

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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 1-8022



CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation or organization)

62-1051971

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

500 Water Street, 15th Floor, Jacksonville, FL

(Address of principal executive offices)

32202

(Zip Code)

(904) 359-3200

(Telephone number, including area code)

No Change

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

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

Yes (X) No ()

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

Yes (X) No ()

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

Large Accelerated Filer (X)

Accelerated Filer ()

Non-accelerated Filer ()

Smaller Reporting Company ()

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

Yes () No (X)

There were 922,687,144 shares of common stock outstanding on March 31, 2017 (the latest practicable date that is closest to the filing date).

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2017
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CSX CORPORATION**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED INCOME STATEMENTS (Unaudited)***(Dollars in millions, except per share amounts)*

	First Quarters	
	2017	2016
Revenue	\$ 2,869	\$ 2,618
Expense		
Labor and Fringe	789	796
Materials, Supplies and Other	567	550
Fuel	218	150
Depreciation	320	313
Equipment and Other Rents	90	105
Restructuring Charge (Note 1)	173	—
Total Expense	2,157	1,914
Operating Income	712	704
Interest Expense	(137)	(143)
Other Income - Net	7	7
Earnings Before Income Taxes	582	568
Income Tax Expense	(220)	(212)
Net Earnings	\$ 362	\$ 356
Per Common Share (Note 2)		
Net Earnings Per Share, Basic	\$ 0.39	\$ 0.37
Net Earnings Per Share, Assuming Dilution	\$ 0.39	\$ 0.37
Average Shares Outstanding <i>(In millions)</i>	927	962
Average Shares Outstanding, Assuming Dilution <i>(In millions)</i>	929	963
Cash Dividends Paid Per Common Share	\$ 0.18	\$ 0.18

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

	First Quarters	
	2017	2016
Total Comprehensive Earnings (Note 10)	\$ 368	\$ 363

See accompanying notes to consolidated financial statements.

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

	<i>(Unaudited)</i> March 31, 2017	December 30, 2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 930	\$ 603
Short-term Investments	287	417
Accounts Receivable - Net (Note 1)	943	938
Materials and Supplies	415	407
Other Current Assets	85	122
Total Current Assets	2,660	2,487
Properties	43,399	43,227
Accumulated Depreciation	(12,140)	(12,077)
Properties - Net	31,259	31,150
Investment in Conrail	847	840
Affiliates and Other Companies	622	619
Other Long-term Assets	324	318
Total Assets	\$ 35,712	\$ 35,414
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 898	\$ 806
Labor and Fringe Benefits Payable	445	545
Casualty, Environmental and Other Reserves (Note 4)	114	115
Current Maturities of Long-term Debt (Note 7)	331	331
Income and Other Taxes Payable	302	129
Other Current Liabilities	187	114
Total Current Liabilities	2,277	2,040
Casualty, Environmental and Other Reserves (Note 4)	252	259
Long-term Debt (Note 7)	10,963	10,962
Deferred Income Taxes - Net	9,648	9,596
Other Long-term Liabilities	903	863
Total Liabilities	24,043	23,720
Shareholders' Equity:		
Common Stock, \$1 Par Value	923	928
Other Capital	170	138
Retained Earnings	11,197	11,253
Accumulated Other Comprehensive Loss (Note 10)	(634)	(640)
Noncontrolling Interest	13	15
Total Shareholders' Equity	11,669	11,694
Total Liabilities and Shareholders' Equity	\$ 35,712	\$ 35,414

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

	Three Months	
	2017	2016
OPERATING ACTIVITIES		
Net Earnings	\$ 362	\$ 356
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	320	313
Restructuring Charge	161	—
Deferred Income Taxes	59	80
Other Operating Activities	2	(29)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(30)	57
Other Current Assets	33	(30)
Accounts Payable	91	50
Income and Other Taxes Payable	162	59
Other Current Liabilities	(117)	(102)
Net Cash Provided by Operating Activities	1,043	754
INVESTING ACTIVITIES		
Property Additions	(441)	(425)
Purchase of Short-term Investments	(75)	(235)
Proceeds from Sales of Short-term Investments	205	670
Other Investing Activities	25	31
Net Cash (Used in) Provided by Investing Activities	(286)	41
FINANCING ACTIVITIES		
Dividends Paid	(166)	(173)
Shares Repurchased	(258)	(249)
Other Financing Activities	(6)	(270)
Net Cash Used in Financing Activities	(430)	(692)
Net Increase in Cash and Cash Equivalents	327	103
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	603	628
Cash and Cash Equivalents at End of Period	\$ 930	\$ 731

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 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Company's intermodal business links customers to railroads via trucks and terminals.

