

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

FORM 10-Q

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

For the quarterly period ended June 30, 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)

<u>Virginia</u>					<u>62-1051971</u>	
					(I.R.S. Employer Identification No.)	
<u>500 Water Street</u>	<u>15th Floor</u>	<u>Jacksonville</u>	<u>FL</u>	<u>32202</u>	<u>904</u>	<u>359-3200</u>
(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
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 798,175,808 shares of common stock outstanding on June 30, 2019 (the latest practicable date that is closest to the filing date).

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2019
INDEX

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Consolidated Income Statements (Unaudited) - Quarters and Six Months Ended June 30, 2019 and June 30, 2018	3
Condensed Consolidated Comprehensive Income Statements (Unaudited) - Quarters and Six Months Ended June 30, 2019 and June 30, 2018	3
Consolidated Balance Sheets - At June 30, 2019 (Unaudited) and December 31, 2018	4
Consolidated Cash Flow Statements (Unaudited) - Six Months Ended June 30, 2019 and June 30, 2018	5
Consolidated Statement of Changes in Shareholders' Equity - Quarters and Six Months Ended June 30, 2019 and June 30, 2018	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3. Quantitative and Qualitative Disclosures about Market Risk	44
Item 4. Controls and Procedures	44
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	44
Item 1A. Risk Factors	44
Item 2. CSX Purchases of Equity Securities	45
Item 3. Defaults upon Senior Securities	45
Item 4. Mine Safety Disclosures	45
Item 5. Other Information	45
Item 6. Exhibits	46
Signature	47

CSX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENTS (Unaudited)
(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2019	2018	2019	2018
Revenue	\$ 3,061	\$ 3,102	\$ 6,074	\$ 5,978
Expense				
Labor and Fringe	648	669	1,320	1,365
Materials, Supplies and Other	455	469	933	951
Depreciation	337	329	667	652
Fuel	234	270	467	525
Equipment and Other Rents	103	112	203	213
Equity Earnings of Affiliates	(21)	(30)	(40)	(55)
Total Expense	1,756	1,819	3,550	3,651
Operating Income	1,305	1,283	2,524	2,327
Interest Expense	(184)	(157)	(362)	(306)
Other Income - Net	25	18	48	35
Earnings Before Income Taxes	1,146	1,144	2,210	2,056
Income Tax Expense	(276)	(267)	(506)	(484)
Net Earnings	\$ 870	\$ 877	\$ 1,704	\$ 1,572
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$ 1.08	\$ 1.02	\$ 2.10	\$ 1.80
Net Earnings Per Share, Assuming Dilution	\$ 1.08	\$ 1.01	\$ 2.10	\$ 1.79
Average Shares Outstanding <i>(In millions)</i>	805	864	810	875
Average Shares Outstanding, Assuming Dilution <i>(In millions)</i>	807	868	812	878

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

	Second Quarters		Six Months	
	2019	2018	2019	2018
Total Comprehensive Earnings (Note 12)	\$ 874	\$ 881	\$ 1,710	\$ 1,477

See accompanying notes to consolidated financial statements.

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

	<i>(Unaudited)</i>	
	June 30, 2019	December 31, 2018
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 853	\$ 858
Short-term Investments	878	253
Accounts Receivable - Net (Note 9)	1,111	1,010
Materials and Supplies	222	263
Other Current Assets	122	181
Total Current Assets	3,186	2,565
Properties	44,756	44,805
Accumulated Depreciation	(12,737)	(12,807)
Properties - Net	32,019	31,998
Investment in Conrail	959	943
Affiliates and Other Companies	863	836
Right-of-Use Lease Asset (Note 5)	550	—
Other Long-term Assets	347	387
Total Assets	\$ 37,924	\$ 36,729
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 989	\$ 949
Labor and Fringe Benefits Payable	412	550
Casualty, Environmental and Other Reserves (Note 4)	110	113
Current Maturities of Long-term Debt (Note 8)	245	18
Income and Other Taxes Payable	133	106
Other Current Liabilities	164	179
Total Current Liabilities	2,053	1,915
Casualty, Environmental and Other Reserves (Note 4)	199	211
Long-term Debt (Note 8)	15,522	14,739
Deferred Income Taxes - Net	6,791	6,690
Long-term Lease Liability (Note 5)	501	—
Other Long-term Liabilities	568	594
Total Liabilities	25,634	24,149
Shareholders' Equity:		
Common Stock, \$1 Par Value	798	818
Other Capital	290	249
Retained Earnings	11,843	12,157
Accumulated Other Comprehensive Loss (Note 12)	(655)	(661)
Noncontrolling Interest	14	17
Total Shareholders' Equity	12,290	12,580
Total Liabilities and Shareholders' Equity	\$ 37,924	\$ 36,729

