Expense		
Labor and Fringe	672	696
Materials, Supplies and Other	478	482
Depreciation	330	323
Fuel	233	255
Equipment and Other Rents	100	101
Equity Earnings of Affiliates	(19)	(25)
Total Expense	1,794	1,832
Operating Income	1,219	1,044
Interest Expense	(178)	(149)
Other Income - Net	23	17
Earnings Before Income Taxes	1,064	912
Income Tax Expense	(230)	(217)
Net Earnings	\$834	\$695
Per Common Share (Note 2)		
Net Earnings Per Share, Basic	\$1.02	\$0.78
Net Earnings Per Share, Assuming Dilution	\$1.02	\$0.78
Average Shares Outstanding <i>(In millions)</i>	814	885
Average Shares Outstanding, Assuming Dilution <i>(In millions)</i>	817	888

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS *(Unaudited)**(Dollars in millions, except per share amounts)*

	First	
	Quarters	
	2019	2018
Total Comprehensive Earnings (Note 12)	\$836	\$596

See accompanying notes to consolidated financial statements.

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	<i>(Unaudited)</i>	
	March 31,	December 31,
	2019	2018
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,188	\$ 858
Short-term Investments	822	253
Accounts Receivable - Net (Note 9)	1,106	1,010
Materials and Supplies	241	263
Other Current Assets	122	181
Total Current Assets	3,479	2,565
Properties	44,826	44,805
Accumulated Depreciation	(12,838)	(12,807)
Properties - Net	31,988	31,998
Investment in Conrail	948	943
Affiliates and Other Companies	845	836
Right-of-Use Lease Asset (Note 5)	550	—
Other Long-term Assets	344	387
Total Assets	\$ 38,154	\$ 36,729
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 1,019	\$ 949
Labor and Fringe Benefits Payable	406	550
Casualty, Environmental and Other Reserves (Note 4)	112	113
Current Maturities of Long-term Debt (Note 8)	18	18
Income and Other Taxes Payable	193	106
Other Current Liabilities	178	179
Total Current Liabilities	1,926	1,915
Casualty, Environmental and Other Reserves (Note 4)	207	211
Long-term Debt (Note 8)	15,748	14,739
Deferred Income Taxes - Net	6,743	6,690
Long-term Lease Liability (Note 5)	502	—
Other Long-term Liabilities	583	594
Total Liabilities	25,709	24,149
Shareholders' Equity:		
Common Stock, \$1 Par Value	809	818
Other Capital	267	249
Retained Earnings	12,011	12,157
Accumulated Other Comprehensive Loss (Note 12)	(659)	(661)
Noncontrolling Interest	17	17

Total Shareholders' Equity	12,445	12,580
Total Liabilities and Shareholders' Equity	\$ 38,154	\$ 36,729

See accompanying notes to consolidated financial statements.

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	Three Months	
	2019	2018
OPERATING ACTIVITIES		
Net Earnings	\$834	\$695
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	330	323
Deferred Income Taxes	51	54
Gain on Property Dispositions	(27)	(32)
Equity Earnings of Affiliates	(19)	(25)
Cash Payments for Restructuring Charge	—	(12)
Other Operating Activities	(14)	)6
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(56)	)(50)
Other Current Assets	22	(19)
Accounts Payable	74	64
Income and Other Taxes Payable	150	127
Other Current Liabilities	(172)	)(165)
Net Cash Provided by Operating Activities	1,173	966
INVESTING ACTIVITIES		
Property Additions	(353)	)(368)
Proceeds from Property Dispositions	48	52
Purchase of Short-term Investments	(813))—
Proceeds from Sales of Short-term Investments	250	8
Other Investing Activities	(2)	)(8)
Net Cash Used In Investing Activities	(870)	)(316)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 8)	1,000	2,000
Dividends Paid	(195)	)(194)
Shares Repurchased	(796)	)(836)
Other Financing Activities	18	(41)
Net Cash Provided by Financing Activities	27	929
Net Increase in Cash and Cash Equivalents	330	1,579
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	858	401
Cash and Cash Equivalents at End of Period	\$1,188	\$1,980

See accompanying notes to consolidated financial statements.

Table of Contents**CSX CORPORATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY***(Dollars in Millions)*

