

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 1-8022



CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

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. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

Large Accelerated Filer (X) Accelerated Filer () Non-accelerated Filer () Smaller Reporting Company () Emerging growth company ()

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

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

Yes () No (X)

There were 782,336,546 shares of common stock outstanding on September 30, 2019 (the latest practicable date that is closest to the filing date).

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019
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CSX CORPORATION
PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENTS (Unaudited)
(Dollars in millions, except per share amounts)

	Third Quarters		Nine Months	
	2019	2018	2019	2018
Revenue	\$ 2,978	\$ 3,129	\$ 9,052	\$ 9,107
Expense				
Labor and Fringe	638	695	1,958	2,060
Materials, Supplies and Other	415	474	1,348	1,425
Depreciation	338	334	1,005	986
Fuel	223	268	690	793
Equipment and Other Rents	104	89	307	302
Equity Earnings of Affiliates	(27)	(24)	(67)	(79)
Total Expense	1,691	1,836	5,241	5,487
Operating Income	1,287	1,293	3,811	3,620
Interest Expense	(186)	(162)	(548)	(468)
Other Income - Net	24	19	72	54
Earnings Before Income Taxes	1,125	1,150	3,335	3,206
Income Tax Expense	(269)	(256)	(775)	(740)
Net Earnings	\$ 856	\$ 894	\$ 2,560	\$ 2,466
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$ 1.08	\$ 1.05	\$ 3.19	\$ 2.85
Net Earnings Per Share, Assuming Dilution	\$ 1.08	\$ 1.05	\$ 3.18	\$ 2.83
Average Shares Outstanding <i>(In millions)</i>	790	850	803	866
Average Shares Outstanding, Assuming Dilution <i>(In millions)</i>	792	854	805	870

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)
(Dollars in millions)

	Third Quarters		Nine Months	
	2019	2018	2019	2018
Total Comprehensive Earnings (Note 12)	\$ 863	\$ 901	\$ 2,573	\$ 2,378

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	<i>(Unaudited)</i>	
	September 30, 2019	December 31, 2018
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,521	\$ 858
Short-term Investments	1,037	253
Accounts Receivable - Net (Note 9)	1,101	1,010
Materials and Supplies	235	263
Other Current Assets	66	181
Total Current Assets	3,960	2,565
Properties	45,012	44,805
Accumulated Depreciation	(12,934)	(12,807)
Properties - Net	32,078	31,998
Investment in Conrail	969	943
Affiliates and Other Companies	880	836
Right-of-Use Lease Asset (Note 5)	539	—
Other Long-term Assets	369	387
Total Assets	\$ 38,795	\$ 36,729
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 1,101	\$ 949
Labor and Fringe Benefits Payable	486	550
Casualty, Environmental and Other Reserves (Note 4)	110	113
Current Maturities of Long-term Debt (Note 8)	745	18
Income and Other Taxes Payable	155	106
Other Current Liabilities	208	179
Total Current Liabilities	2,805	1,915
Casualty, Environmental and Other Reserves (Note 4)	195	211
Long-term Debt (Note 8)	15,992	14,739
Deferred Income Taxes - Net	6,882	6,690
Long-term Lease Liability (Note 5)	494	—
Other Long-term Liabilities	548	594
Total Liabilities	26,916	24,149
Shareholders' Equity:		
Common Stock, \$1 Par Value	782	818
Other Capital	314	249
Retained Earnings	11,416	12,157
Accumulated Other Comprehensive Loss (Note 12)	(648)	(661)
Noncontrolling Interest	15	17
Total Shareholders' Equity	11,879	12,580
Total Liabilities and Shareholders' Equity	\$ 38,795	\$ 36,729

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

	Nine Months	
	2019	2018
OPERATING ACTIVITIES		
Net Earnings	\$ 2,560	\$ 2,466
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	1,005	986
Deferred Income Taxes	186	148
Gain on Property Dispositions	(129)	(122)
Equity Earnings of Affiliates	(67)	(79)
Cash Payments for Restructuring Charge	—	(14)
Other Operating Activities	(14)	(13)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(39)	(97)
Other Current Assets	84	70
Accounts Payable	152	140
Income and Other Taxes Payable	114	19
Other Current Liabilities	(115)	(98)
Net Cash Provided by Operating Activities	3,737	3,406
INVESTING ACTIVITIES		
Property Additions	(1,191)	(1,240)
Proceeds from Property Dispositions	218	257
Purchases of Short-term Investments	(2,255)	(611)
Proceeds from Sales of Short-term Investments	1,480	15
Other Investing Activities	19	(8)
Net Cash Used In Investing Activities	(1,729)	(1,587)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 8)	2,000	2,000
Long-term Debt Repaid (Note 8)	(18)	(19)
Dividends Paid	(577)	(570)
Shares Repurchased	(2,767)	(2,816)
Accelerated Share Repurchase Pending Final Settlement (Note 2)	—	(100)
Other Financing Activities	17	(52)
Net Cash Used in Financing Activities	(1,345)	(1,557)
Net Increase in Cash and Cash Equivalents	663	262
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	858	401
Cash and Cash Equivalents at End of Period	\$ 1,521	\$ 663

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

Nine Months 2019	Common Shares Outstanding <i>(Thousands)</i>	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 12)	—	—	—	2	—	2
Total Comprehensive Earnings						836
Common stock dividends, \$0.24 per share	—	—	(195)	—	—	(195)
Share Repurchases	(11,540)	(12)	(784)	—	—	(796)
Stock Option Exercises and Other	2,524	21	(1)	—	—	20
Balance March 31, 2019	809,164	\$ 1,076	\$ 12,011	\$ (659)	\$ 17	\$ 12,445
Comprehensive Earnings:						
Net Earnings	—	—	870	—	—	870
Other Comprehensive Income (Note 12)	—	—	—	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
Comprehensive Earnings:						
Net Earnings	—	—	856	—	—	856
Other Comprehensive Income (Note 12)	—	—	—	7	—	7
Total Comprehensive Earnings						863
Common stock dividends, \$0.24 per share	—	—	(189)	—	—	(189)
Share Repurchases	(16,098)	(16)	(1,095)	—	—	(1,111)
Stock Option Exercises and Other	264	24	1	—	1	26
Balance September 30, 2019	782,342	\$ 1,096	\$ 11,416	\$ (648)	\$ 15	\$ 11,879

(a) Accumulated Other Comprehensive Loss balances shown above are net of tax. The associated taxes were \$179 million, \$177 million, and \$175 million as of first, second and third quarters 2019, respectively. For additional information, see Note 12, Other Comprehensive Income.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

