

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 June 30, 2020

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-20200630_g1.jpg

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(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.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, \$1 Par Value	CSX	Nasdaq Global Select Market

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 (X) 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 (as defined in Exchange Act Rule 12b-2).

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 765,052,549 shares of common stock outstanding on June 30, 2020 (the latest practicable date that is closest to the filing date).

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2020
INDEX

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Consolidated Income Statements (Unaudited) - Quarters and Six Months Ended June 30, 2020 and June 30, 2019	3
Consolidated Consolidated Comprehensive Income Statements (Unaudited) - Quarters and Six Months Ended June 30, 2020 and June 30, 2019	3
Consolidated Balance Sheets - At June 30, 2020 (Unaudited) and December 31, 2019	4
Consolidated Cash Flow Statements (Unaudited) - Six Months Ended June 30, 2020 and June 30, 2019	5
Consolidated Statement of Changes in Shareholders' Equity - Quarters and Six Months Ended June 30, 2020 and June 30, 2019	6
Notes to Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosures about Market Risk	40
Item 4. Controls and Procedures	41
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. CSX Purchases of Equity Securities	42
Item 3. Defaults upon Senior Securities	42
Item 4. Mine Safety Disclosures	42
Item 5. Other Information	42
Item 6. Exhibits	43
Signature	44

CSX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS *(Unaudited)*

(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2020	2019	2020	2019
Revenue	\$ 2,255	\$ 3,061	\$ 5,110	\$ 6,074
Expense				
Labor and Fringe	507	648	1,113	1,320
Materials, Supplies and Other	407	445	861	916
Depreciation	344	337	688	667
Fuel	91	234	283	467
Equipment and Other Rents	78	92	159	180
Total Expense	1,427	1,756	3,104	3,550
Operating Income	828	1,305	2,006	2,524
Interest Expense	(191)	(184)	(378)	(362)
Other Income - Net	15	25	37	48
Earnings Before Income Taxes	652	1,146	1,665	2,210
Income Tax Expense	(153)	(276)	(396)	(506)
Net Earnings	\$ 499	\$ 870	\$ 1,269	\$ 1,704
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$ 0.65	\$ 1.08	\$ 1.65	\$ 2.10
Net Earnings Per Share, Assuming Dilution	\$ 0.65	\$ 1.08	\$ 1.65	\$ 2.10
Average Shares Outstanding <i>(In millions)</i>	766	805	769	810
Average Shares Outstanding, Assuming Dilution <i>(In millions)</i>	767	807	770	812

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS *(Unaudited)*

(Dollars in millions)

	Second Quarters		Six Months	
	2020	2019	2020	2019
Total Comprehensive Earnings (Note 11)	\$ 519	\$ 874	\$ 1,292	\$ 1,710

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

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	<i>(Unaudited)</i> June 30, 2020	December 31, 2019
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,391	\$ 958
Short-term Investments	203	996
Accounts Receivable - Net (Note 8)	860	986
Materials and Supplies	246	261
Other Current Assets	91	77
Total Current Assets	3,791	3,278
Properties	45,327	45,100
Accumulated Depreciation	(13,066)	(12,932)
Properties - Net	32,261	32,168
Investment in Conrail	1,001	982
Affiliates and Other Companies	920	897
Right-of-Use Lease Asset	512	532
Other Long-term Assets	419	400
Total Assets	\$ 38,904	\$ 38,257
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 960	\$ 1,043
Labor and Fringe Benefits Payable	352	489
Casualty, Environmental and Other Reserves (Note 4)	103	100
Current Maturities of Long-term Debt (Note 7)	378	245
Income and Other Taxes Payable	380	69
Other Current Liabilities	174	205
Total Current Liabilities	2,347	2,151
Casualty, Environmental and Other Reserves (Note 4)	203	205
Long-term Debt (Note 7)	16,128	15,993
Deferred Income Taxes - Net	7,028	6,961
Long-term Lease Liability	481	493
Other Long-term Liabilities	554	591
Total Liabilities	26,741	26,394
Shareholders' Equity:		
Common Stock, \$1 Par Value	765	773
Other Capital	361	346
Retained Earnings	11,676	11,404
Accumulated Other Comprehensive Loss (Note 11)	(652)	(675)
Noncontrolling Interest	13	15
Total Shareholders' Equity	12,163	11,863
Total Liabilities and Shareholders' Equity	\$ 38,904	\$ 38,257

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENTS *(Unaudited)*
(Dollars in millions)

	Six Months	
	2020	2019
OPERATING ACTIVITIES		
Net Earnings	\$ 1,269	\$ 1,704
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	688	667
Deferred Income Taxes	61	97
Gain on Property Dispositions	(29)	(64)
Other Operating Activities	(25)	(61)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	120	(61)
Other Current Assets	(24)	41
Accounts Payable	(85)	39
Income and Other Taxes Payable	338	89
Other Current Liabilities	(129)	(184)
Net Cash Provided by Operating Activities	2,184	2,267
INVESTING ACTIVITIES		
Property Additions	(801)	(769)
Proceeds from Property Dispositions	45	146
Purchases of Short-term Investments	(426)	(1,427)
Proceeds from Sales of Short-term Investments	1,221	810
Other Investing Activities	(42)	(16)
Net Cash Used In Investing Activities	(3)	(1,256)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	500	1,000
Long-term Debt Repaid (Note 7)	(227)	—
Dividends Paid	(400)	(388)
Shares Repurchased	(616)	(1,656)
Other Financing Activities	(5)	28
Net Cash Used in Financing Activities	(748)	(1,016)
Net Increase (Decrease) in Cash and Cash Equivalents	1,433	(5)
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	958	858
Cash and Cash Equivalents at End of Period	\$ 2,391	\$ 853

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

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY**

(Dollars in Millions)

Six Months 2020	Common Shares Outstanding (Thousands)	Common Stock and Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) ^{a)}	Non-controlling Interest	Total Shareholders' Equity
Balance December 31, 2019	773,471	\$ 1,119	\$ 11,404	\$ (675)	\$ 15	\$ 11,863
Comprehensive Earnings:						
Net Earnings	—	—	770	—	—	770
Other Comprehensive Income (Note 11)	—	—	—	3	—	3
Total Comprehensive Earnings						773
Common stock dividends, \$0.26 per share	—	—	(201)	—	—	(201)
Share Repurchases	(8,906)	(9)	(568)	—	—	(577)
Stock Option Exercises and Other	894	21	7	—	2	30
Balance March 31, 2020	765,459	\$ 1,131	\$ 11,412	\$ (672)	\$ 17	\$ 11,888
Comprehensive Earnings:						
Net Earnings	—	—	499	—	—	499
Other Comprehensive Income (Note 11)	—	—	—	20	—	20
Total Comprehensive Earnings						519
Common stock dividends, \$0.26 per share	—	—	(199)	—	—	(199)
Share Repurchases	(580)	(1)	(38)	—	—	(39)
Stock Option Exercises and Other	174	(4)	2	—	(4)	(6)
Balance June 30, 2020	765,053	\$ 1,126	\$ 11,676	\$ (652)	\$ 13	\$ 12,163

a) Accumulated Other Comprehensive Loss balances shown above are net of tax. The associated taxes were \$183 million and \$178 million as of first and second quarters 2020, respectively. For additional information, see Note 11, Other Comprehensive Income.