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

	Six Months	
	2019	2018
OPERATING ACTIVITIES		
Net Earnings	\$ 1,704	\$ 1,572
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	667	652
Deferred Income Taxes	97	98
Gain on Property Dispositions	(64)	(69)
Equity Earnings of Affiliates	(40)	(55)
Cash Payments for Restructuring Charge	—	(13)
Other Operating Activities	(21)	(15)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(61)	(47)
Other Current Assets	41	14
Accounts Payable	39	11
Income and Other Taxes Payable	89	(24)
Other Current Liabilities	(184)	(115)
Net Cash Provided by Operating Activities	2,267	2,009
INVESTING ACTIVITIES		
Property Additions	(769)	(823)
Proceeds from Property Dispositions	146	141
Purchase of Short-term Investments	(1,427)	(77)
Proceeds from Sales of Short-term Investments	810	12
Other Investing Activities	(16)	(8)
Net Cash Used In Investing Activities	(1,256)	(755)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 8)	1,000	2,000
Dividends Paid	(388)	(384)
Shares Repurchased	(1,656)	(1,810)
Accelerated Share Repurchase Pending Final Settlement (Note 2)	—	(90)
Other Financing Activities	28	(51)
Net Cash Used in Financing Activities	(1,016)	(335)
Net (Decrease)/Increase in Cash and Cash Equivalents	(5)	919
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	858	401
Cash and Cash Equivalents at End of Period	\$ 853	\$ 1,320

See accompanying notes to consolidated financial statements.

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

Six Months 2019	Common Shares Outstanding (Thousands)	Common Stock and Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) ^(a)	Non-controlling Interest	Total Shareholders' Equity
Balance December 31, 2018	818,180	\$ 1,067	\$ 12,157	\$ (661)	\$ 17	\$ 12,580
Comprehensive Earnings:						
Net Earnings	—	—	834	—	—	834
Other Comprehensive Income (Note 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
Six Months 2018						
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

^(a) Accumulated Other Comprehensive Loss balances shown above are net of tax. The associated taxes were \$179 million and \$177 million as of first and second quarters 2019, and \$160 million and \$158 million as of first and second 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 following:

- Consolidated income statements for the quarter and six months ended June 30, 2019 and June 30, 2018;
- Condensed consolidated comprehensive income statements for the quarter and six months ended June 30, 2019 and June 30, 2018;
- Consolidated balance sheets at June 30, 2019 and December 31, 2018;
- Consolidated cash flow statements for the six months ended June 30, 2019 and June 30, 2018; and
- Consolidated statements of changes in shareholders' equity for the quarter and six months ended June 30, 2019 and June 30, 2018.

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Fiscal Year

The Company's fiscal periods are based upon the calendar year. Except as otherwise specified, references to "second quarter(s)" or "six months" indicate CSX's fiscal periods ending June 30, 2019 and June 30, 2018, and references to "year-end" indicate the fiscal year ended December 31, 2018.

New Accounting Pronouncements

Pronouncements adopted in 2019

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

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

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

Pronouncements to be adopted

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

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:

	Second Quarters		Six Months	
	2019	2018	2019	2018
Numerator (<i>Dollars in millions</i>):				
Net Earnings	\$ 870	\$ 877	\$ 1,704	\$ 1,572
Denominator (<i>Units in millions</i>):				
Average Common Shares Outstanding	805	864	810	875
Other Potentially Dilutive Common Shares	2	4	2	3
Average Common Shares Outstanding, Assuming Dilution	807	868	812	878
Net Earnings Per Share, Basic	\$ 1.08	\$ 1.02	\$ 2.10	\$ 1.80
Net Earnings Per Share, Assuming Dilution	\$ 1.08	\$ 1.01	\$ 2.10	\$ 1.79

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 900 thousand and 1 million of total average outstanding stock options for the quarters ended June 30, 2019 and June 30, 2018, respectively, and 800 thousand and 900 thousand for the six months ended June 30, 2019 and June 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 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 second quarter and six months ended 2019 and 2018, the Company engaged in the following repurchase activities:

	Second Quarters		Six Months	
	2019	2018	2019	2018
Shares Repurchased (<i>Millions</i>)	11	16	23	31
Cost of Shares (<i>Dollars in millions</i>)	\$ 860	\$ 974	\$ 1,656	\$ 1,810

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, continued

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.

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.

NOTE 3. Share-Based Compensation

Under CSX's share-based compensation plans, awards consist of performance units, restricted stock awards, restricted stock units and stock options for management and stock grants for directors. Awards granted under the various programs are determined and approved by the Compensation Committee of the Board of Directors or, in certain circumstances, by the Chief Executive Officer for awards to management employees other than senior executives. The Board of Directors approves awards granted to 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>	Second Quarters		Six Months	
	2019	2018	2019	2018
Share-Based Compensation Expense:				
Performance Units	\$ 9	\$ 8	\$ 15	\$ 14
Stock Options	5	2	7	6
Restricted Stock Units and Awards	2	2	4	3
Stock Awards for Directors	—	—	2	2
Employee Stock Purchase Plan	1	—	2	—
Total Share-Based Compensation Expense	\$ 17	\$ 12	\$ 30	\$ 25
Income Tax Benefit	\$ 7	\$ 9	\$ 35	\$ 17

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, *continued*

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.