Nine Months 2018	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, 2017	889,851	\$ 1,107	\$ 14,084	\$ (486)	\$ 16	\$ 14,721
Comprehensive Earnings:						
Net Earnings	—	—	695	—	—	695
Other Comprehensive Loss	—	—	—	(99)	—	(99)
Total Comprehensive Earnings						596
Common stock dividends, \$0.22 per share	—	—	(194)	—	—	(194)
Share Repurchases	(14,966)	(15)	(821)	—	—	(836)
Stock Option Exercises and Other	469	(2)	109	—	(3)	104
Balance March 31, 2018	875,354	\$ 1,090	\$ 13,873	\$ (585)	\$ 13	\$ 14,391
Comprehensive Earnings:						
Net Earnings	—	—	877	—	—	877
Other Comprehensive Income	—	—	—	4	—	4
Total Comprehensive Earnings						881
Common stock dividends, \$0.22 per share	—	—	(190)	—	—	(190)
Share Repurchases	(16,386)	(16)	(958)	—	—	(974)
Stock Option Exercises and Other	(157)	(88)	2	—	1	(85)
Balance June 30, 2018	858,811	\$ 986	\$ 13,604	\$ (581)	\$ 14	\$ 14,023
Comprehensive Earnings:						
Net Earnings	—	—	894	—	—	894
Other Comprehensive Income	—	—	—	7	—	7
Total Comprehensive Earnings						901
Common stock dividends, \$0.22 per share	—	—	(186)	—	—	(186)
Share Repurchases	(14,341)	(15)	(991)	—	—	(1,006)
Stock Option Exercises and Other	(50)	2	(1)	—	2	3
Balance September 30, 2018	844,420	\$ 973	\$ 13,320	\$ (574)	\$ 16	\$ 13,735

(a) Accumulated Other Comprehensive Loss balances shown above are net of tax. The associated taxes were \$160 million, \$158 million, and \$156 million as of first, second and third quarters 2018, respectively. For additional information, see Note 12, 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 (“CSX”), together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

CSX's principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 20,000 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. In addition, as substantially all real estate sales, leasing, acquisition and management and development activities are focused on supporting railroad operations, all results of these activities are included in operating income.

Other entities

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

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the consolidated financial statements and accompanying notes. 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 “third quarter(s)” or “nine months” indicate CSX's fiscal periods ending September 30, 2019 and September 30, 2018, and references to “year-end” indicate the fiscal year ended December 31, 2018.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

New Accounting Pronouncements

Pronouncements adopted in 2019

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

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

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

Pronouncements to be adopted

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share

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

	Third Quarters		Nine Months	
	2019	2018	2019	2018
Numerator (<i>Dollars in millions</i>):				
Net Earnings	\$ 856	\$ 894	\$ 2,560	\$ 2,466
Denominator (<i>Units in millions</i>):				
Average Common Shares Outstanding	790	850	803	866
Other Potentially Dilutive Common Shares	2	4	2	4
Average Common Shares Outstanding, Assuming Dilution	792	854	805	870
Net Earnings Per Share, Basic	\$ 1.08	\$ 1.05	\$ 3.19	\$ 2.85
Net Earnings Per Share, Assuming Dilution	\$ 1.08	\$ 1.05	\$ 3.18	\$ 2.83

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

When calculating diluted earnings per share, the potential shares that would be outstanding if all outstanding stock options were exercised are included. This number is different from outstanding stock options because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately 1 million and 7 thousand of total average outstanding stock options for the quarters ended September 30, 2019 and September 30, 2018, respectively, and 800 thousand and 600 thousand for the nine months ended September 30, 2019 and September 30, 2018, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

Share Repurchases

In February 2018, the Company announced an increase to the \$1.5 billion share repurchase program first announced in October 2017, bringing the total authorized amount to \$5 billion. This program was completed on January 16, 2019. Also on January 16, 2019, the Company announced a new \$5 billion share repurchase program. During third quarter and nine months ended 2019 and 2018, the Company engaged in the following repurchase activities:

	Third Quarters		Nine Months	
	2019	2018	2019	2018
Shares Repurchased (<i>Millions</i>)	16	15	39	46
Cost of Shares (<i>Dollars in millions</i>)	\$ 1,111	\$ 1,006	\$ 2,767	\$ 2,816

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, *continued*

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 ASC, the excess of repurchase price over par value is recorded in retained earnings.

On August 8, 2019, the Company entered into an agreement to repurchase shares of the Company's common stock. Under this agreement, the Company made a prepayment of \$250 million to a financial institution and settlement occurred September 10, 2019. At settlement, the Company received approximately 4 million shares, calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount.

On July 19, 2018, the Company entered into an accelerated share repurchase agreement to repurchase shares of the Company's common stock. Under this agreement, the Company made a prepayment of \$500 million to a financial institution and received an initial delivery of 6 million shares valued at \$400 million. The remaining balance of \$100 million was settled through receipt of additional shares on October 11, 2018, with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 7 million total shares were repurchased under the agreement.

On April 20, 2018, the Company entered into an accelerated share repurchase agreement to repurchase shares of the Company's common stock. Under this agreement, the Company made a prepayment of \$450 million to a financial institution and received an initial delivery of shares valued at \$360 million, or 6 million shares. The remaining balance of \$90 million was settled through receipt of additional shares in July 2018, with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 7 million total shares were repurchased under this agreement. Under a separate accelerated share repurchase agreement in January 2018, the Company paid \$150 million to a financial institution and received approximately 3 million total shares in first quarter 2018.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation

Under CSX's share-based compensation plans, awards consist of performance units, restricted stock awards, restricted stock units and stock options for management and stock grants for directors. Awards granted under the various programs are determined and approved by the Compensation Committee of the Board of Directors or, in certain circumstances, by the full Board for awards to the Chief Executive Officer or 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. 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.

<i>(Dollars in millions)</i>	Third Quarters		Nine Months	
	2019	2018	2019	2018
Share-Based Compensation Expense:				
Performance Units	\$ 8	\$ 8	\$ 23	\$ 22
Stock Options	2	4	9	10
Restricted Stock Units and Awards	2	1	6	4
Stock Awards for Directors	—	—	2	2
Employee Stock Purchase Plan	1	—	3	—
Total Share-Based Compensation Expense	\$ 13	\$ 13	\$ 43	\$ 38
Income Tax Benefit	\$ 6	\$ 6	\$ 41	\$ 23

Long-term Incentive Plan

In February 2019, the Company granted approximately 300 thousand performance units to certain employees under a new long-term incentive plan ("LTIP") for the years 2019 through 2021, which was adopted under the CSX 2010 Stock and Incentive Award Plan. On May 3, 2019, shareholders approved the CSX 2019 Stock and Incentive Award Plan, under which future awards will be granted.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, *continued*

Payouts of performance units for the cycle ending with fiscal year 2021 will be based on the achievement of goals related to both operating ratio and free cash flow, in each case excluding non-recurring items as disclosed in the Company's financial statements. The cumulative operating ratio and cumulative free cash flow 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 225%, based upon the Company's total shareholder return relative to specified comparable groups over the performance period. The fair values of the performance units awarded during the third quarters and nine months 2019 and 2018 were calculated using a Monte-Carlo simulation model with the following weighted-average assumptions:

	Third Quarters		Nine Months	
	2019 ^(a)	2018	2019	2018
Weighted-average assumptions used:				
Annual dividend yield	N/A	1.2%	1.4%	1.6%
Risk-free interest rate	N/A	2.7%	2.5%	2.3%
Annualized volatility	N/A	27.9%	27.6%	29.1%
Expected life (in years)	N/A	2.3	2.9	2.9

(a) No performance units were awarded in third quarter 2019.