Other entities

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

CSX's other holdings include CSX Real Property, Inc. ("CSX Real Property"), a subsidiary responsible for the Company's real estate sales, leasing, acquisition and management and development activities. As substantially all of CSX Real Property's remaining activities are focused on supporting railroad operations, beginning in first quarter 2017, all results of these activities are included in operating income. Previously, these activities were classified as operating or non-operating based on the nature of the activity and were not material for any periods presented.

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 three months ended March 31, 2017 and March 25, 2016;
- Consolidated comprehensive income statements for the three months ended March 31, 2017 and March 25, 2016;
- Consolidated balance sheets at March 31, 2017 and December 30, 2016; and
- Consolidated cash flow statements for the three months ended March 31, 2017 and March 25, 2016.

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

CSX follows a 52/53 week fiscal reporting calendar with the last day of each reporting period ending on a Friday:

- The first fiscal quarters of 2017 and 2016 consisted of 13 weeks ending on March 31, 2017 and March 25, 2016, respectively.
- Fiscal year 2017 will consist of 52 weeks ending on December 29, 2017.
- Fiscal year 2016 consisted of 53 weeks ending on December 30, 2016.

Except as otherwise specified, references to "first quarter(s)" or "three months" indicate CSX's fiscal periods ending March 31, 2017 and March 25, 2016, and references to "year-end" indicate the fiscal year ended December 30, 2016.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the creditworthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$23 million and \$33 million is included in the consolidated balance sheets as of the end of first quarter 2017 and December 30, 2016, respectively.

New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that only the service cost component of net periodic benefit costs be recorded as compensation cost in the operating expense section of the income statement. All other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of net loss) will be presented in other income - net. This standard update is effective beginning with the first quarter 2018 and must be applied retrospectively. The Company does not believe this standard update will have a material effect on its financial condition, results of operations or liquidity.

In March 2017, the FASB issued ASU *Simplifying the Test for Goodwill Impairment*, which eliminates step two, the calculation of the implied fair value of goodwill, from the goodwill impairment test. Impairment will be quantified in step one of the test as the amount by which the carrying amount exceeds the fair value. This standard update is effective beginning first quarter 2020 and must be applied prospectively. The Company does not believe this standard will have a material effect on its financial condition, results of operations or liquidity.

In May 2014, the FASB issued ASU *Revenue from Contracts with Customers*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. This standard update is effective for CSX beginning with the first quarter 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

The FASB has recently issued several amendments to the revenue standard, including clarification on accounting for principal versus agent considerations (i.e., reporting gross versus net), licenses of intellectual property and identifying performance obligations. These amendments do not change the core principle of the standard, but provide clarity and implementation guidance.

The Company is currently finalizing its review of the impact of adopting this new guidance and developing a comprehensive implementation plan. In-depth reviews of a significant portion of commercial contracts have been completed, additional contracts are presently being reviewed and changes to processes and internal controls have been identified to meet the standard's reporting and disclosure requirements. At this time, the Company does not believe this standard update will have a material effect on its financial condition, results of operations or liquidity.

In February 2016, the FASB issued ASU, *Leases*, which will require lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, and lessors to recognize a net lease investment. Additional qualitative and quantitative disclosures will also be required. This standard update is effective for CSX beginning with the first quarter 2019 and will be adopted using a modified retrospective method. Changes to processes and internal controls to meet the standard's reporting and disclosure requirements have been identified and continue to be implemented. For example, software has been implemented that will assist in recognition of additional assets and liabilities to be included on the balance sheet related to operating leases with durations greater than twelve months, with certain allowable exceptions. The Company continues to evaluate the expected financial impact of this standard update.

Other Items

Restructuring charge

In March 2017, the Company reduced its management workforce by 765 employees through an involuntary separation program with enhanced benefits. The majority of separation benefits will be paid from general corporate funds while certain benefits will be paid through CSX's qualified pension plans. Cash expenditures, most of which will take place in second quarter 2017, will total approximately \$90 million primarily related to one-time severance costs. Additionally, the terms of unvested equity awards for the outgoing CEO and President were modified prior to their retirements on March 6, 2017 to permit prorated vesting through May 31, 2018.