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 six months 2019 and 2018 were calculated using a Monte-Carlo simulation model with the following weighted-average assumptions:

	Six Months	
	2019	2018
Weighted-average assumptions used:		
Annual dividend yield	1.4%	1.6%
Risk-free interest rate	2.5%	2.3%
Annualized volatility	27.6%	29.2%
Expected life (in years)	2.9	2.9

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 second 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 six months ended June 30, 2019 and June 30, 2018 were estimated at the grant date with the following weighted average assumptions:

	Second Quarters		Six Months	
	2019	2018	2019	2018
Weighted-average grant-date fair value	\$ 20.51	\$ 17.62	\$ 18.00	\$ 14.64
Stock options valuation assumptions:				
Annual dividend yield	1.2%	1.3%	1.3%	1.5%
Risk-free interest rate	2.4%	2.8%	2.5%	2.6%
Annualized volatility	25.4%	25.8%	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)	\$ 78.58	\$ 65.44	\$ 69.97	\$ 54.14

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. In first quarter 2019, 105 thousand shares of CSX stock were issued at a weighted average purchase price of \$52.81 per share. These issuances were related to employee contributions in 2018. There were no issuances in second quarter 2019.

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 significant management judgment. Casualty, environmental and other reserves are provided for in the consolidated balance sheets as shown in the table below.

(Dollars in millions)	June 30, 2019			December 31, 2018		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$ 47	\$ 83	\$ 130	\$ 40	\$ 103	\$ 143
Occupational	9	49	58	10	46	56
Total Casualty	56	132	188	50	149	199
Environmental	32	46	78	39	41	80
Other	22	21	43	24	21	45
Total	\$ 110	\$ 199	\$ 309	\$ 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 \$188 million and \$199 million as of June 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 resulted in an immaterial adjustment to the personal injury reserve. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims 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. An analysis performed by management for the quarter resulted in an immaterial adjustment to the occupational reserve.

Environmental

Environmental reserves were \$78 million and \$80 million as of June 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 229 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 June 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 six months ended June 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 June 30, 2019.

(Dollars in Millions)

	June 30, 2019
Maturity of Lease Liabilities	Lease Payments
2019 (remaining)	\$ 29
2020	61
2021	53
2022	46
2023	38
Thereafter	1,241
Total undiscounted operating lease payments	\$ 1,468
Less: Imputed interest	(908)
Present value of operating lease liabilities	\$ 560

Balance Sheet Classification

Current lease liabilities (recorded in other current liabilities)	\$ 59
Long-term lease liabilities	501
Total operating lease liabilities	\$ 560

Other Information

Weighted-average remaining lease term for operating leases	33 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 \$40 million were recognized as non-cash asset additions that resulted from new operating lease liabilities during the six months ended June 30, 2019. Cash paid for amounts included in the present value of operating lease liabilities was \$28 million during the six months ended June 30, 2019 and is included in operating cash flows.

Operating Lease Costs

Operating lease costs were \$21 million during second quarter 2019 and \$39 million for the six months ended June 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 June 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 \$3 million to \$55 million in aggregate at June 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. In November 2007, the class action lawsuits were consolidated in federal court in the District of Columbia, where they are now pending. The suit seeks treble damages allegedly sustained by purported class members as well as attorneys' fees and other relief. Plaintiffs are expected to allege damages at least equal to the fuel surcharges at issue.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Commitments and Contingencies, *continued*

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, but rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. On October 10, 2017, the District Court issued an order denying class certification. The U.S. Court of Appeals for the D.C. Circuit is reviewing the District Court's denial of class certification and held oral argument on September 28, 2018, with a decision yet to be issued. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification proceedings.

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

Environmental

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

In March 2016, EPA issued its Record of Decision detailing the agency's mandated remedial process for the lower 8 miles of the Study Area. 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			
	Second Quarters		Six Months	
	2019	2018	2019	2018
Service Cost Included in Labor and Fringe	\$ 8	\$ 7	\$ 16	\$ 16
Interest Cost	26	23	52	46
Expected Return on Plan Assets	(43)	(43)	(86)	(87)
Amortization of Net Loss	8	10	15	20
Total Included in Other Income - Net	(9)	(10)	(19)	(21)
Net Periodic Benefit Credit	\$ (1)	\$ (3)	\$ (3)	\$ (5)

<i>(Dollars in millions)</i>	Other Post-retirement Benefits Cost			
	Second Quarters		Six Months	
	2019	2018	2019	2018
Service Cost Included in Labor and Fringe	\$ 1	\$ 1	\$ 1	\$ 1
Interest Cost	1	1	2	3
Amortization of Prior Service Costs	(1)	—	(3)	—
Total Included in Other Income - Net	—	1	(1)	3
Net Periodic Benefit Cost	\$ 1	\$ 2	\$ —	\$ 4

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 second 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	—	1,000	1,000
Reclassifications	227	(227)	—
Discount, premium and other activity	—	10	10
Long-term debt as of June 30, 2019	\$ 245	\$ 15,522	\$ 15,767

Debt Issuance

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 June 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 second quarter 2019, CSX was in compliance with all covenant requirements under this facility.