Stock Options

Also, in February 2019, the Company granted approximately 843 thousand stock options along with the corresponding LTIP. The fair value of stock options on the date of grant was \$17.45 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 third quarters 2019 and 2018, there were immaterial grants of stock options to certain members of management.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, *continued*

The fair values of all stock option awards during the quarters and nine months ended September 30, 2019 and September 30, 2018 were estimated at the grant date with the following weighted average assumptions:

	Third Quarters		Nine Months	
	2019	2018	2019	2018
Weighted-average grant-date fair value	\$ 15.44	\$ 20.52	\$ 17.99	\$ 14.65
Stock options valuation assumptions:				
Annual dividend yield	1.4%	1.2%	1.3%	1.5%
Risk-free interest rate	1.4%	2.8%	2.5%	2.6%
Annualized volatility	25.7%	25.5%	25.7%	27.0%
Expected life (in years)	6.5	6.5	6.1	6.5
Other pricing model inputs:				
Weighted-average grant-date market price of CSX stock (strike price)	\$ 66.35	\$ 74.84	\$ 69.96	\$ 54.19

Restricted Stock Units

Finally, in February 2019, the Company granted approximately 65 thousand restricted stock units along with the corresponding LTIP. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon 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 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 third quarter and nine months ended 2019, 144 thousand and 249 thousand shares of CSX stock were issued at a weighted average purchase price of \$52.66 and \$52.72 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)	September 30, 2019			December 31, 2018		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$ 47	\$ 78	\$ 125	\$ 40	\$ 103	\$ 143
Occupational	9	50	59	10	46	56
Total Casualty	56	128	184	50	149	199
Environmental	32	46	78	39	41	80
Other	22	21	43	24	21	45
Total	\$ 110	\$ 195	\$ 305	\$ 113	\$ 211	\$ 324

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 \$184 million and \$199 million as of September 30, 2019 and December 31, 2018, respectively, represent accruals for personal injury, occupational disease and occupational injury claims. During second quarter 2018, the Company increased its self-insured retention amount for these claims from \$50 million to \$75 million per occurrence for claims occurring on or after June 1, 2018. 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 for the quarter did not result in a material adjustment to the personal injury reserve in the quarter ended September 30, 2019 or September 30, 2018. 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 for occupational disease and injury claims. Occupational disease claims arise primarily from allegations of exposure to asbestos in the workplace. Occupational injury claims arise from allegations of exposure to certain other materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as "irritants") and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries. The analysis performed by management for the quarter did not result in a material adjustment to the occupational reserve in the quarter ended September 30, 2019 or September 30, 2018.

Environmental

Environmental reserves were \$78 million and \$80 million as of September 30, 2019 and December 31, 2018, 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 231 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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

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

Based on the review process, the Company has recorded amounts to cover contingent anticipated future environmental remediation costs with respect to each site to the extent such costs are 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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 \$45 million as of September 30, 2019 and December 31, 2018, 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. Leases

CSX has various lease agreements with terms up to 50 years, including leases of land, land with integral equipment (e.g. track), buildings and various equipment. Some leases include options to purchase, terminate or extend for one or more years. These options are included in the lease term when it is reasonably certain that the option will be exercised.

At inception, the Company determines if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g. minimum rent payments) and non-lease components (e.g. maintenance, labor charges, etc.). The Company generally accounts for each component separately based on the estimated standalone price of each component. For certain equipment leases, such as freight car, vehicles and work equipment, the Company accounts for the lease and non-lease components as a single lease component.

Certain of the Company's lease agreements include rental payments that are adjusted periodically for an index or rate. The leases are initially measured using the projected payments adjusted for the index or rate in effect at the commencement date. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Operating Leases

Operating leases are included in right-of-use lease assets, other current liabilities and long-term lease liabilities on the consolidated balance sheets. These assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term using the Company's secured incremental borrowing rates or implicit rates, when readily determinable. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the balance sheet.

Lease expense for operating leases is recognized on a straight-line basis over the lease term. Variable lease expense is recognized in the period in which the obligation for those payments is incurred. Lease expense is included in equipment and other rents on the consolidated income statements and is reported net of lease income. Lease income is not material to the results of operations for the quarter or nine months ended September 2019.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Leases, continued

The following table presents information about the amount, timing and uncertainty of cash flows arising from the Company's operating leases as of September 30, 2019.

(Dollars in Millions)

	September 30, 2019	
Maturity of Lease Liabilities	Lease Payments	
2019 (remaining)	\$	14
2020		61
2021		53
2022		46
2023		38
Thereafter		1,242
Total undiscounted operating lease payments	\$	1,454
Less: Imputed interest		(901)
Present value of operating lease liabilities	\$	553

Balance Sheet Classification

Current lease liabilities (recorded in other current liabilities)	\$	59
Long-term lease liabilities		494
Total operating lease liabilities	\$	553

Other Information

Weighted-average remaining lease term for operating leases	32 years
Weighted-average discount rate for operating leases	5.0%

Cash Flows

An initial right-of-use asset of \$534 million was recognized as a non-cash asset addition with the adoption of the new lease accounting standard. Additional right-of-use assets of \$41 million were recognized as non-cash asset additions that resulted from new operating lease liabilities during the nine months ended September 30, 2019. Cash paid for amounts included in the present value of operating lease liabilities was \$44 million during the nine months ended September 30, 2019 and is included in operating cash flows.

Operating Lease Costs

Operating lease costs were \$21 million during third quarter 2019 and \$60 million for the nine months ended September 30, 2019. These costs are primarily related to long-term operating leases, but also include immaterial amounts for variable leases and short-term leases with terms greater than 30 days.

Finance Leases

Finance leases are included in properties-net and long-term debt on the consolidated balance sheets. The associated amortization expense and interest expense are included in depreciation and interest expense, respectively, on the consolidated income statements. These leases are not material to the consolidated financial statements as of September 30, 2019.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Commitments and Contingencies

Insurance

The Company maintains insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the property and liability programs. The Company has a \$50 million per occurrence retention for floods and named windstorms and a \$25 million per occurrence retention for property losses other than floods and named windstorms. For claims occurring on or after June 1, 2018, the Company increased its self-insured retention for third-party liability claims from \$50 million 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.

Legal

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

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be \$1 million to \$28 million in aggregate at September 30, 2019. 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 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Commitments and Contingencies, *continued*

The District Court had delayed proceedings on the merits of the case pending the outcome of the class certification proceedings. The eight named plaintiffs in the underlying case can now choose whether to proceed with their claims. Because there is no class, other shippers must decide whether to bring an individual claim against one or more railroads. Some individual shipper claims have been filed.

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.

Environmental

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

In March 2016, EPA issued its Record of Decision detailing the agency's mandated remedial process for the lower 8 miles of the Study Area. 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 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 7. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. 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. 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.