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY**
(Dollars in Millions)

Six Months 2019	Common Shares Outstanding (Thousands)	Common Stock and Other 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 11)	—	—	—	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
Comprehensive Earnings:						
Net Earnings	—	—	870	—	—	870
Other Comprehensive Income (Note 11)	—	—	—	4	—	4
Total Comprehensive Earnings						874
Common stock dividends, \$0.24 per share	—	—	(193)	—	—	(193)
Share Repurchases	(11,266)	(11)	(849)	—	—	(860)
Stock Option Exercises and Other	278	23	4	—	(3)	24
Balance June 30, 2019	798,176	\$ 1,088	\$ 11,843	\$ (655)	\$ 14	\$ 12,290

a) Accumulated Other Comprehensive Loss balances shown above are net of tax. The associated taxes were \$179 million and \$177 million as of first and second quarters 2019, respectively. For additional information, see Note 11, Other Comprehensive Income.

See accompanying notes to consolidated financial statements.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

CSX Corporation together with its subsidiaries ("CSX" or 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, the transport of intermodal containers and trailers, as well as other transportation services such as rail-to-truck transfers and bulk commodity operations.

CSX's principal operating subsidiary, CSX Transportation, Inc. ("CSXT"), provides an important link to the transportation supply chain through its approximately 20,000 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.

CSXT is also responsible for the Company's real estate sales, leasing, acquisition and management and development activities. Substantially all of these activities are focused on supporting railroad operations.

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 includes 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 consolidated financial statements and accompanying notes. Where applicable, prior year information has been reclassified to conform to the current presentation. 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.

Fiscal Year

The Company's fiscal periods are based upon the calendar year. Except as otherwise specified, references to "second quarter(s)" or "six months" indicate CSX's fiscal periods ending June 30, 2020 and June 30, 2019, and references to "year-end" indicate the fiscal year ended December 31, 2019.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

New Accounting Pronouncements

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 adopted this new standard update effective January 1, 2020, and it did not have a material effect on the Company's results of operations.

In August 2018, the FASB issued ASU *Changes to the Disclosure Requirements for Defined Benefit Plans* as part of its disclosure effectiveness initiative, which modifies the disclosure requirements for employer-sponsored defined benefit pension and other postretirement plans. This update is effective for the Company beginning January 1, 2021 and adoption of the standard is not expected to significantly impact the Company's disclosures.

NOTE 2. Earnings Per Share

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

	Second Quarters		Six Months	
	2020	2019	2020	2019
Numerator (<i>Dollars in millions</i>):				
Net Earnings	\$ 499	\$ 870	\$ 1,269	\$ 1,704
Denominator (<i>Units in millions</i>):				
Average Common Shares Outstanding	766	805	769	810
Other Potentially Dilutive Common Shares	1	2	1	2
Average Common Shares Outstanding, Assuming Dilution	767	807	770	812
Net Earnings Per Share, Basic	\$ 0.65	\$ 1.08	\$ 1.65	\$ 2.10
Net Earnings Per Share, Assuming Dilution	\$ 0.65	\$ 1.08	\$ 1.65	\$ 2.10

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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, *continued*

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 2.4 million and 900 thousand of total average outstanding stock options for the quarters ended June 30, 2020 and June 30, 2019, respectively, and 1.8 million and 800 thousand for the six months ended June 30, 2020 and June 30, 2019, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

Share Repurchases

In January 2019, the Company announced a \$5 billion share repurchase program. At June 30, 2020, approximately \$1.1 billion of authority remained under this program. During the second quarter and six months ended 2020 and 2019, the Company engaged in the following repurchase activities:

	Second Quarters		Six Months	
	2020	2019	2020	2019
Shares Repurchased (Millions)	1	11	10	23
Cost of Shares (Dollars in millions)	\$ 39	\$ 860	\$ 616	\$ 1,656

Share repurchases may be made through a variety of methods including, but not limited to, open market purchases, purchases pursuant to Rule 10b5-1 plans, accelerated share repurchases and negotiated block purchases. The timing of share repurchases depends upon management's assessment of marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Shares are retired immediately upon repurchase. In accordance with the *Equity Topic* in the Accounting Standards Codification ("ASC"), the excess of repurchase price over par value is recorded in retained earnings.

Dividend Increase

In February 2020, the Company's Board of Directors authorized an 8% increase in the quarterly cash dividend to \$0.26 per common share.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Stock Plans and Share-Based Compensation

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

Share-based compensation expense for awards under share-based compensation plans and purchases made as part of the employee stock purchase plan is measured using the fair value of the award on the grant date and is recognized on a straight-line basis over the service period of the respective award or upon grant date to certain retirement-eligible employees whose agreements allow for continued vesting upon retirement. Forfeitures are recognized as they occur. Total pre-tax expense and income tax benefits associated with share-based compensation are shown in the table below. Income tax benefits include impacts from option exercises and the vesting of other equity awards. The credit to share-based compensation expense for performance units in second quarter and six months ended 2020 is due to lower expected payouts on existing plans.

	Second Quarters		Six Months	
	2020	2019	2020	2019
<i>(Dollars in millions)</i>				
Share-Based Compensation Expense:				
Performance Units	\$ (17)	\$ 9	(8)	\$ 15
Stock Options	3	5	13	7
Restricted Stock Units and Awards	1	2	3	4
Employee Stock Purchase Plan	1	1	2	2
Stock Awards for Directors	—	—	2	2
Total Share-Based Compensation (Benefit) Expense	\$ (12)	\$ 17	\$ 12	\$ 30
Income Tax Benefit	\$ 2	\$ 7	\$ 11	\$ 35

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Stock Plans and Share-Based Compensation, *continued*

Long-term Incentive Plan

In February 2020, the Company granted 218 thousand performance units to certain employees under a new long-term incentive plan ("LTIP") for the years 2020 through 2022, which was adopted under the CSX 2019 Stock and Incentive Award Plan.

Payouts of performance units for the cycle ending with fiscal year 2022 will be based on the achievement of goals related to both operating income and free cash flow, in each case excluding non-recurring items as disclosed in the Company's financial statements. The cumulative operating income and cumulative free cash flow measures 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 formulaic upward or downward adjustment by up to 25%, capped at an overall payout of 250%, based upon the Company's total shareholder return relative to specified comparable groups over the performance period. Participants will receive stock dividend equivalents declared over the performance period based on the number of performance units paid upon vesting. No grants were made during second quarters 2020 and 2019. The fair values of the performance units awarded during the six months ended 2020 and 2019 were primarily calculated using a Monte-Carlo simulation model with the following weighted-average assumptions:

	Six Months	
	2020	2019
Weighted-average assumptions used:		
Annual dividend yield	N/A	1.4 %
Risk-free interest rate	1.4 %	2.5 %
Annualized volatility	24.5 %	27.6 %
Expected life (in years)	2.9	2.9

Stock Options

In February 2020, the Company granted approximately 1.3 million stock options along with the corresponding LTIP. The fair value of stock options on the date of grant was \$18.88 per option, which was calculated using the Black-Scholes valuation model. These stock options were granted with ten-year terms and vest over three years in equal installments each year on the anniversary of the grant date. 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. During second quarters 2020 and 2019, there were additional immaterial grants of stock options to certain members of management.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Stock Plans and Share-Based Compensation, continued