Commercial Paper

In September 2018, the Company established 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. Proceeds from issuances of the notes are expected to be used for general corporate purposes. At June 30, 2019, the Company had no outstanding debt under the commercial paper program.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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>	Second Quarters		Six Months	
	2019	2018	2019	2018
Chemicals	\$ 591	\$ 588	\$ 1,177	\$ 1,145
Agricultural and Food Products	358	327	702	634
Automotive	329	330	640	634
Forest Products	223	215	439	410
Metals and Equipment	187	198	376	384
Minerals	144	137	267	251
Fertilizers	112	112	222	228
Total Merchandise	1,944	1,907	3,823	3,686
Coal	557	569	1,095	1,072
Intermodal	436	490	864	939
Other	124	136	292	281
Total	\$ 3,061	\$ 3,102	\$ 6,074	\$ 5,978

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.

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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Revenues, *continued*

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 second quarters and six 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 June 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 June 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.

<i>(Dollars in millions)</i>	June 30, 2019	December 31, 2018
Freight Receivables	\$ 884	\$ 846
Freight Allowance for Doubtful Accounts	(20)	(18)
Freight Receivables, net	864	828
Non-Freight Receivables	256	190
Non-Freight Allowance for Doubtful Accounts	(9)	(8)
Non-Freight Receivables, net	247	182
Total Accounts Receivable, net	\$ 1,111	\$ 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 second quarters or six 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 \$957 million and \$340 million as of June 30, 2019 and December 31, 2018, respectively.

<i>(Dollars in Millions)</i>	June 30, 2019	December 31, 2018
Certificates of Deposit and Commercial Paper	\$ 869	\$ 250
Corporate Bonds	61	56
Government Securities	34	35
Total investments at fair value	<u>\$ 964</u>	<u>\$ 341</u>

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>	June 30, 2019	December 31, 2018
Less than 1 year	\$ 878	\$ 253
1 - 5 years	8	14
5 - 10 years	27	26
Greater than 10 years	51	48
Total investments at fair value	\$ 964	\$ 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>	June 30, 2019	December 31, 2018
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 17,536	\$ 14,914
Carrying Value	15,767	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 \$874 million and \$881 million for second quarters and \$1.7 billion and \$1.5 billion for the six 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	12	3	15
Tax Expense	(3)	(1)	(4)
Total Other Comprehensive Income (Loss)	9	(3)	6
Balance June 30, 2019, Net of Tax	\$ (595)	\$ (60)	\$ (655)

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)

Second Quarter 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 3,041	\$ 20	\$ 3,061
Expense	(138)	1,946	(52)	1,756
Operating Income	138	1,095	72	1,305
Equity in Earnings of Subsidiaries	926	—	(926)	—
Interest (Expense) / Benefit	(222)	(10)	48	(184)
Other Income / (Expense) - Net	11	51	(37)	25
Earnings Before Income Taxes	853	1,136	(843)	1,146
Income Tax Benefit / (Expense)	17	(276)	(17)	(276)
Net Earnings	\$ 870	\$ 860	\$ (860)	\$ 870
Total Comprehensive Earnings	\$ 874	\$ 859	\$ (859)	\$ 874

Second Quarter 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 3,083	\$ 19	\$ 3,102
Expense	(84)	1,948	(45)	1,819
Operating Income	84	1,135	64	1,283
Equity in Earnings of Subsidiaries	942	—	(942)	—
Interest (Expense) / Benefit	(181)	(8)	32	(157)
Other Income / (Expense) - Net	6	29	(17)	18
Earnings Before Income Taxes	851	1,156	(863)	1,144
Income Tax Benefit / (Expense)	26	(274)	(19)	(267)
Net Earnings	\$ 877	\$ 882	\$ (882)	\$ 877
Total Comprehensive Earnings	\$ 881	\$ 881	\$ (881)	\$ 881

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, *continued*

Consolidating Income Statements

(Dollars in millions)