<i>(Dollars in millions)</i>	Pension Benefits Cost			
	Third Quarters		Nine Months	
	2019	2018	2019	2018
Service Cost Included in Labor and Fringe	\$ 8	\$ 8	\$ 24	\$ 24
Interest Cost	25	23	77	69
Expected Return on Plan Assets	(43)	(44)	(129)	(131)
Amortization of Net Loss	8	10	23	30
Total Included in Other Income - Net	(10)	(11)	(29)	(32)
Net Periodic Benefit Credit	\$ (2)	\$ (3)	\$ (5)	\$ (8)

<i>(Dollars in millions)</i>	Other Post-retirement Benefits Cost			
	Third Quarters		Nine Months	
	2019	2018	2019	2018
Service Cost Included in Labor and Fringe	\$ —	\$ —	\$ 1	\$ 1
Interest Cost	—	2	2	5
Amortization of Prior Service Costs	(2)	—	(5)	—
Total Included in Other Income - Net	(2)	2	(3)	5
Net Periodic Benefit (Credit)/Cost	\$ (2)	\$ 2	\$ (2)	\$ 6

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 required in 2019.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8. Debt and Credit Agreements

Total activity related to long-term debt as of the end of third quarter 2019 is shown in the table below. For fair value information related to the Company's long-term debt, see Note 11, Fair Value Measurements.

<i>(Dollars in millions)</i>	Current Portion	Long-term Portion	Total
Long-term debt as of December 31, 2018	\$ 18	\$ 14,739	\$ 14,757
2019 activity:			
Long-term debt issued	—	2,000	2,000
Long-term debt repaid	(18)	—	(18)
Reclassifications	745	(745)	—
Discount, premium and other activity	—	(2)	(2)
Long-term debt as of September 30, 2019	\$ 745	\$ 15,992	\$ 16,737

Debt Issuance

On September 12, 2019, CSX issued \$400 million of 2.40% notes due 2030 and \$600 million of 3.35% notes due 2049. 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. On October 15, 2019, a portion of the net proceeds was used to fully redeem CSX's outstanding \$500 million of 3.70% notes originally due October 30, 2020. As the Company issued notification on September 12, 2019 of its intent to redeem the October 2020 notes early, these notes were included in current maturities of long-term debt on the consolidated balance sheet as of September 30, 2019. The remaining net proceeds from the September 2019 issuance will also be used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reductions at CSX's major transportation units.

On February 28, 2019, CSX issued \$600 million of 4.25% notes due 2029, which was a reopening of existing notes originally issued in November 2018, and \$400 million of 4.50% notes due 2049. 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 repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reduction initiatives at the Company's major transportation units.

Credit Facility

In March 2019, CSX replaced its existing \$1.0 billion unsecured, revolving credit facility with a new \$1.2 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. The new 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 September 30, 2019, 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 third quarter 2019, CSX was in compliance with all covenant requirements under this facility.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8. 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 September 30, 2019, the Company had no outstanding debt under the commercial paper program.

NOTE 9. 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:

<i>(Dollars in millions)</i>	Third Quarters		Nine Months	
	2019	2018	2019	2018
Chemicals	\$ 589	\$ 596	\$ 1,766	\$ 1,741
Agricultural and Food Products	354	325	1,056	959
Automotive	297	300	937	934
Forest Products	225	223	664	633
Metals and Equipment	195	205	571	589
Minerals	145	137	412	388
Fertilizers	101	104	323	332
Total Merchandise	1,906	1,890	5,729	5,576
Coal	516	588	1,611	1,660
Intermodal	447	500	1,311	1,439
Other	109	151	401	432
Total	\$ 2,978	\$ 3,129	\$ 9,052	\$ 9,107

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 9. 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 revenue is primarily generated when the Company switches cars for a customer or another railroad.

During the third quarters and nine months 2019 and 2018, 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 September 30, 2019, the Company had no material remaining performance obligations.

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. The Company had no material contract assets, contract liabilities or deferred contract costs recorded on the consolidated balance sheet as of September 30, 2019.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Revenues, continued

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

(Dollars in millions)

	September 30, 2019		December 31, 2018
Freight Receivables	\$ 861	\$	846
Freight Allowance for Doubtful Accounts	(20)		(18)
Freight Receivables, net	841		828
Non-Freight Receivables	269		190
Non-Freight Allowance for Doubtful Accounts	(9)		(8)
Non-Freight Receivables, net	260		182
Total Accounts Receivable, net	\$ 1,101	\$	1,010

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 doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and economic conditions. Impairment losses recognized on the Company's accounts receivable were not material in the third quarters or nine months 2019 and 2018.

NOTE 10. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2018.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Fair Value Measurements

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

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

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

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

Investments

The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds 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.

- *Certificates of Deposit and Commercial Paper (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.

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. The amortized cost basis of these investments was \$1,118 million and \$340 million as of September 30, 2019 and December 31, 2018, respectively.

<i>(Dollars in Millions)</i>	September 30, 2019	December 31, 2018
Certificates of Deposit and Commercial Paper	\$ 1,029	\$ 250
Corporate Bonds	62	56
Government Securities	35	35
Total investments at fair value	\$ 1,126	\$ 341

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Fair Value Measurements, continued

These investments have the following maturities:

<i>(Dollars in millions)</i>	September 30, 2019	December 31, 2018
Less than 1 year	\$ 1,037	\$ 253
1 - 5 years	9	14
5 - 10 years	26	26
Greater than 10 years	54	48
Total investments at fair value	\$ 1,126	\$ 341

Long-term Debt

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

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

<i>(Dollars in millions)</i>	September 30, 2019	December 31, 2018
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 18,923	\$ 14,914
Carrying Value	16,737	14,757

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Other Comprehensive Income (Loss)

CSX reports comprehensive earnings or loss in accordance with the *Comprehensive Income Topic* in the ASC in the Consolidated Comprehensive Income Statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equal net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$863 million and \$901 million for third quarters and \$2.6 billion and \$2.4 billion for the nine months 2019 and 2018, respectively.

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

Changes in the AOCI balance by component are shown in the 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 7, Employee Benefit Plans, for further information. Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified in other to net earnings are included in equity earnings of affiliates on the consolidated income statements.