The fair values of all stock option awards during the quarters and six months ended June 30, 2020 and June 30, 2019 were estimated at the grant date with the following weighted average assumptions:

	Second Quarters		Six Months	
	2020	2019	2020	2019
Weighted-average grant-date fair value	\$ 17.77	\$ 20.51	\$ 18.87	\$ 18.00
Stock options valuation assumptions:				
Annual dividend yield	1.5 %	1.2 %	1.2 %	1.3 %
Risk-free interest rate	0.5 %	2.4 %	1.4 %	2.5 %
Annualized volatility	30.1 %	25.4 %	26.0 %	25.7 %
Expected life (in years)	6.5	6.5	6.0	6.1
Other pricing model inputs:				
Weighted-average grant-date market price of CSX stock (strike price)	\$ 70.87	\$ 78.58	\$ 79.48	\$ 69.97

Restricted Stock Units

In February 2020, the Company granted 91 thousand restricted stock units along with the corresponding LTIP. The restricted stock units vest three years after the date of grant. Participants will receive stock dividend equivalents on the vested shares upon vesting. These awards are time-based and are not based upon CSX's attainment of operational targets. Restricted stock units are paid-out in CSX common stock on a one-for-one basis. For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent annual report on Form 10-K.

Employee Stock Purchase Plan

In May 2018, shareholders approved the 2018 CSX Employee Stock Purchase Plan ("ESPP") for the benefit of Company employees. The Company registered 4 million shares of common stock that may be issued pursuant to this plan. Under the ESPP, employees may contribute between 1% and 10% of base compensation, after-tax, to purchase up to \$25,000 of market value CSX common stock per year at 85% of the closing market price on either the grant date or the last day of the six-month offering period, whichever is lower. During six months ended June 30, 2020 and June 30, 2019, 122 thousand and 105 thousand shares of CSX stock were issued at a weighted average purchase price of \$61.51 and \$52.81 per share, respectively.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves

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

(Dollars in millions)	June 30, 2020			December 31, 2019		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$ 44	\$ 83	\$ 127	\$ 42	\$ 87	\$ 129
Occupational	9	52	61	6	52	58
Total Casualty	53	135	188	48	139	187
Environmental	30	45	75	31	43	74
Other	20	23	43	21	23	44
Total	\$ 103	\$ 203	\$ 306	\$ 100	\$ 205	\$ 305

These liabilities are accrued when probable and reasonably estimable 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 adverse effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, their combined effect could be material in that particular period.

Casualty

Casualty reserves of \$188 million and \$187 million as of June 30, 2020 and December 31, 2019, respectively, represent accruals for personal injury, occupational disease and occupational injury claims. The Company's self-insured retention amount for these claims is \$75 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. 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"). 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 did not result in a material adjustment to the personal injury reserve in the quarter ended June 30, 2020 or June 30, 2019. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims based largely on CSXT's historical claims and settlement experience.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, *continued*

Occupational

Occupational reserves represent liabilities arising from allegations of exposure to certain materials in the workplace (such as solvents, soaps, chemicals and diesel fumes), past exposure to asbestos or allegations of chronic physical injuries resulting from work conditions (such as repetitive stress injuries). Beginning in second quarter 2020, the Company retains an independent actuary to analyze the Company's historical claim filings, settlement amounts, and dismissal rates to assist in determining future anticipated claim filing rates and average settlement values. This analysis is performed by the actuary and reviewed by management quarterly. Previously, the quarterly analysis was performed by management. There were no material adjustments to the occupational reserve in the quarter ended June 30, 2020 or June 30, 2019.

Environmental

Environmental reserves were \$75 million and \$74 million as of June 30, 2020 and December 31, 2019, 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 220 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, *continued*

Based on management's review process, amounts have been recorded to cover contingent anticipated future environmental remediation costs with respect to each site to the extent such costs are reasonably 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 statements.

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.

Other

Other reserves were \$43 million and \$44 million as of June 30, 2020 and December 31, 2019, respectively. These reserves 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 insurance programs with substantial limits for property damage, including resulting business interruption, and third-party liability. A certain amount of risk is retained by the Company on each insurance program. In first quarter 2020, the Company restructured its property insurance program to increase the level at which the Company retains all risk from \$50 million to \$100 million per occurrence for losses from floods and named windstorms and from \$25 million to \$75 million per occurrence for other property losses. For third-party liability claims, the Company retains all risk up to \$75 million per occurrence. 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies, *continued*

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 predicted with certainty, 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 \$1 million to \$43 million in aggregate at June 30, 2020. 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.

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. The class action lawsuits were consolidated into one case in federal court in the District of Columbia. In 2017, the District Court issued its decision denying class certification. On August 16, 2019, the U.S. Court of Appeals for the D.C. Circuit affirmed the District Court's ruling.

The District Court had delayed proceedings on the merits of the consolidated case pending the outcome of the class certification proceedings. The consolidated case is now moving forward without class certification. Although a class was not certified, shippers other than those who brought the original lawsuit in 2007 can bring individual claims against one or more railroads. Individual shipper claims filed to date have been consolidated into a separate case.

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 these matters individually or when aggregated could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies, *continued*

Environmental

CSXT is indemnifying Pharmacia LLC, formerly known as Monsanto Company, ("Pharmacia") 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 the investigation and cleanup 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. Pharmacia's share of responsibility, indemnified by CSXT, for the investigation and cleanup costs of the Study Area may be determined through various mechanisms including (a) an allocation and settlement with EPA; (b) litigation brought by EPA against non-settling parties; or (c) litigation among the responsible parties.

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. Approximately 80 parties, including Pharmacia, are participating in an EPA-directed allocation process to assign responsibility for costs to be incurred implementing the remedy selected for the lower 8 miles of the Study Area. CSXT is participating in the allocation process on behalf of Pharmacia. 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 with regard to the Property in litigation filed by Occidental Chemical Corporation ("Occidental"), which is seeking to recover various costs. These costs include costs for the remedial design of the lower 8 miles of the Study Area, as well as anticipated costs associated with the future remediation of the lower 8 miles of the Study Area and potentially the entire Study Area. Alternatively, Occidental seeks to compel some, or all of the defendants to participate in the remediation of the Study Area. Pharmacia is one of approximately 110 defendants in this federal lawsuit filed by Occidental on June 30, 2018.

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 CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. Beginning in 2020, the CSX Pension Plan is closed to new participants.

CSX also sponsors a non-contributory post-retirement medical plan and a life insurance plan that provide certain benefits to eligible employees hired prior to January 1, 2003. Beginning in 2019, both the life insurance benefit for eligible active employees and health savings account contributions made by the Company to eligible retirees younger than 65 were eliminated. Beginning in 2020, the employer-funded health reimbursement arrangements for eligible retirees 65 years or older have been eliminated. Independent actuaries 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.

Only the service cost component of net periodic benefit costs is included in labor and fringe expense on the consolidated income statement. All other components of net periodic benefit cost are included in other income - net.