	Common Shares Outstanding <i>(Thousands)</i>	Common Stock and Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) ^(a)	Non-controlling Interest	Total Shareholders' Equity
Balance December 31, 2018	818,180	\$ 1,067	\$ 12,157	\$ (661)	) \$ 17	\$ 12,580
Comprehensive Earnings:						
Net Earnings	—	—	834	—	—	834
Other Comprehensive Income (Note 12)	—	—	—	2	—	2
Total Comprehensive Earnings						836
Common stock dividends, \$0.24 per share	—	—	(195)	)—	—	(195)
Share Repurchases	(11,540)	) (12)	(784)	)—	—	(796)
Stock Option Exercises and Other	2,524	21	(1)	)—	—	20
Balance March 31, 2019	809,164	\$ 1,076	\$ 12,011	\$ (659)	) \$ 17	\$ 12,445
Balance December 31, 2017	889,851	\$ 1,107	\$ 14,084	\$ (486)	) \$ 16	\$ 14,721
Comprehensive Earnings:						
Net Earnings	—	—	695	—	—	695
Other Comprehensive Loss (Note 12)	—	—	—	(99)	) —	(99)
Total Comprehensive Earnings						596
Common stock dividends, \$0.22 per share	—	—	(194)	)—	—	(194)
Share Repurchases	(14,966)	) (15)	(821)	)—	—	(836)
Stock Option Exercises and Other	469	(2)	109	—	(3)	) 104
Balance March 31, 2018	875,354	\$ 1,090	\$ 13,873	\$ (585)	) \$ 13	\$ 14,391

(a) Accumulated Other Comprehensive Loss balances shown above are net of tax. The associated taxes were \$179 million and \$160 million as of March 31, 2019 and March 31, 2018, respectively. For additional information, see Note 12, Other Comprehensive Income.

See accompanying notes to consolidated financial statements.

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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 20,500 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.

CSXT is also responsible for the Company's real estate sales, leasing, acquisition and management and development activities. In addition, as substantially all real estate sales, leasing, acquisition and management and development activities are focused on supporting railroad operations, all results of these activities are included in operating income.

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.

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 quarter ended March 31, 2019 and March 31, 2018;
- Condensed consolidated comprehensive income statements for the quarter ended March 31, 2019 and March 31, 2018;
- Consolidated balance sheets at March 31, 2019 and December 31, 2018;
- Consolidated cash flow statements for the three months ended March 31, 2019 and March 31, 2018; and
- Consolidated statements of changes in shareholders' equity for the three months ended March 31, 2019 and March 31, 2018.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Fiscal Year

The Company's fiscal periods are based upon the calendar year. Except as otherwise specified, references to "first quarter(s)" or "three months" indicate CSX's fiscal periods ending March 31, 2019 and March 31, 2018, and references to "year-end" indicate the fiscal year ended December 31, 2018.

New Accounting Pronouncements

Pronouncements adopted in 2019

In February 2016, the FASB issued ASU, *Leases*, which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. CSX adopted the standard effective January 1, 2019 using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. The Company adopted the following practical expedients and elected the following accounting policies related to this standard update:

- Carry forward of historical lease classifications and current accounting treatment for existing land easements;
- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less; and
- The option to not separate lease and non-lease components for certain equipment lease asset categories such as freight car, vehicles and work equipment.

Adoption of this standard resulted in the recognition of operating lease right-of-use assets and corresponding lease liabilities of \$534 million on the consolidated balance sheet as of January 1, 2019. This amount is lower than previous estimates due to a lease amendment. The Company's accounting for finance leases remained substantially unchanged. The standard did not materially impact operating results or liquidity. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 5, *Leases*.

Pronouncements to be adopted

In June 2016, the FASB issued ASU *Measurement of Credit Losses on Financial Instruments*, which replaces current methods for evaluating impairment of financial instruments not measured at fair value, including trade accounts receivable and certain debt securities, with a current expected credit loss model. CSX will adopt this new standard update effective January 1, 2020, and does not expect it to have a material effect on the Company's results of operations.

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:

	First Quarters	
	2019	2018
Numerator (<i>Dollars in millions</i>):		
Net Earnings	\$834	\$695
Denominator (<i>Units in millions</i>):		
Average Common Shares Outstanding	814	885
Other Potentially Dilutive Common Shares	3	3
Average Common Shares Outstanding, Assuming Dilution	817	888
Net Earnings Per Share, Basic	\$1.02	\$0.78
Net Earnings Per Share, Assuming Dilution	\$1.02	\$0.78

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 outstanding and common stock equivalents 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, including performance units and employee stock options.

When calculating diluted earnings per share, the potential shares that would be outstanding if all outstanding stock options were exercised are included. This number is different from outstanding stock options because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately 600 thousand and 800 thousand of total average outstanding stock options for the first quarters ended March 31, 2019 and March 31, 2018, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

Share Repurchases

In February 2018, the Company announced an increase to the \$1.5 billion share repurchase program first announced in October 2017, bringing the total authorized to \$5 billion. This program was completed on January 16, 2019. Also on January 16, 2019, the Company announced a new \$5 billion share repurchase program. During the first quarters of 2019 and 2018, the Company repurchased approximately \$796 million, or 12 million shares, and \$836 million, or 15 million shares, respectively.

Under an accelerated share repurchase agreement executed in January 2018, the Company made a prepayment of \$150 million to a financial institution and received an initial delivery of shares valued at \$120 million. The remaining balance of \$30 million was settled through receipt of additional shares in February 2018 with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 3 million total shares were repurchased under the agreement.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2. Earnings Per Share, *continued*