	Pension and Other Post-Employment Benefits	Other	Accumulated Other Comprehensive Income (Loss)
<i>(Dollars in millions)</i>			
Balance December 31, 2018, Net of Tax	\$ (604)	\$ (57)	\$ (661)
Other Comprehensive Income (Loss)			
Loss Before Reclassifications	—	(5)	(5)
Amounts Reclassified to Net Earnings	18	6	24
Tax Expense	(4)	(2)	(6)
Total Other Comprehensive Income (Loss)	14	(1)	13
Balance September 30, 2019, Net of Tax	\$ (590)	\$ (58)	\$ (648)

NOTE 13. Summarized Consolidating Financial Data

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Third Quarter 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 2,958	\$ 20	\$ 2,978
Expense	(138)	1,862	(33)	1,691
Operating Income	138	1,096	53	1,287
Equity in Earnings of Subsidiaries	883	—	(883)	—
Interest (Expense) / Benefit	(220)	(11)	45	(186)
Other Income / (Expense) - Net	9	47	(32)	24
Earnings Before Income Taxes	810	1,132	(817)	1,125
Income Tax Benefit / (Expense)	46	(267)	(48)	(269)
Net Earnings	\$ 856	\$ 865	\$ (865)	\$ 856
Total Comprehensive Earnings	\$ 863	\$ 864	\$ (864)	\$ 863

Third Quarter 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 3,110	\$ 19	\$ 3,129
Expense	(86)	1,952	(30)	1,836
Operating Income	86	1,158	49	1,293
Equity in Earnings of Subsidiaries	953	—	(953)	—
Interest (Expense) / Benefit	(190)	(11)	39	(162)
Other Income / (Expense) - Net	6	35	(22)	19
Earnings Before Income Taxes	855	1,182	(887)	1,150
Income Tax Benefit / (Expense)	39	(278)	(17)	(256)
Net Earnings	\$ 894	\$ 904	\$ (904)	\$ 894
Total Comprehensive Earnings	\$ 901	\$ 903	\$ (903)	\$ 901

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Nine Months 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 8,992	\$ 60	\$ 9,052
Expense	(413)	5,776	(122)	5,241
Operating Income	413	3,216	182	3,811
Equity in Earnings of Subsidiaries	2,683	—	(2,683)	—
Interest (Expense) / Benefit	(658)	(32)	142	(548)
Other Income / (Expense) - Net	28	150	(106)	72
Earnings Before Income Taxes	2,466	3,334	(2,465)	3,335
Income Tax (Expense) / Benefit	94	(788)	(81)	(775)
Net Earnings	\$ 2,560	\$ 2,546	\$ (2,546)	\$ 2,560
Total Comprehensive Earnings	\$ 2,573	\$ 2,542	\$ (2,542)	\$ 2,573
Nine Months 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 9,050	\$ 57	\$ 9,107
Expense	(248)	5,843	(108)	5,487
Operating Income	248	3,207	165	3,620
Equity in Earnings of Subsidiaries	2,653	—	(2,653)	—
Interest (Expense) / Benefit	(535)	(28)	95	(468)
Other Income / (Expense) - Net	16	87	(49)	54
Earnings Before Income Taxes	2,382	3,266	(2,442)	3,206
Income Tax (Expense) / Benefit	84	(776)	(48)	(740)
Net Earnings	\$ 2,466	\$ 2,490	\$ (2,490)	\$ 2,466
Total Comprehensive Earnings	\$ 2,378	\$ 2,484	\$ (2,484)	\$ 2,378

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet

(Dollars in millions)

September 30, 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 1,355	\$ 152	\$ 14	\$ 1,521
Short-term Investments	1,028	—	9	1,037
Accounts Receivable - Net	2	1,044	55	1,101
Receivable from Affiliates	874	6,918	(7,792)	—
Materials and Supplies	—	235	—	235
Other Current Assets	(1)	50	17	66
Total Current Assets	3,258	8,399	(7,697)	3,960
Properties	1	42,055	2,956	45,012
Accumulated Depreciation	(1)	(11,231)	(1,702)	(12,934)
Properties - Net	—	30,824	1,254	32,078
Investments in Conrail	—	—	969	969
Affiliates and Other Companies	(39)	904	15	880
Investments in Consolidated Subsidiaries	33,966	—	(33,966)	—
Right-of-Use Lease Asset	—	519	20	539
Other Long-term Assets	3	608	(242)	369
Total Assets	\$ 37,188	\$ 41,254	\$ (39,647)	\$ 38,795
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	\$ 200	\$ 832	\$ 69	\$ 1,101
Labor and Fringe Benefits Payable	36	411	39	486
Payable to Affiliates	8,959	385	(9,344)	—
Casualty, Environmental and Other Reserves	—	95	15	110
Current Maturities of Long-term Debt	500	245	—	745
Income and Other Taxes Payable	(428)	570	13	155
Other Current Liabilities	—	197	11	208
Total Current Liabilities	9,267	2,735	(9,197)	2,805
Casualty, Environmental and Other Reserves	—	161	34	195
Long-term Debt	15,532	460	—	15,992
Deferred Income Taxes - Net	(150)	6,755	277	6,882
Long-term Lease Liability	—	481	13	494
Other Long-term Liabilities	675	203	(330)	548
Total Liabilities	\$ 25,324	\$ 10,795	\$ (9,203)	\$ 26,916
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 782	\$ 181	\$ (181)	\$ 782
Other Capital	314	5,096	(5,096)	314
Retained Earnings	11,416	25,118	(25,118)	11,416
Accumulated Other Comprehensive Loss	(648)	49	(49)	(648)
Noncontrolling Interest	—	15	—	15
Total Shareholders' Equity	\$ 11,864	\$ 30,459	\$ (30,444)	\$ 11,879
Total Liabilities and Shareholders' Equity	\$ 37,188	\$ 41,254	\$ (39,647)	\$ 38,795

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in millions)

	December 31, 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$	716	\$ 130	\$ 12	\$ 858
Short-term Investments		250	—	3	253
Accounts Receivable - Net		1	1,003	6	1,010
Receivable from Affiliates		1,020	5,214	(6,234)	—
Materials and Supplies		—	263	—	263
Other Current Assets		63	104	14	181
Total Current Assets		2,050	6,714	(6,199)	2,565
Properties		1	41,897	2,907	44,805
Accumulated Depreciation		(1)	(11,194)	(1,612)	(12,807)
Properties - Net		—	30,703	1,295	31,998
Investments in Conrail		—	—	943	943
Affiliates and Other Companies		(39)	859	16	836
Investment in Consolidated Subsidiaries		32,033	—	(32,033)	—
Other Long-term Assets		2	598	(213)	387
Total Assets	\$	34,046	\$ 38,874	\$ (36,191)	\$ 36,729
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	\$	132	\$ 763	\$ 54	\$ 949
Labor and Fringe Benefits Payable		41	440	69	550
Payable to Affiliates		6,973	633	(7,606)	—
Casualty, Environmental and Other Reserves		—	99	14	113
Current Maturities of Long-term Debt		—	18	—	18
Income and Other Taxes Payable		(290)	392	4	106
Other Current Liabilities		11	162	6	179
Total Current Liabilities		6,867	2,507	(7,459)	1,915
Casualty, Environmental and Other Reserves		—	176	35	211
Long-term Debt		14,029	710	—	14,739
Deferred Income Taxes - Net		(134)	6,601	223	6,690
Other Long-term Liabilities		721	211	(338)	594
Total Liabilities	\$	21,483	\$ 10,205	\$ (7,539)	\$ 24,149
Shareholders' Equity					
Common Stock, \$1 Par Value	\$	818	\$ 181	\$ (181)	\$ 818
Other Capital		249	5,096	(5,096)	249
Retained Earnings		12,157	23,322	(23,322)	12,157
Accumulated Other Comprehensive Loss		(661)	53	(53)	(661)
Noncontrolling Minority Interest		—	17	—	17
Total Shareholders' Equity	\$	12,563	\$ 28,669	\$ (28,652)	\$ 12,580
Total Liabilities and Shareholders' Equity	\$	34,046	\$ 38,874	\$ (36,191)	\$ 36,729