	Pension Benefits Cost			
	Second Quarters		Six Months	
	2020	2019	2020	2019
(Dollars in millions)				
Service Cost Included in Labor and Fringe	\$ 10	\$ 8	\$ 20	\$ 16
Interest Cost	21	26	41	52
Expected Return on Plan Assets	(44)	(43)	(87)	(86)
Amortization of Net Loss	14	8	28	15
Total Included in Other Income - Net	(9)	(9)	(18)	(19)
Net Periodic Benefit Cost/(Credit)	\$ 1	\$ (1)	\$ 2	\$ (3)

	Other Post-retirement Benefits Cost			
	Second Quarters		Six Months	
	2020	2019	2020	2019
(Dollars in millions)				
Service Cost Included in Labor and Fringe	\$ 1	\$ 1	\$ 1	\$ 1
Interest Cost	—	1	1	2
Amortization of Prior Service Costs	(1)	(1)	(3)	(3)
Total Included in Other Income - Net	(1)	—	(2)	(1)
Net Periodic Benefit Cost/(Credit)	\$ —	\$ 1	\$ (1)	\$ —

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. No contributions to the Company's qualified pension plans are expected in 2020.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of second quarter 2020 is shown in the table below. For fair value information related to the Company's long-term debt, see Note 10, Fair Value Measurements.

<i>(Dollars in millions)</i>	Current Portion	Long-term Portion	Total
Long-term debt as of December 31, 2019	\$ 245	\$ 15,993	\$ 16,238
2020 activity:			
Long-term debt issued	—	500	500
Long-term debt repaid	(227)	—	(227)
Reclassifications	360	(360)	—
Discount, premium and other activity	—	(5)	(5)
Long-term debt as of June 30, 2020	\$ 378	\$ 16,128	\$ 16,506

Debt Issuance

On March 30, 2020, CSX issued \$500 million of 3.8% notes due 2050. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time, subject to payment of certain make-whole premiums. The net proceeds will be used for general corporate purposes, which may include debt repayments, repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reductions.

Interest Rate Derivatives

On April 29, 2020, the Company executed a forward starting interest rate swap with an aggregate notional value of \$250 million to hedge the benchmark interest rate associated with future interest payments related to the anticipated refinancing of \$850 million of 3.25% notes due 2027. In accordance with the *Derivatives and Hedging Topic* in the ASC, the Company has designated this swap as a cash flow hedge. As of June 30, 2020, the asset value of the forward starting interest rate swap was \$11 million and was recorded in other long-term assets on the consolidated balance sheet.

Unrealized gains or losses associated with changes in the fair value of the hedge are recorded net of tax in accumulated other comprehensive income ("AOCI") on the consolidated balance sheet. Unless settled early, the swap will expire in 2027 and the unrealized gain or loss in AOCI will be recognized in earnings as an adjustment to interest expense over the same period during which the hedged transaction affects earnings. Unrealized gains were \$9 million net of tax during the quarter and six months ended June 30, 2020.

Credit Facility

CSX has a \$1.2 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This facility allows same-day borrowings at floating interest rates, based on LIBOR or an agreed-upon replacement, plus a spread that depends 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. This facility expires in March 2024, and at June 30, 2020, the Company had no outstanding balances under this facility.

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. As of second quarter 2020, CSX was in compliance with all covenant requirements under this facility.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

Commercial Paper

Under its commercial paper program, which is backed by the revolving credit facility, the Company may issue unsecured commercial paper notes up to a maximum aggregate principal amount of \$1.0 billion outstanding at any one time. Proceeds from issuances of the notes are expected to be used for general corporate purposes. At June 30, 2020, the Company had no outstanding debt under the commercial paper program.

NOTE 8. Revenues

The Company's revenues are primarily derived from the transportation of freight as performance obligations that arise from its contracts with customers are satisfied. The following table presents the Company's revenues disaggregated by market as this best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors:

	Second Quarters		Six Months	
	2020	2019	2020	2019
(Dollars in millions)				
Chemicals ^(a)	\$ 531	\$ 592	\$ 1,157	\$ 1,180
Agricultural and Food Products	311	358	676	702
Forest Products ^(a)	194	218	411	430
Metals and Equipment ^(a)	142	188	341	377
Minerals ^(a)	134	147	261	272
Fertilizers	103	112	215	222
Automotive	93	329	374	640
Total Merchandise	1,508	1,944	3,435	3,823
Coal	287	557	692	1,095
Intermodal	359	436	781	864
Other	101	124	202	292
Total	\$ 2,255	\$ 3,061	\$ 5,110	\$ 6,074

(a) In first quarter 2020, changes were made in the categorization of certain lines of business, impacting Chemicals, Forest Products, Metals and Equipment, and Minerals. The impacts were not material and prior periods have been reclassified to conform to the current presentation.

Revenue Recognition

The Company generates revenue from freight billings under contracts with customers generally on a rate per carload, container or ton-basis based on length of haul and commodities carried. The Company's performance obligation arises when it receives a bill of lading ("BOL") to transport a customer's commodities at a negotiated price contained in a transportation services agreement or a publicly disclosed tariff rate. Once a BOL is received, a contract is formed whereby the parties are committed to perform, collectability of consideration is probable and the rights of the parties, shipping terms and conditions, and payment terms are identified. A customer may submit several BOLs for transportation services at various times throughout a service agreement term but each shipment represents a distinct service that is a separately identified performance obligation.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8. Revenues, *continued*

The average transit time to complete a shipment is between 3 to 8 days depending on market. Payments for transportation services are normally billed once a BOL is received and are generally due within 15 days after the invoice date. The Company recognizes revenue over transit time of freight as it moves from origin to destination. Revenue for services started but not completed at the reporting date is allocated based on the relative transit time in each reporting period, with the portion allocated for services subsequent to the reporting date considered remaining performance obligations.

The certain key estimates included in the recognition and measurement of revenue and related accounts receivable are as follows:

- Revenue associated with shipments in transit is recognized ratably over transit time and is based on average cycle times to move commodities and products from their origin to their final destination or interchange;
- Adjustments to revenue for billing corrections and billing discounts;
- Adjustments to revenue for overcharge claims filed by customers, which are based on historical payments to customers for rate overcharges as a percentage of total billing; and
- Incentive-based refunds to customers, which are primarily volume-related, are recorded as a reduction to revenue on the basis of the projected liability (this estimate is based on historical activity, current volume levels and forecasted future volume).

Revenue related to interline transportation services that involve the services of another party, such as another railroad, is reported on a net basis. The portion of the gross amount billed to customers that is remitted by the Company to another party is not reflected as revenue.

Other revenue is comprised of revenue from regional subsidiary railroads and incidental charges, including demurrage and switching. It is recorded upon completion of the service and accounts for an immaterial percentage of the Company's total revenue. Revenue from regional subsidiary railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held by a customer beyond a specified period of time. Switching represents charges assessed when a railroad switches cars for a customer or another railroad.

During the second quarters and six months ended 2020 and 2019, revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price), was not material.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price allocated to future reporting periods for freight services started but not completed at the reporting date. This includes the unearned portion of billed and unbilled amounts for cancellable freight shipments in transit. The Company expects to recognize the unearned portion of revenue for freight services in transit within one week of the reporting date. As of June 30, 2020, remaining performance obligations were not material.

Contract Balances and Accounts Receivable

The timing of revenue recognition, billings and cash collections results in accounts receivable and customer advances and deposits (contract liabilities) on the consolidated balance sheets. Contract assets, contract liabilities and deferred contract costs recorded on the consolidated balance sheet as of June 30, 2020, were not material.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8. Revenues, continued

The Company's accounts receivable - net consists of freight and non-freight receivables, reduced by an allowance for credit losses.