Six Months 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 6,034	\$ 40	\$ 6,074
Expense	(275)	3,914	(89)	3,550
Operating Income	275	2,120	129	2,524
Equity in Earnings of Subsidiaries	1,800	—	(1,800)	—
Interest (Expense) / Benefit	(438)	(21)	97	(362)
Other Income / (Expense) - Net	19	103	(74)	48
Earnings Before Income Taxes	1,656	2,202	(1,648)	2,210
Income Tax (Expense) / Benefit	48	(521)	(33)	(506)
Net Earnings	\$ 1,704	\$ 1,681	\$ (1,681)	\$ 1,704
Total Comprehensive Earnings	\$ 1,710	\$ 1,678	\$ (1,678)	\$ 1,710

Six Months 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 5,940	\$ 38	\$ 5,978
Expense	(162)	3,891	(78)	3,651
Operating Income	162	2,049	116	2,327
Equity in Earnings of Subsidiaries	1,700	—	(1,700)	—
Interest (Expense) / Benefit	(345)	(17)	56	(306)
Other Income / (Expense) - Net	10	52	(27)	35
Earnings Before Income Taxes	1,527	2,084	(1,555)	2,056
Income Tax (Expense) / Benefit	45	(498)	(31)	(484)
Net Earnings	\$ 1,572	\$ 1,586	\$ (1,586)	\$ 1,572
Total Comprehensive Earnings	\$ 1,477	\$ 1,581	\$ (1,581)	\$ 1,477

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, *continued*

Consolidating Balance Sheet
(Dollars in millions)

June 30, 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 718	\$ 124	\$ 11	\$ 853
Short-term Investments	869	—	9	878
Accounts Receivable - Net	2	1,058	51	1,111
Receivable from Affiliates	921	6,166	(7,087)	—
Materials and Supplies	—	222	—	222
Other Current Assets	3	98	21	122
Total Current Assets	2,513	7,668	(6,995)	3,186
Properties	1	41,821	2,934	44,756
Accumulated Depreciation	(1)	(11,074)	(1,662)	(12,737)
Properties - Net	—	30,747	1,272	32,019
Investments in Conrail	—	—	959	959
Affiliates and Other Companies	(39)	886	16	863
Investments in Consolidated Subsidiaries	33,332	—	(33,332)	—
Right-of-Use Lease Asset	—	529	21	550
Other Long-term Assets	3	591	(247)	347
Total Assets	\$ 35,809	\$ 40,421	\$ (38,306)	\$ 37,924
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	\$ 153	\$ 783	\$ 53	\$ 989
Labor and Fringe Benefits Payable	35	342	35	412
Payable to Affiliates	8,154	411	(8,565)	—
Casualty, Environmental and Other Reserves	—	95	15	110
Current Maturities of Long-term Debt	—	245	—	245
Income and Other Taxes Payable	(423)	519	37	133
Other Current Liabilities	—	153	11	164
Total Current Liabilities	7,919	2,548	(8,414)	2,053
Casualty, Environmental and Other Reserves	—	164	35	199
Long-term Debt	15,042	480	—	15,522
Deferred Income Taxes - Net	(121)	6,690	222	6,791
Long-term Lease Liability	—	486	15	501
Other Long-term Liabilities	693	209	(334)	568
Total Liabilities	\$ 23,533	\$ 10,577	\$ (8,476)	\$ 25,634
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 798	\$ 181	\$ (181)	\$ 798
Other Capital	290	5,096	(5,096)	290
Retained Earnings	11,843	24,503	(24,503)	11,843
Accumulated Other Comprehensive Loss	(655)	50	(50)	(655)
Noncontrolling Interest	—	14	—	14
Total Shareholders' Equity	\$ 12,276	\$ 29,844	\$ (29,830)	\$ 12,290
Total Liabilities and Shareholders' Equity	\$ 35,809	\$ 40,421	\$ (38,306)	\$ 37,924

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**Consolidating Cash Flow Statements***(Dollars in millions)*

Six Months 2019	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 1,636	\$ 1,064	\$ (433)	\$ 2,267
Investing Activities				
Property Additions	—	(707)	(62)	(769)
Proceeds from Property Dispositions	—	146	—	146
Purchases of Short-term Investments	(1,427)	—	—	(1,427)
Proceeds from Sales of Short-term Investments	810	—	—	810
Other Investing Activities	(5)	(6)	(5)	(16)
<i>Net Cash Provided by (Used in) Investing Activities</i>	(622)	(567)	(67)	(1,256)
Financing Activities				
Long-term Debt Issued	1,000	—	—	1,000
Dividends Paid	(388)	(500)	500	(388)
Shares Repurchased	(1,656)	—	—	(1,656)
Other Financing Activities	32	(3)	(1)	28
<i>Net Cash Provided by (Used in) Financing Activities</i>	(1,012)	(503)	499	(1,016)
Net Increase (Decrease) in Cash and Cash Equivalents	2	(6)	(1)	(5)
Cash and Cash Equivalents at Beginning of Period	716	130	12	858
Cash and Cash Equivalents at End of Period	\$ 718	\$ 124	\$ 11	\$ 853