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Nine Months 2019	Consolidating Cash Flow Statements			
	<i>(Dollars in millions)</i>			
	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 2,732	\$ 1,629	\$ (624)	\$ 3,737
Investing Activities				
Property Additions	—	(1,085)	(106)	(1,191)
Proceeds from Property Dispositions	—	218	—	218
Purchases of Short-term Investments	(2,255)	—	—	(2,255)
Proceeds from Sales of Short-term Investments	1,480	—	—	1,480
Other Investing Activities	4	33	(18)	19
<i>Net Cash Used in Investing Activities</i>	(771)	(834)	(124)	(1,729)
Financing Activities				
Long-term Debt Issued	2,000	—	—	2,000
Long-term Debt Repaid	—	(18)	—	(18)
Dividends Paid	(577)	(750)	750	(577)
Shares Repurchased	(2,767)	—	—	(2,767)
Other Financing Activities	22	(5)	—	17
<i>Net Cash (Used in) Provided by Financing Activities</i>	(1,322)	(773)	750	(1,345)
Net Increase in Cash and Cash Equivalents	639	22	2	663
Cash and Cash Equivalents at Beginning of Period	716	130	12	858
Cash and Cash Equivalents at End of Period	\$ 1,355	\$ 152	\$ 14	\$ 1,521

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Nine Months 2018	Consolidating Cash Flow Statements			
	<i>(Dollars in millions)</i>			
	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 2,417	\$ 1,792	\$ (803)	\$ 3,406
Investing Activities				
Property Additions	—	(1,134)	(106)	(1,240)
Proceeds from Property Dispositions	—	257	—	257
Purchases of Short-term Investments	(609)	—	(2)	(611)
Proceeds from Sales of Short-term Investments	—	—	15	15
Other Investing Activities	(1)	(149)	142	(8)
<i>Net Cash (Used in) Provided by Investing Activities</i>	(610)	(1,026)	49	(1,587)
Financing Activities				
Long-term Debt Issued	2,000	—	—	2,000
Long-term Debt Repaid	—	(19)	—	(19)
Dividends Paid	(570)	(750)	750	(570)
Shares Repurchased	(2,816)	—	—	(2,816)
Accelerated Share Repurchase Pending Final Settlement	(100)	—	—	(100)
Other Financing Activities	(58)	(2)	8	(52)
<i>Net Cash (Used in) Provided by Financing Activities</i>	(1,544)	(771)	758	(1,557)
Net Increase (Decrease) in Cash and Cash Equivalents	263	(5)	4	262
Cash and Cash Equivalents at Beginning of Period	274	121	6	401
Cash and Cash Equivalents at End of Period	\$ 537	\$ 116	\$ 10	\$ 663

CSX CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THIRD QUARTER 2019 HIGHLIGHTS

- Revenue decreased \$151 million, or 5% year over year.
- Expenses decreased \$145 million, or 8% year over year.
- Operating income of \$1.3 billion decreased \$6 million year over year.
- Operating ratio of 56.8% improved 190 basis points versus last year's quarter.
- Earnings per diluted share of \$1.08 increased \$0.03, or 3% year over year.

	Third Quarters				Nine Months			
	2019	2018	<i>Fav / (Unfav)</i>	<i>% Change</i>	2019	2018	<i>Fav / (Unfav)</i>	<i>% Change</i>
Volume <i>(in thousands)</i>	1,569	1,656	<i>(87)</i>	<i>(5)%</i>	4,681	4,834	<i>(153)</i>	<i>(3)%</i>
<i>(in millions)</i>								
Revenue	\$ 2,978	\$ 3,129	<i>\$(151)</i>	<i>(5)</i>	\$ 9,052	\$ 9,107	<i>\$(55)</i>	<i>(1)</i>
Expense	1,691	1,836	<i>145</i>	<i>8</i>	5,241	5,487	<i>246</i>	<i>4</i>
Operating Income	\$ 1,287	\$ 1,293	<i>\$(6)</i>	<i>—%</i>	\$ 3,811	\$ 3,620	<i>\$191</i>	<i>5%</i>
Operating Ratio	56.8%	58.7%	<i>190</i>	<i>bps</i>	57.9%	60.3%	<i>240</i>	<i>bps</i>
Earnings Per Diluted Share	\$ 1.08	\$ 1.05	<i>\$0.03</i>	<i>3%</i>	\$ 3.18	\$ 2.83	<i>\$0.35</i>	<i>12%</i>

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)
Third Quarters

	Volume			Revenue			Revenue Per Unit		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
Chemicals	166	172	(3)%	\$ 589	\$ 596	(1)%	\$ 3,548	\$ 3,465	2 %
Agricultural and Food Products	119	112	6	354	325	9	2,975	2,902	3
Automotive	110	111	(1)	297	300	(1)	2,700	2,703	—
Minerals	90	85	6	145	137	6	1,611	1,612	—
Forest Products	73	74	(1)	225	223	1	3,082	3,014	2
Metals and Equipment	65	69	(6)	195	205	(5)	3,000	2,971	1
Fertilizers	60	60	—	101	104	(3)	1,683	1,733	(3)
Total Merchandise	683	683	—	1,906	1,890	1	2,791	2,767	1
Coal	213	234	(9)	516	588	(12)	2,423	2,513	(4)
Intermodal	673	739	(9)	447	500	(11)	664	677	(2)
Other	—	—	—	109	151	(28)	—	—	—
Total	1,569	1,656	(5)%	\$ 2,978	\$ 3,129	(5)%	\$ 1,898	\$ 1,889	— %

Nine Months

	Volume			Revenue			Revenue Per Unit		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
Chemicals	505	503	— %	\$ 1,766	\$ 1,741	1 %	\$ 3,497	\$ 3,461	1 %
Agricultural and Food Products	351	331	6	1,056	959	10	3,009	2,897	4
Automotive	346	341	1	937	934	—	2,708	2,739	(1)
Minerals	248	237	5	412	388	6	1,661	1,637	1
Forest Products	217	212	2	664	633	5	3,060	2,986	2
Metals and Equipment	192	202	(5)	571	589	(3)	2,974	2,916	2
Fertilizers	183	188	(3)	323	332	(3)	1,765	1,766	—
Total Merchandise	2,042	2,014	1	5,729	5,576	3	2,806	2,769	1
Coal	651	657	(1)	1,611	1,660	(3)	2,475	2,527	(2)
Intermodal	1,988	2,163	(8)	1,311	1,439	(9)	659	665	(1)
Other	—	—	—	401	432	(7)	—	—	—
Total	4,681	4,834	(3)%	\$ 9,052	\$ 9,107	(1)%	\$ 1,934	\$ 1,884	3 %

CSX CORPORATION

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

Third Quarter 2019

Revenue

Revenue decreased 5 percent year over year due to intermodal and coal volume decreases, lower other revenue and decreases in fuel recovery, partially offset by pricing gains across nearly all markets and favorable mix.