	June 30, 2020	December 31, 2019
<i>(Dollars in millions)</i>		
Freight Receivables	\$ 644	\$ 790
Freight Allowance for Credit Losses	(17)	(21)
Freight Receivables, net	627	769
Non-Freight Receivables	244	226
Non-Freight Allowance for Credit Losses	(11)	(9)
Non-Freight Receivables, net	233	217
Total Accounts Receivable, net	\$ 860	\$ 986

Freight receivables include amounts earned, billed and unbilled, and currently due from customers for transportation-related services. Non-freight receivables include amounts billed and unbilled and currently due related to government reimbursement receivables and other non-revenue receivables. The Company maintains an allowance for credit losses to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of risk characteristics, historical payment experience, and the age of outstanding receivables adjusted for forward-looking economic conditions as necessary. Credit losses recognized on the Company's accounts receivable were not material in the second quarters or six months ended 2020 and 2019.

NOTE 9. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2019.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. 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, long-term debt and interest rate derivatives. 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, long-term debt and interest rate derivatives. 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 and government 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.

- *Commercial Paper and Certificates of Deposit (Level 2)*: Valued at amortized cost, which approximates fair value; and
- *Corporate Bonds and Government Securities (Level 2)*: Valued using broker quotes that utilize observable market inputs.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. Fair Value Measurements, continued

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the following table. All of the inputs used to determine the fair value of the Company's investments are Level 2 inputs.

<i>(Dollars in Millions)</i>	June 30, 2020	December 31, 2019
Commercial Paper and Certificates of Deposit	\$ 202	\$ 989
Corporate Bonds	67	59
Government Securities	35	36
Total investments at fair value	\$ 304	\$ 1,084
Total investments at amortized cost	\$ 294	\$ 1,076

These investments have the following maturities:

<i>(Dollars in millions)</i>	June 30, 2020	December 31, 2019
Less than 1 year	\$ 203	\$ 996
1 - 5 years	11	10
5 - 10 years	37	25
Greater than 10 years	53	53
Total investments at fair value	\$ 304	\$ 1,084

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 a third party that utilizes closing transactions, market quotes or market values of comparable debt. For those instruments not valued by the third party, 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 third party. 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:

<i>(Dollars in millions)</i>	June 30, 2020	December 31, 2019
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 20,733	\$ 18,503
Carrying Value	16,506	16,238

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. Fair Value Measurements, continued

Interest Rate Derivatives

The Company's forward starting interest rate swap is carried at fair value and is valued with assistance from a third party based upon pricing models using inputs observed from actively quoted markets. All of the inputs used to determine the fair value of the swap are Level 2 inputs. The fair value of the Company's forward starting interest rate swap asset was \$11 million at June 30, 2020. See Note 7, Debt and Credit Agreements for further information.

NOTE 11. 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 as well as other adjustments. Total comprehensive earnings represent the activity for a period net of tax and were \$519 million and \$874 million for second quarters 2020 and 2019 and \$1.3 billion and \$1.7 billion for the six months 2020 and 2019, 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, interest rate derivatives and CSX's share of AOCI of equity method investees.

Changes in the AOCI balance by component are shown in the following table. Amounts reclassified in pension and other post-employment benefits to net earnings relate to the amortization of actuarial losses and are included in other income - net on the consolidated income statements. See Note 6, Employee Benefit Plans, for further information. Interest rate derivatives consist of forward starting interest rate swaps classified as cash flow hedges. See Note 7, Debt and Credit Agreements 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 or equipment and other rents on the consolidated income statements.

	Pension and Other Post- Employment Benefits	Interest Rate Derivatives	Other	Accumulated Other Comprehensive Income (Loss)
<i>(Dollars in millions)</i>				
Balance December 31, 2019, Net of Tax	\$ (619)	\$ —	\$ (56)	\$ (675)
Other Comprehensive Income (Loss)				
Income (Loss) Before Reclassifications	—	11	(8)	3
Amounts Reclassified to Net Earnings	28	—	—	28
Tax Expense	(6)	(2)	—	(8)
Total Other Comprehensive Income (Loss)	22	9	(8)	23
Balance June 30, 2020, Net of Tax	\$ (597)	\$ 9	\$ (64)	\$ (652)

CSX CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
SECOND QUARTER 2020 HIGHLIGHTS

- Revenue decreased \$806 million, or 26% year over year.
- Expenses decreased \$329 million, or 19% year over year.
- Operating income of \$828 million decreased \$477 million year over year.
- Operating ratio of 63.3% increased 590 basis points versus last year's quarter.
- Earnings per diluted share of \$0.65 decreased \$0.43, or 40% year over year.

	Second Quarters				Six Months			
	2020	2019	Fav / (Unfav)	% Change	2020	2019	Fav / (Unfav)	% Change
Volume <i>(in thousands)</i>	1,257	1,581	(324)	(20)%	2,771	3,112	(341)	(11)%
<i>(in millions)</i>								
Revenue	\$ 2,255	\$ 3,061	\$ (806)	(26)	\$ 5,110	\$ 6,074	\$ (964)	(16)
Expense	1,427	1,756	329	19	3,104	3,550	446	13
Operating Income	\$ 828	\$ 1,305	\$ (477)	(37)%	\$ 2,006	\$ 2,524	\$ (518)	(21)%
Operating Ratio	63.3 %	57.4 %	(590) bps		60.7 %	58.4 %	(230) bps	
Earnings Per Diluted Share	\$ 0.65	\$ 1.08	\$ (0.43)	(40)%	\$ 1.65	\$ 2.10	\$ (0.45)	(21)%

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

Weaker global economic conditions, including the effects of the novel coronavirus ("COVID-19") global pandemic, have significantly impacted and will continue to impact the Company's results of operations. Demand for rail services has been affected by the disruption of global manufacturing, supply chains and consumer spending as a result of the COVID-19 pandemic. While operating cash flows have also been impacted by these economic conditions, the Company maintains a strong cash balance and access to committed funding sources and other sources of external liquidity if required. As this is a dynamic situation, it is difficult to determine the future impacts of the pandemic. The ultimate magnitude of COVID-19, including the extent of its impact on the Company's financial and operating results, will be determined by the length of time that the pandemic continues, its effect on the demand for the Company's transportation services and the supply chain, as well as the effect of governmental regulations imposed in response to the pandemic.

CSX will continue to adapt its business operations to ensure safety while providing a high level of service for customers as efficient and reliable rail service is essential to keeping supply chains fluid in response to this challenge. A cross-functional task force continues to monitor and coordinate the Company's response to COVID-19. Policies and procedures established to protect the health and safety of employees and customers and to safeguard CSX operations include rigorous cleaning regimens for equipment and facilities, provision of sanitation supplies, distribution of disposable face coverings, facilitation of social distancing measures and administration of temperature testing at certain facilities. Additionally, remote work assignments have been arranged where possible in order to reduce the density of employees in a single location, and alternative locations for key functions, such as dispatch, have been utilized as needed.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted to provide relief to businesses in response to the COVID-19 pandemic. The most significant impacts to the Company include the deferral of federal estimated tax payments to third quarter 2020 and the deferral of certain payroll tax payments to 2021 and 2022. The provisions of the CARES Act are not expected to have an impact on CSX's results of operations or effective tax rate.