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements

(Dollars in millions)

Six Months 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 1,311	\$ 1,245	\$ (547)	\$ 2,009
Investing Activities				
Property Additions	—	(762)	(61)	(823)
Proceeds from Property Dispositions	—	141	—	141
Purchases of Short-term Investments	(75)	—	(2)	(77)
Proceeds from Sales of Short-term Investments	—	—	12	12
Other Investing Activities	(1)	(99)	92	(8)
<i>Net Cash (Used in) Provided by Investing Activities</i>	(76)	(720)	41	(755)
Financing Activities				
Long-term Debt Issued	2,000	—	—	2,000
Dividends Paid	(384)	(500)	500	(384)
Shares Repurchased	(1,810)	—	—	(1,810)
Accelerated Share Repurchase Pending Final Settlement	(90)	—	—	(90)
Other Financing Activities	(53)	(3)	5	(51)
<i>Net Cash Provided by (Used in) Financing Activities</i>	(337)	(503)	505	(335)
Net Increase (Decrease) in Cash and Cash Equivalents	898	22	(1)	919
Cash and Cash Equivalents at Beginning of Period	274	121	6	401
Cash and Cash Equivalents at End of Period	\$ 1,172	\$ 143	\$ 5	\$ 1,320

CSX CORPORATION

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

SECOND QUARTER 2019 HIGHLIGHTS

- Revenue decreased \$41 million, or 1% year over year.
- Expenses decreased \$63 million, or 3% year over year.
- Operating income of \$1.3 billion increased \$22 million, or 2% year over year.
- Operating ratio of 57.4% improved 120 basis points versus last year's quarter.
- Earnings per diluted share of \$1.08 increased \$0.07, or 7% year over year.

	Second Quarters				Six Months			
	2019	2018	Fav / (Unfav)	% Change	2019	2018	Fav / (Unfav)	% Change
Volume <i>(in thousands)</i>	1,581	1,646	(65)	(4)%	3,112	3,178	(66)	(2)%
<i>(in millions)</i>								
Revenue	\$ 3,061	\$ 3,102	\$(41)	(1)	\$ 6,074	\$ 5,978	\$96	2
Expense	1,756	1,819	63	3	3,550	3,651	101	3
Operating Income	\$ 1,305	\$ 1,283	\$22	2%	\$ 2,524	\$ 2,327	\$197	8%
Operating Ratio	57.4%	58.6%	120	bps	58.4%	61.1%	270	bps
Earnings Per Diluted Share	\$ 1.08	\$ 1.01	\$0.07	7%	\$ 2.10	\$ 1.79	\$0.31	17%

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

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

	Second Quarters								
	Volume			Revenue			Revenue Per Unit		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
<i>Chemicals</i>	172	169	2 %	\$ 591	\$ 588	1 %	\$ 3,436	\$ 3,479	(1)%
<i>Automotive</i>	121	118	3	329	330	—	2,719	2,797	(3)
<i>Agricultural and Food Products</i>	118	112	5	358	327	9	3,034	2,920	4
<i>Minerals</i>	89	86	3	144	137	5	1,618	1,593	2
<i>Forest Products</i>	73	71	3	223	215	4	3,055	3,028	1
<i>Metals and Equipment</i>	63	69	(9)	187	198	(6)	2,968	2,870	3
<i>Fertilizers</i>	61	64	(5)	112	112	—	1,836	1,750	5
Total Merchandise	697	689	1	1,944	1,907	2	2,789	2,768	1
Coal	226	222	2	557	569	(2)	2,465	2,563	(4)
Intermodal	658	735	(10)	436	490	(11)	663	667	(1)
Other	—	—	—	124	136	(9)	—	—	—
Total	1,581	1,646	(4)%	\$ 3,061	\$ 3,102	(1)%	\$ 1,936	\$ 1,885	3 %

	Six Months								
	Volume			Revenue			Revenue Per Unit		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
<i>Chemicals</i>	339	331	2 %	\$ 1,177	\$ 1,145	3 %	\$ 3,472	\$ 3,459	— %
<i>Automotive</i>	236	230	3	640	634	1	2,712	2,757	(2)
<i>Agricultural and Food Products</i>	232	219	6	702	634	11	3,026	2,895	5
<i>Minerals</i>	158	152	4	267	251	6	1,690	1,651	2
<i>Forest Products</i>	144	138	4	439	410	7	3,049	2,971	3
<i>Metals and Equipment</i>	127	133	(5)	376	384	(2)	2,961	2,887	3
<i>Fertilizers</i>	123	128	(4)	222	228	(3)	1,805	1,781	1
Total Merchandise	1,359	1,331	2	3,823	3,686	4	2,813	2,769	2
Coal	438	423	4	1,095	1,072	2	2,500	2,534	(1)
Intermodal	1,315	1,424	(8)	864	939	(8)	657	659	—
Other	—	—	—	292	281	4	—	—	—
Total	3,112	3,178	(2)%	\$ 6,074	\$ 5,978	2 %	\$ 1,952	\$ 1,881	4 %

CSX CORPORATION

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

Second Quarter 2019

Revenue

Revenue decreased 1 percent year over year as favorable mix and pricing gains across most markets were more than offset by intermodal volume decreases and lower other revenue.