Merchandise Volume

Chemicals - Declined due to reduced natural gas liquids and fly ash shipments, partially offset by growth in industrial chemicals as well as industrial and municipal waste.

Agricultural and Food Products - Increased due to gains in feed grain and ingredients, sweeteners and oils, and ethanol.

Automotive - Declined due to lower passenger car shipments, partially offset by higher shipments of trucks and SUVs.

Minerals - Increased due to higher shipments for construction and paving projects.

Forest Products - Declined due to reduced pulpboard shipments, partially offset by higher demand for wood pulp.

Metals and Equipment - Declined due to reduced metals shipments, primarily in the steel, construction and scrap markets.

Fertilizers - Volume gains on short-haul phosphate shipments were offset by declines in long-haul fertilizer shipments.

Coal Volume

Domestic coal volume declined primarily due to lower shipments of utility coal as a result of continued competition from natural gas. Export coal volume declined due to lower international shipments of both thermal and metallurgical coal as global benchmark prices declined.

Intermodal Volume

Domestic and international volumes declined primarily due to rationalization of low-density lanes.

Other Revenue

Other revenue decreased \$42 million versus prior year primarily due to lower revenue for storage at intermodal facilities and demurrage.

CSX CORPORATION

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

Expenses

Expenses of \$1.7 billion decreased \$145 million, or 8 percent year over year, primarily driven by efficiency gains as well as volume savings and lower fuel prices, partially offset by inflation.

Labor and Fringe expense decreased \$57 million due to the following:

- Efficiency and volume savings of \$54 million primarily resulted from lower headcount and reduced crew starts.
- Other cost savings were partially offset by inflation.

Materials, Supplies and Other expense decreased \$59 million due to the following:

- Efficiency and volume savings of \$64 million primarily resulted from lower operating support costs, lower trucking and terminal costs and reduced equipment maintenance expenses.
- Gains from real estate and line sales were \$65 million in 2019 compared to \$53 million in 2018.
- All other costs increased \$17 million primarily due to a \$22 million non-railroad asset impairment related to an intermodal terminal sale agreement.

Depreciation expense increased \$4 million primarily due to a larger asset base.

Fuel expense decreased \$45 million primarily due to a 13% price decrease, record fuel efficiency and lower volume. These decreases were partially offset by a \$15 million net expense related to state fuel tax matters.

Equipment and Other Rents expense increased \$15 million primarily due to several non-significant items, including inflation, partially offset by volume and efficiency savings.

Interest Expense

Interest expense increased \$24 million primarily due to higher average debt balances.

Other Income - Net

Other income - net increased \$5 million primarily due to increased interest income as a result of higher average investment balances.

Income Tax Expense

Income tax expense increased \$13 million primarily due to benefits in 2018 related to the resolution of a state tax matter and a federal deferred tax adjustment, partially offset by lower earnings before income taxes.

CSX CORPORATION

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

Nine Months Results of Operations

Revenue decreased \$55 million primarily due to volume decreases, particularly in intermodal, partially offset by price increases and favorable mix.

Total expense decreased \$246 million primarily due to labor, fuel and other operational efficiencies in addition to volume-related savings and lower fuel prices, partially offset by inflation.

Interest expense increased \$80 million primarily due to higher average debt balances.

Other income - net increased \$18 million primarily due to increased interest income as a result of higher average investment balances.

Income tax expense increased \$35 million primarily due to increased earnings before income taxes as well as benefits in 2018 related to state legislative changes and a federal deferred tax adjustment. These increases were partially offset by tax benefits from the impacts of options 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 G 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.

Adjusted 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. Adjusted free cash flow excludes the impact of cash payments for restructuring charge. Free cash flow and adjusted free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. The increase in adjusted free cash flow before dividends from the prior year of \$357 million is primarily due to higher cash from operating activities and lower property additions.

The following table reconciles cash provided by operating activities (GAAP measure) to adjusted free cash flow after restructuring, before dividends (non-GAAP measure). The restructuring charge impact to free cash flow in 2018 was tax effected using the Company's applicable tax rate.

	Nine Months	
	2019	2018
<i>(Dollars in millions)</i>		
Net cash provided by operating activities	\$ 3,737	\$ 3,406
Property Additions	(1,191)	(1,240)
Other Investing Activities	237	249
Free Cash Flow (before payment of dividends)	2,783	2,415
Add back: Cash Payments for Restructuring Charge (after-tax) ^(a)	—	11
Adjusted Free Cash Flow Before Dividends (non-GAAP)	\$ 2,783	\$ 2,426

(a) The Company made cash payments related to the restructuring charge of \$14 million in the nine months ended 2018.

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 and terminal dwell 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. Train velocity and dwell will continue to be reported, using the prescribed methodology, to the STB on a weekly basis.

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

Operating performance remained strong in the third quarter of 2019 as train velocity improved 13% to record levels for the third quarter, while car dwell remained relatively stable near record levels. The Company remains focused on executing the operational plan to deliver further service gains, improve transit times and drive asset utilization while controlling costs.

From a safety perspective, the FRA reportable personal injury frequency index of 0.84 for the third quarter 2019 improved 6% year over year, driven by a significant reduction in the number of personal injuries. Similarly, the FRA train accident frequency rate of 1.59 for the quarter improved 51% year over year, driven by an all-time record low number of FRA reported train accidents.

The Company is committed to continuous safety improvement and remains focused on reducing risk and enhancing the overall safety of its employees, customers and the communities in which the Company operates.

	Third Quarters			Nine Months		
	2019	2018	Improvement/ (Deterioration)	2019	2018	Improvement/ (Deterioration)
Operations Performance						
Train Velocity (<i>Miles per hour</i>) ^(a)	20.3	18.0	13 %	20.2	17.7	14 %
Dwell (<i>Hours</i>) ^(a)	9.2	8.9	(3)%	9.0	9.6	6 %
Revenue Ton-Miles (Billions)						
Merchandise	32.1	32.0	— %	96.7	96.2	1 %
Coal	10.3	12.0	(14)%	31.7	34.1	(7)%
Intermodal	6.7	7.3	(8)%	20.0	22.0	(9)%
Total Revenue Ton-Miles	49.1	51.3	(4)%	148.4	152.3	(3)%
Total Gross Ton-Miles (<i>Billions</i>)	97.1	102.1	(5)%	293.7	301.8	(3)%
On-Time Originations	93%	85%	9 %	88%	84%	5 %
On-Time Arrivals ^(b)	79%	80%	(1)%	77%	75%	3 %
Safety						
FRA Personal Injury Frequency Index	0.84	0.89	6 %	0.80	1.04	23 %
FRA Train Accident Rate	1.59	3.27	51 %	2.11	3.82	45 %

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

(a) The methodology for calculating train velocity and dwell differ from that prescribed by the STB. CSXT will continue to report train velocity and dwell, using the prescribed methodology, to the STB on a weekly basis. See additional discussion on the Company's website.