CSX CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Volume and Revenue (Unaudited)

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

Second Quarters

	Volume			Revenue			Revenue Per Unit		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Chemicals ^(a)	152	173	(12) %	\$ 531	\$ 592	(10) %	\$ 3,493	\$ 3,422	2 %
Agricultural and Food Products	102	118	(14)	311	358	(13)	3,049	3,034	—
Minerals ^(a)	83	90	(8)	134	147	(9)	1,614	1,633	(1)
Forest Products ^(a)	64	71	(10)	194	218	(11)	3,031	3,070	(1)
Fertilizers	60	61	(2)	103	112	(8)	1,717	1,836	(6)
Metals and Equipment ^(a)	48	63	(24)	142	188	(24)	2,958	2,984	(1)
Automotive	35	121	(71)	93	329	(72)	2,657	2,719	(2)
Total Merchandise	544	697	(22)	1,508	1,944	(22)	2,772	2,789	(1)
Coal	127	226	(44)	287	557	(48)	2,260	2,465	(8)
Intermodal	586	658	(11)	359	436	(18)	613	663	(8)
Other	—	—	—	101	124	(19)	—	—	—
Total	1,257	1,581	(20) %	\$ 2,255	\$ 3,061	(26) %	\$ 1,794	\$ 1,936	(7) %

Six Months

	Volume			Revenue			Revenue Per Unit		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Chemicals ^(a)	330	340	(3) %	\$ 1,157	\$ 1,180	(2) %	\$ 3,506	\$ 3,471	1 %
Agricultural and Food Products	223	232	(4)	676	702	(4)	3,031	3,026	—
Minerals ^(a)	157	160	(2)	261	272	(4)	1,662	1,700	(2)
Forest Products ^(a)	135	141	(4)	411	430	(4)	3,044	3,050	—
Fertilizers	118	123	(4)	215	222	(3)	1,822	1,805	1
Metals and Equipment ^(a)	115	127	(9)	341	377	(10)	2,965	2,969	—
Automotive	139	236	(41)	374	640	(42)	2,691	2,712	(1)
Total Merchandise	1,217	1,359	(10)	3,435	3,823	(10)	2,823	2,813	—
Coal	308	438	(30)	692	1,095	(37)	2,247	2,500	(10)
Intermodal	1,246	1,315	(5)	781	864	(10)	627	657	(5)
Other	—	—	—	202	292	(31)	—	—	—
Total	2,771	3,112	(11) %	\$ 5,110	\$ 6,074	(16) %	\$ 1,844	\$ 1,952	(6) %

(a) In first quarter 2020, changes were made in the categorization of certain lines of business, impacting Chemicals, Forest Products, Metals and Equipment, and Minerals. The impacts were not material and prior periods have been reclassified to conform to the current presentation.

CSX CORPORATION

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

Second Quarter 2020**Revenue**

The effects of the COVID-19 pandemic significantly impacted overall volume in the second quarter 2020. Total revenue decreased 26% in second quarter 2020 when compared to second quarter 2019 due to volume declines, unfavorable mix, decreases in fuel recovery, declines in coal pricing and lower other revenue. These decreases were partially offset by pricing gains in merchandise and intermodal.

Merchandise Volume

Chemicals - Decreased due to lower shipments of industrial chemicals, energy and waste.

Agricultural and Food Products - Declined due to lower shipments of food and consumer products, grain and feed, and ethanol.

Minerals - Decreased due to lower shipments of cement, lime and limestone, and other minerals.

Forest Products - Declined due to lower shipments of building products and printing paper, partially offset by higher shipments of pulpboard.

Fertilizers - Decreased due to lower long-haul fertilizer shipments, which was partially offset by higher short-haul phosphate shipments.

Metals and Equipment - Declined due to reduced metals shipments driven by lower automotive and industrial production.

Automotive - Declined due to lower North American vehicle production primarily associated with plant closures resulting from COVID-19.

Coal Volume

Domestic coal declined due to lower shipments of utility coal as a result of continued competition from natural gas and reduced electrical demand, as well as lower steel and industrial shipments due to lower industrial production. Export coal declined due to reduced international shipments of thermal and metallurgical coal as a result of lower global benchmark prices.

Intermodal Volume

Declines in both domestic and international shipments were primarily driven by the global economic impacts from COVID-19.

Other Revenue

Other revenue decreased \$23 million versus prior year primarily due to lower affiliate revenue as well as declines in demurrage and intermodal storage.

CSX CORPORATION

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

Expenses

Expenses of \$1.4 billion decreased \$329 million, or 19% in second quarter 2020 when compared to second quarter 2019 primarily driven by volume and efficiency savings as well as lower fuel costs.

Labor and Fringe expense decreased \$141 million due to the following:

- Volume and efficiency savings of \$109 million primarily resulted from reduced crew starts and lower headcount.
- Total incentive compensation decreased \$39 million primarily due to lower expected payouts on existing plans.
- Other costs increased \$7 million primarily due to \$10 million of severance expense in the quarter, partially offset by other non-significant items.

Materials, Supplies and Other expense decreased \$38 million due to the following:

- Volume and efficiency savings of \$84 million primarily resulted from lower recurring operating support costs, lower terminal costs and reduced equipment maintenance expenses.
- Gains from real estate and line sales were \$11 million in 2020 compared to \$37 million in 2019.
- All other costs increased \$20 million primarily driven by \$9 million for COVID-19 supplies and other non-significant items including asset impairments and inflation.

Depreciation expense increased \$7 million primarily due to the results of a 2019 equipment depreciation study.

Fuel expense decreased \$143 million due to a 50% price decrease, lower volumes and record fuel efficiency.

Equipment and Other Rents expense decreased \$14 million primarily driven by reduced freight car rents on significantly lower volume levels.

Interest Expense

Interest expense increased \$7 million primarily due to higher average debt balances, partially offset by lower average interest rates.

Other Income - Net

Other income - net decreased \$10 million primarily due to lower interest rates associated with changes in asset holdings from short-term investments to cash, partially offset by higher average cash and short-term investment balances.

Income Tax Expense

Income tax expense decreased \$123 million primarily due to lower earnings before income taxes.

CSX CORPORATION

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

Six Months Results of Operations

Revenue decreased \$964 million due to volume declines, unfavorable mix, lower other revenue, decreases in fuel recovery and declines in coal pricing. These decreases were partially offset by pricing gains in merchandise and intermodal.

Total expense decreased \$446 million driven by lower volume-related costs; savings from labor, fuel and other operational efficiencies; fuel price savings and decreased incentive compensation costs. These decreases were partially offset by lower gains from real estate and line sales as well as inflation.

Interest expense increased \$16 million primarily due to higher average debt balances, partially offset by lower average interest rates.

Other income - net decreased \$11 million primarily due to lower interest rates associated with changes in asset holdings from short-term investments to cash, partially offset by higher average cash and short-term investment balances.

Income tax expense decreased \$110 million primarily due to lower earnings before income taxes, partially offset by lower benefits from the impacts of option exercises and the vesting of other equity awards.

CSX CORPORATION

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

Non-GAAP Measures - Unaudited

CSX reports its financial results in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). CSX also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation C and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results. Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, CSX's non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP. Reconciliations of non-GAAP measures to corresponding GAAP measures are below.