Merchandise Volume

Chemicals - Increased as stronger crude oil and waste shipments more than offset reduced fly ash, natural gas liquids and sand shipments.

Automotive - Increased due to higher shipments of trucks and SUVs.

Agricultural and Food Products - Increased due to gains in the domestic grain and ethanol markets.

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

Forest Products - Increased due to higher demand for wood pulp and other fiber products as well as stronger lumber shipments.

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

Fertilizers - Declined as wet weather conditions continue to delay fertilizer applications.

Coal Volume

Domestic increased primarily due to growth in coke, iron ore and other shipments. Export declined due to lower thermal coal shipments.

Intermodal Volume

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

Other Revenue

Other revenue decreased \$12 million versus prior year primarily due to lower revenue for storage at intermodal facilities.

CSX CORPORATION

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

Expenses

Expenses of \$1.8 billion decreased \$63 million, or 3 percent year over year, primarily driven by efficiency savings and lower volume, partially offset by inflation and other items.

Labor and Fringe expense decreased \$21 million primarily due to the following:

- Efficiency and volume savings of \$19 million primarily resulted from lower headcount and reduced crew starts.
- Incentive compensation decreased \$19 million driven primarily by lower expected payouts on existing plans.
- Inflation and other costs increased \$17 million.

Materials, Supplies and Other expense decreased \$14 million due to the following:

- Volume and efficiency savings of \$35 million primarily resulted from lower trucking and terminal costs due to intermodal lane rationalizations; reduced equipment maintenance expenses; and lower train accident costs.
- Gains from real estate and line sales were flat year over year.
- All other costs increased \$21 million primarily due to higher casualty expenses, inflation and other items.

Depreciation expense increased \$8 million primarily due to a larger asset base.

Fuel expense decreased \$36 million primarily due to a 6 percent price decrease, record fuel efficiency and lower volume.

Equipment and Other Rents expense decreased \$9 million primarily due to lower volume-related costs in addition to continued equipment efficiency for merchandise and intermodal.

Equity Earnings of Affiliates decreased \$9 million primarily due to lower net earnings at TTX and a prior year gain from an affiliate's property sale.

Interest Expense

Interest expense increased \$27 million primarily due to higher average debt balances.

Other Income - Net

Other income - net increased \$7 million primarily due to increased interest income as a result of higher average investment balances.

Income Tax Expense

Income tax expense increased \$9 million primarily due to a benefit in 2018 related to state legislative changes.

CSX CORPORATION

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

Six Months Results of Operations

Revenue increased \$96 million primarily due to price increases and favorable mix, partially offset by intermodal volume decreases.

Total expense decreased \$101 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 \$56 million primarily due to higher average debt balances.

Other income - net increased \$13 million primarily due to increased interest income as a result of higher average investment balances.

Income tax expense increased \$22 million primarily due to increased earnings before income taxes and a benefit in 2018 related to state legislative changes. 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 \$299 million is primarily due to higher cash-generating income, favorable changes in working capital 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.

	Six Months	
	2019	2018
<i>(Dollars in millions)</i>		
Net cash provided by operating activities	\$ 2,267	\$ 2,009
Property Additions	(769)	(823)
Other Investing Activities	130	133
Free Cash Flow (before payment of dividends)	1,628	1,319
Add back: Cash Payments for Restructuring Charge (after-tax) ^(a)	—	10
Adjusted Free Cash Flow Before Dividends (non-GAAP)	\$ 1,628	\$ 1,329

(a) The Company made cash payments related to the restructuring charge of \$13 million in the six 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.

The methodologies used to calculate train velocity and terminal dwell are consistent with the principles of scheduled railroading, but differ from those prescribed by the Surface Transportation Board ("STB"). 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 as train velocity and car dwell improved 14 percent and 6 percent, respectively, to record levels for the second quarter. 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 personal injury frequency index of 0.83 for the second quarter 2019 improved 22 percent year over year, driven by a significant reduction in the number of FRA-reportable personal injuries. Similarly, the FRA train accident rate of 1.93 for the quarter improved 54 percent year over year, driven by an all-time record low number of FRA-reportable 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.