(b) 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.

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

Gross Ton-Miles (GTM's) - The movement of one ton of train weight over one mile. GTM's 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.

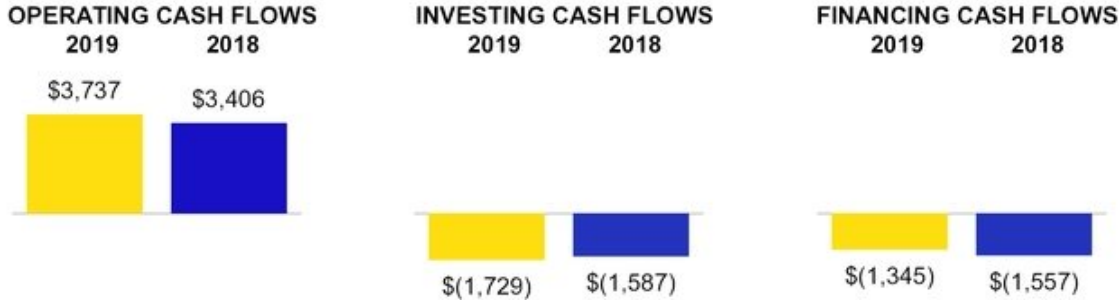
FRA Train Accident Rate - Number of FRA-reportable train accidents per million train-miles.

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 increases of \$663 million and \$262 million in cash and cash equivalents for operating, investing and financing activities for nine months ended 2019 and 2018, respectively.



- Cash provided by operating activities increased \$331 million primarily driven by higher cash-generating income and favorable changes in working capital.
- Cash used in investing activities increased \$142 million primarily driven by an increase in net short-term investment purchases.
- Cash used in financing activities decreased \$212 million driven by lower share repurchase activity in the current year.

Sources of Cash and Liquidity and Uses of Cash

As of the end of third quarter 2019, 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 8, 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. In nine months 2019, CSX issued a total of \$2.0 billion 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 September 30, 2019, 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 September 30, 2019, the Company had no outstanding debt under the commercial paper program.

Planned capital investments for 2019 are expected to be between \$1.6 billion and \$1.7 billion, including approximately \$100 million for Positive Train Control ("PTC"). Of the 2019 investment, over half will be used to sustain the core infrastructure. 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.

The Company expects to continue incurring capital costs in connection with the implementation of PTC. CSX estimates that the total multi-year cost of PTC implementation will be approximately \$2.4 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending through September 2019 was \$2.3 billion.

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

Total assets increased \$2.1 billion from year end primarily due to the increase in cash and short-term investments of \$1.4 billion and the right-of-use lease asset of \$539 million resulting from the adoption of the new lease accounting standard. The increase in cash and short-term investments was primarily a result of cash from operations of \$3.7 billion and the issuance of \$2.0 billion in long-term debt, partially offset by share repurchases of \$2.8 billion, property additions of \$1.2 billion and dividends paid of \$577 million. Total liabilities and shareholders' equity combined also increased \$2.1 billion from year end primarily driven by net earnings of \$2.6 billion, the issuance of \$2.0 billion in long-term debt and the total lease liability of \$553 million resulting from the adoption of the new lease accounting standard. These increases were partially offset by share repurchases of \$2.8 billion and dividends paid of \$577 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 \$1.2 billion and \$650 million as of September 30, 2019 and December 31, 2018, respectively. The increase in working capital since year end of \$505 million is primarily due to the increase in cash and short-term investments of \$1.4 billion, partially offset by the increase in current maturities of long-term debt primarily as a result of the early redemption on October 15, 2019 of notes originally due October 2020.

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.

CSX CORPORATION

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

LABOR AGREEMENTS

All 13 rail unions that participate in national bargaining reached national agreements with the Class I railroads via ratification, executive action or interest arbitration. These agreements are effective January 1, 2015 through December 31, 2019. In November 2019, notices are expected to be served to those 13 rail unions to begin negotiations for benefits, wages and work rules for the next labor bargaining round for 2020 through 2024.

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;
- depreciation policies for assets under the group-life method; and
- income taxes.

FORWARD-LOOKING STATEMENTS

Certain statements in this report and in other materials filed with the 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.

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

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;
- changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation) and the level of demand for products carried by CSXT;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property, 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;

CSX CORPORATION

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

- 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2019, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of September 30, 2019, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the third quarter of 2019 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

For further details, please refer to Note 6. 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. See also Part I, Item 2 (Forward-Looking Statements) of this quarterly report on Form 10-Q.

CSX CORPORATION
PART II

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 third quarter 2019 was as follows:

Third Quarter	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)	
Beginning Balance				\$ 3,472,696,563
July 1 - July 31, 2019	6,597,475	\$ 72.72	6,494,370	3,000,185,426
August 1 - August 31, 2019	4,517,613	66.53	4,517,408	2,699,630,841
September 1 - September 30, 2019	5,090,719	66.22	5,090,719	2,362,512,464
Ending Balance	16,205,807	\$ 68.95	16,102,497	\$ 2,362,512,464

(a) The difference of 103,310 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 Employment Agreement, effective as of October 8, 2019, between CSX Corporation and Edmond L. Harris	October 8, 2019 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 September 30, 2019 filed with the SEC on October 16, 2019, formatted in XBRL includes: (i) consolidated income statements for the quarters and nine months ended September 30, 2019 and September 30, 2018, (ii) condensed consolidated comprehensive income statements for the quarters and nine months ended September 30, 2019 and September 30, 2018, (iii) consolidated balance sheets at September 30, 2019 and December 31, 2018, (iv) consolidated cash flow statements for the nine months ended September 30, 2019 and September 30, 2018, (v) consolidated statement of changes in shareholders' equity for the quarters and nine months ended September 30, 2019 and September 30, 2018, and (vi) the notes to consolidated financial statements.	

* 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: October 16, 2019

CERTIFICATION OF CEO AND CFO PURSUANT TO EXCHANGE ACT RULE
13a - 14(a) OR RULE 15d-14(a)

I, James M. Foote, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CSX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 16, 2019

/s/ JAMES M. FOOTE

James M. Foote
President and Chief Executive Officer

I, Kevin S. Boone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CSX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 16, 2019

/s/ KEVIN S. BOONE

Kevin S. Boone

Executive Vice President and Chief Financial Officer

CERTIFICATION OF CEO AND CFO REQUIRED BY RULE 13a-14(b) OR RULE 15d-14(b) AND SECTION 1350 OF
CHAPTER 63 OF TITLE 18 OF THE U.S. CODE

In connection with the Quarterly Report of CSX Corporation on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Foote, Chief Executive Officer of the registrant, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: October 16, 2019

/s/ JAMES M. FOOTE
James M. Foote
President and Chief Executive Officer

In connection with the Quarterly Report of CSX Corporation on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Boone, Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: October 16, 2019

/s/ KEVIN S. BOONE
Kevin S. Boone
Executive Vice President and Chief Financial Officer