Free Cash Flow

Management believes that free cash flow is supplemental information useful to investors as it is important in evaluating the Company's financial performance. More specifically, free cash flow measures cash generated by the business after reinvestment. This measure represents cash available for both equity and bond investors to be used for dividends, share repurchases or principal reduction on outstanding debt. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities, which includes proceeds from property dispositions. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. The decrease in free cash flow before dividends from the prior year of \$242 million is primarily due to lower proceeds from property dispositions and lower net cash provided by operating activities.

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow, before dividends (non-GAAP measure).

(Dollars in millions)

Net cash provided by operating activities

Property Additions

Other Investing Activities

Free Cash Flow (before payment of dividends)

Six Months	
2020	2019
\$ 2,184	\$ 2,267
(801)	(769)
3	130
\$ 1,386	\$ 1,628

Operating Statistics (Estimated)

The Company strives for continuous improvement in safety and service performance through training, innovation and investment. Investment in training and technology also is designed to allow the Company's employees to have an additional layer of protection that can detect and avoid many types of human factor incidents. 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.

Train velocity, terminal dwell and cars online in the following table are calculated using methodologies that differ from those prescribed by the Surface Transportation Board ("STB") as the Company believes these numbers more accurately reflect railroad performance. These metrics will continue to be reported, using the prescribed methodology, to the STB on a weekly basis. See additional discussion on the Company's website.

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

Train velocity increased by 6% year over year while car dwell increased 2%. The Company remains focused on executing the operating plan to deliver service gains, improved transit times and increased asset utilization while continuing to control costs.

From a safety perspective, CSX had an all-time low number of FRA-reportable train accidents in the second quarter of 2020. This improvement was outpaced by a significant reduction in train miles, which caused the FRA train accident rate to degrade 9% year over year to 2.33. The FRA personal injury frequency index of 1.16 in the second quarter degraded 40% versus the prior year as an increase in FRA-reportable personal injuries was compounded by lower man-hours in the quarter. The Company is committed to continuous safety improvement and remains focused on reducing risk and enhancing the overall safety of its employees, customers and communities in which the Company operates.

	Second Quarters			Six Months		
	2020	2019	Improvement/ (Deterioration)	2020	2019	Improvement/ (Deterioration)
Operations Performance						
Train Velocity (<i>Miles per hour</i>)	21.2	20.0	6 %	21.2	20.2	5 %
Dwell (<i>Hours</i>)	8.9	8.7	(2) %	8.6	8.6	— %
Cars Online	98,606	120,919	18 %	104,703	119,959	13 %
Revenue Ton-Miles (Billions)						
Merchandise	27.8	33.0	(16) %	60.9	64.6	(6) %
Coal	6.0	10.9	(45) %	14.6	21.4	(32) %
Intermodal	6.1	6.8	(10) %	12.9	13.3	(3) %
Total Revenue Ton-Miles	39.9	50.7	(21) %	88.4	99.3	(11) %
Total Gross Ton-Miles (<i>Billions</i>)	77.0	99.9	(23) %	172.3	196.6	(12) %
On-Time Originations	88 %	88 %	— %	90 %	85 %	6 %
On-Time Arrivals ^(a)	84 %	73 %	15 %	84 %	77 %	9 %
Safety						
FRA Personal Injury Frequency Index	1.16	0.83	(40) %	0.86	0.81	(6) %
FRA Train Accident Rate	2.33	2.13	(9) %	2.19	2.47	11 %

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

(a) Beginning in the third quarter 2019, the calculation of on-time arrivals has changed to consider a train "on time" if it is delivered within two hours of scheduled arrival. Prior year periods have been restated to conform to this change.

Key Performance Measures Definitions

Train Velocity - Average train speed between origin and destination in miles per hour (does not include locals, yard jobs, work trains or passenger trains). Train velocity measures the profiled schedule of trains (from departure to arrival and all interim time), and train profiles are periodically updated to align with a changing operation.

Dwell - Average amount of time in hours between car arrival to and departure from the yard.

Cars Online - Average number of active freight rail cars on lines operated by CSX, excluding rail cars that are being repaired, in storage, those that have been sold, or private cars dwelling at a customer location more than one day.

Revenue Ton-Miles (RTMs) - The movement of one revenue-producing ton of freight over a distance of one mile.

Gross Ton-Miles (GTMs) - The movement of one ton of train weight over one mile. GTMs are calculated by multiplying total train weight by distance the train moved. Total train weight is comprised of the weight of the freight cars and their contents.

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 within two hours of scheduled arrival.

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.

CSX CORPORATION

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

LIQUIDITY AND CAPITAL RESOURCES

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

Material Changes in Significant Cash Flows*Significant Cash Flows*

The following chart highlights the components of the net increase of \$1.4 billion and net decrease of \$5 million in cash and cash equivalents for operating, investing and financing activities for six months ended 2020 and 2019, respectively.

csx-20200630_g2.jpg	csx-20200630_g3.jpg	csx-20200630_g4.jpg

- Cash provided by operating activities decreased \$83 million primarily driven by lower cash-generating income, partially offset by favorable changes in working capital including the impacts of tax payment deferrals available under the CARES Act.
- Cash used in investing activities decreased \$1.3 billion primarily as a result of decreased purchases and increased sales of short-term investments, partially offset by lower proceeds from property dispositions.
- Cash used in financing activities decreased \$268 million driven by lower share repurchases, partially offset by lower proceeds from debt issuances and higher debt repayments.

Sources of Cash and Liquidity and Uses of Cash

As of the end of second quarter 2020, CSX had \$2.6 billion of cash, cash equivalents and short-term investments. 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.

The Company has multiple sources of liquidity, including cash generated from operations and financing sources. The Company filed a shelf registration statement with the SEC on February 12, 2019, which is unlimited as to amount and may be used to issue debt or equity securities at CSX's discretion, subject to market conditions and CSX Board authorization. While CSX seeks to give itself flexibility with respect to cash requirements, there can be no assurance that market conditions would permit CSX to sell such securities on acceptable terms at any given time, or at all. During six months ended 2020, CSX issued a total of \$500 million of new long-term debt.

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

CSX has a \$1.2 billion unsecured, revolving credit facility backed by a diverse syndicate of banks that expires in March 2024. At June 30, 2020, the Company had no outstanding balances under this facility. The Company also has a commercial paper program, backed by the revolving credit facility, under which the Company may issue unsecured commercial paper notes up to a maximum aggregate principal amount of \$1.0 billion outstanding at any one time. At June 30, 2020, the Company had no outstanding debt under the commercial paper program.

Planned capital investments for 2020 are expected to be between \$1.6 billion and \$1.7 billion. Of the total 2020 investment, over half will be used to sustain the core infrastructure and the remaining amounts will be allocated to projects supporting service enhancements, productivity initiatives and profitable growth. CSX intends to fund capital investments through cash generated from operations.

Of the total 2020 investment, approximately \$50 million is planned to fund Positive Train Control ("PTC") implementation. PTC implementation is essentially complete at a total cost of \$2.4 billion which included installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. While the Company expects ongoing PTC costs, future PTC implementation costs are not expected to be material.

Material Changes in the Consolidated Balance Sheets and Working Capital***Consolidated Balance Sheets***

Total assets increased \$647 million from year end primarily due to the net increase of \$640 million in cash and short-term investments driven by cash from operations of \$2.2 billion and proceeds from the issuance of \$500 million of long-term debt, partially offset by property additions of \$801 million, share repurchases of \$616 million, dividends paid of \$400 million and debt repayments of \$227 million.