	Second Quarters			Six Months		
	2019	2018	Improvement/ (Deterioration)	2019	2018	Improvement/ (Deterioration)
Operations Performance						
Train Velocity (<i>Miles per hour</i>) ^(a)	20.0	17.6	14 %	20.2	17.6	15 %
Dwell (<i>Hours</i>) ^(a)	9.1	9.7	6 %	9.0	10.1	11 %
Revenue Ton-Miles (Billions)						
Merchandise	33.0	32.8	1 %	64.6	64.2	1 %
Coal	10.9	11.8	(8)%	21.4	22.1	(3)%
Intermodal	6.8	7.7	(12)%	13.3	14.7	(10)%
Total Revenue Ton-Miles	50.7	52.3	(3)%	99.3	101.0	(2)%
Total Gross Ton-Miles (<i>Billions</i>)	99.9	103.5	(3)%	196.6	199.7	(2)%
On-Time Originations	88%	85%	4 %	85%	83%	2 %
On-Time Arrivals	53%	61%	(13)%	58%	59%	(2)%
Safety						
FRA Personal Injury Frequency Index	0.83	1.06	22 %	0.79	1.11	29 %
FRA Train Accident Rate	1.93	4.24	54 %	2.26	4.10	45 %

(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.

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

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.

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 \$5 million and \$919 million in cash and cash equivalents for operating, investing and financing activities for six months ended 2019 and 2018, respectively.



- Cash provided by operating activities increased \$258 million primarily driven by higher cash-generating income and favorable changes in working capital.
- Cash used in investing activities increased \$501 million primarily driven by an increase in net short-term investment purchases, partially offset by lower property additions.
- Cash used in financing activities increased \$681 million. Cash provided by long-term debt issuances was less than prior year. In addition, share repurchases declined in the current year.

Sources of Cash and Liquidity and Uses of Cash

As of the end of second quarter 2019, CSX had \$1.7 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 six months 2019, CSX issued a total of \$1.0 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 June 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 June 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 June 2019 was \$2.3 billion.

Material Changes in the Consolidated Balance Sheets and Working Capital

Consolidated Balance Sheets

Total assets increased \$1.2 billion from year end primarily due to the net increase in short-term investments of \$625 million and the right-of-use lease asset of \$550 million resulting from the adoption of the new lease accounting standard. Total liabilities and shareholders' equity combined also increased \$1.2 billion from year end primarily driven by net earnings of \$1.7 billion, the issuance of \$1.0 billion in long-term debt and the total lease liability of \$560 million resulting from the adoption of the new lease accounting standard. These increases were partially offset by share repurchases of \$1.7 billion and dividends paid of \$388 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 \$1.1 billion and \$650 million as of June 30, 2019 and December 31, 2018, respectively. The increase in working capital since year end of \$483 million is primarily due to cash from operations of \$2.3 billion and proceeds from the \$1.0 billion issuance of long-term debt, partially offset by share repurchases of \$1.7 billion, property additions of \$769 million and dividend payments of \$388 million.

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. The Company continues to maintain adequate liquidity to satisfy current liabilities and maturing obligations when they come due. 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 have 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.

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 June 30, 2019, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Interim 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 Interim CFO concluded that, as of June 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 second 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 second quarter 2019 was as follows:

Second Quarter	CSX Purchases of Equity Securities for the Quarter			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				\$ 4,332,672,444
April 1 - April 30, 2019	1,518,588	\$ 75.81	1,498,808	4,219,102,907
May 1 - May 31, 2019	5,450,510	76.15	5,450,510	3,804,059,115
June 1 - June 30, 2019	4,317,103	76.76	4,317,103	3,472,696,563
Ending Balance	11,286,201	\$ 76.34	11,266,421	\$ 3,472,696,563

(a) The difference of 19,780 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**	CSX 2019 Stock and Incentive Award Plan (incorporated by reference to Appendix A to the registrant's Definitive Proxy Statement on Schedule 14A filed March 22, 2019)	May 8, 2019 Exhibit 10.1, Form 8-K
10.2**	Employment Separation Agreement and Release, dated as of June 4, 2019, between CSX Corporation and Frank A. Lonegro	June 4, 2019 Exhibit 10.1, Form 8-K/A
Officer certifications:		
31*	Rule 13a-14(a) Certifications	
32*	Section 1350 Certifications	
Interactive data files:		
101*	The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 filed with the SEC on July 16, 2019, formatted in XBRL includes: (i) consolidated income statements for the quarters and six months ended June 30, 2019 and June 30, 2018, (ii) condensed consolidated comprehensive income statements for the quarters and six months ended June 30, 2019 and June 30, 2018, (iii) consolidated balance sheets at June 30, 2019 and December 31, 2018, (iv) consolidated cash flow statements for the six months ended June 30, 2019 and June 30, 2018, (v) consolidated statement of changes in shareholders' equity for the quarters and six months ended June 30, 2019 and June 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: July 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: July 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: July 16, 2019

/s/ KEVIN S. BOONE

Kevin S. Boone

Vice President and Interim 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 June 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: July 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 June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Boone, Interim 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: July 16, 2019

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