The restructuring charge includes costs related to the management workforce reduction, the proration of equity awards and other advisory costs related to the leadership transition. The majority of the costs for restructuring activities for these 765 employees were recognized in first quarter 2017 as shown in the table below. The Company expects to incur additional costs as reductions continue until the program is completed.

	First Quarters	
	2017	2016
<i>(Dollars in millions)</i>		
Severance and Pension	\$ 131	\$ —
Other Post-retirement Benefits Curtailment	13	—
Employee Equity Awards Proration and Other	11	—
Subtotal Management Workforce Reduction	\$ 155	—
Executive Equity Awards Proration	8	—
Advisory Fees Related to Shareholder Matters	10	—
Total Restructuring Charge	\$ 173	—

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share

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

	First Quarters	
	2017	2016
Numerator (<i>Dollars in millions</i>):		
Net Earnings	\$ 362	\$ 356
Denominator (<i>Units in millions</i>):		
Average Common Shares Outstanding	927	962
Other Potentially Dilutive Common Shares	2	1
Average Common Shares Outstanding, Assuming Dilution	929	963
Net Earnings Per Share, Basic	\$ 0.39	\$ 0.37
Net Earnings Per Share, Assuming Dilution	\$ 0.39	\$ 0.37

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

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

When calculating diluted earnings per share, this rule requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This number is different from outstanding stock options, which is included in Note 3, Share-Based Compensation, because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately three million and four million of total average outstanding stock options for the first quarters ended March 31, 2017 and March 25, 2016, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

Dividend Increase and Share Repurchases

On April 20, 2017, the Company announced an 11 percent increase in the quarterly dividend to \$0.20 per common share, payable on June 15, 2017 to shareholders of record at the close of business on May 31, 2017. Also, on April 20, 2017, the Company announced a new \$1 billion share repurchase program, which is expected to be completed over the next 12 months.

During the first quarters of 2017 and 2016, the Company repurchased approximately \$258 million, or six million shares, and \$249 million, or ten million shares, respectively under the \$2 billion share repurchase program announced in April 2015. As of April 5, 2017, the Company had completed all share repurchases under this program.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, *continued*

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. 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. Generally, retained earnings is only impacted by net earnings and dividends.

NOTE 3. Share-Based Compensation

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

Share-based compensation expense 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 associated with share-based compensation and its related income tax benefit is shown in the table below. The year over year increase in expense related to performance units and stock options is primarily due to modifications to the terms of awards (see Equity Award Modifications below) and higher expected award payouts.

<i>(Dollars in millions)</i>	First Quarters	
	2017	2016
Share-Based Compensation Expense		
Performance Units	\$ 20	\$ 1
Stock Options	12	2
Restricted Stock Units and Awards	4	3
Stock Awards for Directors	2	2
Total Share-Based Compensation Expense	\$ 38	\$ 8
Income Tax Benefit	13	3

Long-term Incentive Plan

On February 22, 2017, the Company granted approximately 600 thousand performance units to certain employees under a new long-term incentive plan ("2017-2019 LTIP"), which was adopted under the CSX Stock and Incentive Award Plan. Payouts of performance units for the cycle ending with fiscal year 2019 will be based on the achievement of goals related to both operating ratio and return on assets in each case excluding non-recurring items as disclosed in the Company's financial statements. The cumulative operating ratio and average return on assets over the plan period will each comprise 50% of the payout and will be measured independently of the other.

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, *continued*

Stock Options

Also, on February 22, 2017, the Company granted approximately 1.3 million stock options along with the corresponding LTIP plan. The fair value of stock options on the date of grant was \$12.54 per option which was calculated using the Black-Scholes valuation model. Stock options have been granted with ten-year terms and vest three years after the date of grant. The exercise price for stock options granted equals the closing market price of the underlying stock on the date of grant. These awards are time-based and are not based upon attainment of performance goals.

Restricted Stock Units

Finally, on February 22, 2017, the Company granted approximately 300 thousand restricted stock units along with the corresponding LTIP plan. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon attainment of performance goals. For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent annual report on Form 10-K.