Total liabilities increased \$347 million from year end primarily due to the issuance of \$500 million of long-term debt and an increase in income and other taxes payable of \$311 million driven by tax payment deferrals available under the CARES Act. These increases were partially offset by debt repayments of \$227 million, a decrease in labor and fringe benefit payable of \$137 million primarily resulting from the payment of incentive compensation and a decrease in accounts payable of \$83 million. Total shareholders' equity increased \$300 million from year end primarily driven by net earnings of \$1.3 billion, partially offset by share repurchases of \$616 million and dividends paid of \$400 million.

Working capital is considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of \$1.4 billion and \$1.1 billion as of June 30, 2020 and December 31, 2019, respectively. The increase in working capital since year end of \$317 million is primarily due to the net increase of \$640 million in cash and short-term investments described above as well as the decreases in labor and fringe benefit payable of \$137 million and accounts payable of \$83 million. These favorable changes were partially offset by an increase in income taxes payable of \$311 million, an increase in current maturities of long-term debt of \$133 million and a decrease in accounts receivable of \$126 million commensurate with lower revenues resulting from the COVID-19 pandemic.

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

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. CSX has sufficient financial capacity, including its revolving credit facility, commercial paper program 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.

CSX is committed to returning cash to shareholders and maintaining an investment grade credit profile. Capital structure, capital investments and cash distributions, including dividends and share repurchases, are reviewed at least annually by the Board of Directors. 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.

Guaranteed Notes Issued By CSXT

In March 2020, the SEC adopted amendments to reduce and simplify the financial disclosure requirements for guarantors and issuers of guaranteed registered securities effective January 4, 2021, with early voluntary compliance permitted. CSX has elected to comply with these amendments effective second quarter 2020. As a result, separate condensed consolidating financial information for wholly-owned subsidiaries who issued or guaranteed notes will no longer be included in the footnotes to the financial statements in Quarterly and Annual Reports on Form 10-Q and Form 10-K. Also in accordance with the amendments, CSX is not required to present combined summary financial information regarding such subsidiary issuers and guarantors because the assets, liabilities and results of operations of the combined issuers and guarantors of the notes are not materially different than the corresponding amounts presented in the consolidated financial statements.

In 2007, CSXT, a wholly-owned subsidiary of CSX Corporation, issued \$381 million of secured equipment notes maturing in 2023 in a registered public offering. CSX Corporation has fully and unconditionally guaranteed the notes. At CSXT's option, CSXT may redeem any or all of the notes, in whole or in part, at any time, at the redemption price including premium. In the case of loss or destruction of any item of equipment securing the notes, if CSXT does not substitute another item of equipment for the item suffering such loss or destruction, CSXT will be required to redeem the notes in part at par. The guarantee of the notes will rank equally in right of payment with all existing and future senior obligations of CSX Corporation and will be effectively subordinated to all future secured indebtedness of CSX Corporation to the extent of the assets securing such indebtedness. The guarantee is subject to release in limited circumstances only upon the occurrence of certain customary conditions. At June 30, 2020, the principal balance of these secured equipment notes was \$178 million.

CSX CORPORATION

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

LABOR AGREEMENTS

Approximately 15,000 of the Company's nearly 19,000 employees are members of a labor union. In November 2019, notices were served to the 13 rail unions that participate in national bargaining to begin negotiations for benefits, wages and work rules for the next labor bargaining round for 2020. Current agreements remain in place until modified by these negotiations. Typically, such negotiations take several years before agreements are reached.

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.

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

CSX CORPORATION**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****FORWARD-LOOKING STATEMENTS**

Certain statements in this report and in other materials filed with the Securities and Exchange Commission, 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, workforce levels, 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.

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 I, 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, international trade 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;

CSX CORPORATION

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

- 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, including the recent outbreak of the coronavirus COVID-19, 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, equipment or supply chain;
- 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;
- the impact of global supply and price of seaborne coal on CSXT's export coal market;
- 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;
- adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- loss of key personnel or the inability to hire and retain qualified employees;
- 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;
- the impact of conditions in the real estate market on the Company's ability to sell assets;
- 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 and the Company's website at www.csx.com. The information on the CSX website is not part of this quarterly report on Form 10-Q.

CSX CORPORATION

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

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 except as provided below.

Changes in interest rates may impact the cost of future long-term debt issued by the Company, and as a result, represent interest rate risk to the Company. In an effort to manage this risk, CSX may use certain financial instruments such as interest rate forward contracts. The following information, together with information included in Note 7, Debt and Credit Agreements, describes the key aspects of such contracts and the related market risk to CSX.

On April 29, 2020, the Company executed a forward starting interest rate swap with an aggregate notional value of \$250 million. The purpose of this swap, designated as a cash flow hedge, is to hedge against changes in the benchmark interest rate associated with future interest payments related to the anticipated refinancing of notes due 2027. The Company recognized an unrealized gain of \$9 million, net of tax, in the consolidated statements of comprehensive income during the quarter ended June 30, 2020 with the related asset on the balance sheet as of June 30, 2020. Upon settlement of the swap, which expires in 2027, the unrealized gain or loss in AOCI will be recognized in earnings as an adjustment to interest expense over the same period during which the hedged transaction affects earnings.

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2020, 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 June 30, 2020, 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 second quarter of 2020 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CSX CORPORATION

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.

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 I, Item 1A (Risk Factors) of CSX's most recent annual report on Form 10-K and under Part II, Item 1A of the Company's quarterly report on Form 10-Q for first quarter 2020. See also Part I, Item 2 (Forward-Looking Statements) of this quarterly report on Form 10-Q.

Item 2. CSX Purchases of Equity Securities

The Company continues to repurchase shares under the \$5 billion program announced in January 2019. For more information about share repurchases, see Note 2 Earnings Per Share. Share repurchase activity for the second quarter 2020 was as follows:

	CSX Purchases of Equity Securities for the Quarter			Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	
Second Quarter				
Beginning Balance				\$ 1,179,116,549
April 1 - April 30, 2020	17,470	\$ 63.69	—	1,179,116,549
May 1 - May 31, 2020	—	—	—	1,179,116,549
June 1 - June 30, 2020	579,541	67.28	579,541	1,140,125,168
Ending Balance	597,011	\$ 67.17	579,541	\$ 1,140,125,168

(a) The difference of 17,470 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 CORPORATION
PART II

Item 6. Exhibits

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
Material contracts:		
10.1	Amendment to Form of Change of Control Agreement	May 8, 2020 Exhibit 10.1, Form 8-K
Officer certifications:		
31*	Rule 13a-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 June 30, 2020 filed with the SEC on July 22, 2020, formatted in inline XBRL includes: (i) consolidated income statements for the quarters ended June 30, 2020 and June 30, 2019, (ii) condensed consolidated comprehensive income statements for the quarters ended June 30, 2020 and June 30, 2019, (iii) consolidated balance sheets at June 30, 2020 and December 31, 2019, (iv) consolidated cash flow statements for the six months ended June 30, 2020 and June 30, 2019, (v) consolidated statement of changes in shareholders' equity for the quarters ended June 30, 2020 and June 30, 2019, and (vi) the notes to consolidated financial statements.	
104	Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101)	
Other exhibits:		
22.1*	List of Subsidiary Issuers and Guarantors	

* Filed herewith

**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/ ANGELA C. WILLIAMS

Angela C. Williams
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Dated: July 22, 2020