CEO Stock Option Award

On March 6, 2017, the Company granted 9 million stock options to the incoming CEO at a fair value of \$12.88 per option calculated using the Black-Scholes valuation model. These options were granted with a ten-year term and an exercise price equal to the closing market price of the underlying stock on the date of grant. Half of the options, or 4.5 million, will vest on the CEO's service anniversary in equal annual installments over 4 years. The other half will vest based on achievement of performance targets related to both operating ratio and earnings before interest, taxes, depreciation and amortization adjusted for certain items.

Fair Value of All Stock Option Awards

The fair value of all stock option awards during the quarter, including those granted along with 2017-2019 LTIP and the CEO stock option award, was estimated at the grant date with the following weighted average assumptions:

	First Quarters	
	2017	2016
Weighted-average grant date fair value	\$ 12.83	\$ 4.68
Stock options valuation assumptions:		
Annual dividend yield	1.5%	3.0%
Risk-free interest rate	2.2%	1.4%
Annualized volatility	27.1%	27.3%
Expected life (in years)	6.3	6.5
Other pricing model inputs:		
Weighted-average grant-date market price of CSX stock (strike price)	\$ 49.61	\$ 24.13

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, *continued*

Equity Award Modifications

The terms of performance units, restricted stock units and stock options granted as part of the Company's long-term share-based compensation plans typically require participants to be employed through the final day of the respective performance or vesting period as applicable, except in the case of death, disability or retirement. As part of an enhanced severance benefit under the management streamlining and realignment initiative discussed in Note 1, unvested performance units, restricted stock units and stock options for separated employees not eligible for retirement were permitted to vest on a pro-rata basis.

Additionally, the terms of unvested equity awards for the outgoing CEO and President were modified prior to their retirements on March 6, 2017 to permit prorated vesting through May 31, 2018. The terms were modified in exchange for each agreeing to serve in an advisory capacity upon request until May 31, 2017, and waiving various rights and claims, including the cancellation of their respective change of control agreements with the Company.

Together, these two award modifications impacted a total of 58 employees. The resulting increase to share-based compensation expense for revaluation of the affected awards was \$12 million.

NOTE 4. Casualty, Environmental and Other Reserves

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

<i>(Dollars in millions)</i>	March 31, 2017			December 30, 2016		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$ 46	\$ 122	\$ 168	\$ 46	\$ 124	\$ 170
Occupational ^(a)	7	51	58	7	52	59
Total Casualty	53	173	226	53	176	229
Environmental	42	51	93	42	53	95
Other	19	28	47	20	30	50
Total	\$ 114	\$ 252	\$ 366	\$ 115	\$ 259	\$ 374

^(a) Occupational reserves include asbestos-related diseases and occupational injuries.

These liabilities are accrued when reasonably estimable and probable in accordance with the *Contingencies Topic* in the ASC. Actual settlements and claims received could differ, and final outcomes of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Casualty

Casualty reserves of \$226 million and \$229 million as of March 31, 2017 and December 30, 2016, respectively, represent accruals for personal injury, occupational disease and occupational injury claims. The Company's self-insured retention amount for these claims is \$50 million per occurrence. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the *Contingencies Topic* in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in estimate. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

Personal Injury

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

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

Occupational

Occupational reserves represent liabilities for occupational disease and injury claims. Occupational disease claims arise primarily from allegations of exposure to asbestos in the workplace. Occupational injury claims arise from allegations of exposure to certain other materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as "irritants") and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries.

The greatest possible exposure to asbestos for employees resulted from work conducted in and around steam locomotive engines that were largely phased out beginning around the 1950s. Other types of exposures, however, including exposure from locomotive component parts and building materials, continued until these exposures were substantially eliminated by 1985. Diseases associated with asbestos typically have long latency periods (amount of time between exposure to asbestos and the onset of the disease) which can range from 10 to 40 years after exposure.

Management reviews asserted asbestos claims quarterly. Unasserted or incurred but not reported ("IBNR") asbestos claims are analyzed by a third-party specialist and reviewed by management annually.

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Environmental

Environmental reserves were \$93 million and \$95 million as of March 31, 2017 and December 30, 2016, 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 222 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 statement.

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Other

Other reserves of \$47 million and \$50 million as of March 31, 2017 and December 30, 2016, respectively, include liabilities for various claims, such as property, automobile and general liability. Also included in other reserves are longshoremen disability claims related to a previously owned international shipping business (these claims are in runoff) as well as claims for current port employees.

NOTE 5. Commitments and Contingencies

Insurance

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

Legal

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

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be \$6 million to \$129 million in aggregate at March 31, 2017. 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 5. 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. The District Court remand proceedings are underway and the class certification hearing was held in September 2016. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification remand proceedings. The court has given no indication of timing on its ruling regarding class certification.

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

Environmental

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

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

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Employee Benefit Plans

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

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

As a result of the management streamlining and realignment program initiated in the first quarter 2017, the Company remeasured other post-retirement benefits as of March 1, 2017 (the remeasurement date) and recorded a curtailment loss of \$13 million included in restructuring charge on the income statement. In connection with this remeasurement, the Company updated the effective discount rate assumption from 3.71% to 3.59%.

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

(Dollars in millions)

	Pension Benefits	
	First Quarters	
	2017	2016
Service Cost	\$ 11	\$ 12
Interest Cost	23	30
Expected Return on Plan Assets	(42)	(39)
Amortization of Net Loss	11	12
Net Periodic Benefit Cost	3	15
Special Termination Benefits - Management Workforce Reduction ^(a)	50	—
Total Expense	\$ 53	\$ 15

(Dollars in millions)

	Other Post-retirement Benefits	
	First Quarters	
	2017	2016
Interest Cost	\$ 2	3
Amortization of Net Loss	—	1
Net Periodic Benefit Cost	2	4
Special Termination Benefits - Management Workforce Reduction Curtailment ^(a)	13	—
Total Expense	\$ 15	\$ 4

(a) Special termination benefits were charges in the first quarter 2017 that resulted from the management workforce reduction. For further information regarding the plan, see Note 1. Nature of Operations and Significant Accounting Policies.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Employee Benefit Plans, continued

Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting or exceeding minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. No contributions to the Company's qualified pension plans are expected in 2017.

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of first quarter 2017 is shown in the table below. For fair value information related to the Company's long-term debt, see Note 9, Fair Value Measurements.

<i>(Dollars in millions)</i>	Current Portion	Long-term Portion	Total
Long-term debt as of December 30, 2016	\$ 331	\$ 10,962	\$ 11,293
2017 activity:			
Discount, premium and other activity	—	(1)	(1)
Debt issue cost activity	—	2	2
Long-term debt as of March 31, 2017	\$ 331	\$ 10,963	\$ 11,294

Credit Facility

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

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. As of first quarter 2017, CSX was in compliance with all covenant requirements under this facility.

Receivables Securitization Facility

The Company has a receivables securitization facility with a three-year term scheduled to expire in September 2019. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity of up to \$200 million, depending on eligible receivables balances. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 8. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 30, 2016.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Fair Value Measurements

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

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

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

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

Investments

The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds 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 table below. 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 \$369 million and \$500 million as of March 31, 2017 and December 30, 2016, respectively.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Fair Value Measurements, continued

<i>(Dollars in Millions)</i>	March 31, 2017	December 30, 2016
Certificates of Deposit and Commercial Paper	\$ 285	\$ 415
Corporate Bonds	64	63
Government Securities	22	22
Total investments at fair value	\$ 371	\$ 500

These investments have the following maturities:

<i>(Dollars in millions)</i>	March 31, 2017	December 30, 2016
Less than 1 year	\$ 287	\$ 417
1 - 2 years	12	12
2 - 5 years	6	4
Greater than 5 years	66	67
Total investments at fair value	\$ 371	\$ 500

Long-term Debt

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

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

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

<i>(Dollars in millions)</i>	March 31, 2017	December 30, 2016
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 12,055	\$ 12,096
Carrying Value	11,294	11,293

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. Other Comprehensive Income (Loss)

CSX reports comprehensive earnings or loss in accordance with the *Comprehensive Income Topic* in the ASC in the Consolidated Comprehensive Income Statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equal net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$368 million and \$363 million for first quarters 2017 and 2016, respectively.

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

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

	Pension and Other Post-Employment Benefits	Other	Accumulated Other Comprehensive Income (Loss)
<i>(Dollars in millions)</i>			
Balance December 30, 2016, Net of Tax	\$ (580)	\$ (60)	\$ (640)
Other Comprehensive Income (Loss)			
Loss Before Reclassifications	—	(1)	(1)
Amounts Reclassified to Net Earnings	11	—	11
Tax Expense	(4)	—	(4)
Total Other Comprehensive Income (Loss)	7	(1)	6
Balance March 31, 2017, Net of Tax	\$ (573)	\$ (61)	\$ (634)

NOTE 11. Summarized Consolidating Financial Data

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

First Quarter 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 2,851	\$ 18	\$ 2,869
Expense	(48)	2,228	(23)	2,157
Operating Income	48	623	41	712
Equity in Earnings of Subsidiaries	422	—	(422)	—
Interest (Expense) / Benefit	(142)	(10)	15	(137)
Other Income / (Expense) - Net	3	11	(7)	7
Earnings Before Income Taxes	331	624	(373)	582
Income Tax Benefit / (Expense)	31	(235)	(16)	(220)
Net Earnings	\$ 362	\$ 389	\$ (389)	\$ 362
Total Comprehensive Earnings	\$ 368	\$ 387	\$ (387)	\$ 368

First Quarter 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 2,598	\$ 20	\$ 2,618
Expense	(72)	2,064	(78)	1,914
Operating Income	72	534	98	704
Equity in Earnings of Subsidiaries	401	—	(401)	—
Interest (Expense) / Benefit	(143)	(10)	10	(143)
Other Income / (Expense) - Net	1	7	(1)	7
Earnings Before Income Taxes	331	531	(294)	568
Income Tax (Expense) / Benefit	25	(198)	(39)	(212)
Net Earnings	\$ 356	\$ 333	\$ (333)	\$ 356
Total Comprehensive Earnings	\$ 363	\$ 332	\$ (332)	\$ 363

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet

(Dollars in millions)

March 31, 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 648	\$ 272	\$ 10	\$ 930
Short-term Investments	285	—	2	287
Accounts Receivable - Net	2	198	743	943
Receivable from Affiliates	1,122	2,397	(3,519)	—
Materials and Supplies	—	415	—	415
Other Current Assets	—	74	11	85
Total Current Assets	2,057	3,356	(2,753)	2,660
Properties	1	40,670	2,728	43,399
Accumulated Depreciation	(1)	(10,662)	(1,477)	(12,140)
Properties - Net	—	30,008	1,251	31,259
Investments in Conrail	—	—	847	847
Affiliates and Other Companies	(39)	646	15	622
Investments in Consolidated Subsidiaries	24,434	—	(24,434)	—
Other Long-term Assets	2	603	(281)	324
Total Assets	\$ 26,454	\$ 34,613	\$ (25,355)	\$ 35,712
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	\$ 171	\$ 698	\$ 29	\$ 898
Labor and Fringe Benefits Payable	34	383	28	445
Payable to Affiliates	3,478	475	(3,953)	—
Casualty, Environmental and Other Reserves	—	102	12	114
Current Maturities of Long-term Debt	313	19	(1)	331
Income and Other Taxes Payable	(29)	310	21	302
Other Current Liabilities	—	178	9	187
Total Current Liabilities	3,967	2,165	(3,855)	2,277
Casualty, Environmental and Other Reserves	—	203	49	252
Long-term Debt	10,206	757	—	10,963
Deferred Income Taxes - Net	(207)	9,592	263	9,648
Other Long-term Liabilities	832	396	(325)	903
Total Liabilities	\$ 14,798	\$ 13,113	\$ (3,868)	\$ 24,043
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 923	\$ 181	\$ (181)	\$ 923
Other Capital	170	5,095	(5,095)	170
Retained Earnings	11,197	16,232	(16,232)	11,197
Accumulated Other Comprehensive Loss	(634)	(21)	21	(634)
Noncontrolling Interest	—	13	—	13
Total Shareholders' Equity	\$ 11,656	\$ 21,500	\$ (21,487)	\$ 11,669
Total Liabilities and Shareholders' Equity	\$ 26,454	\$ 34,613	\$ (25,355)	\$ 35,712

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in millions)

December 30, 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 305	\$ 281	\$ 17	\$ 603
Short-term Investments	415	—	2	417
Accounts Receivable - Net	2	215	721	938
Receivable from Affiliates	1,157	2,351	(3,508)	—
Materials and Supplies	—	407	—	407
Other Current Assets	—	106	16	122
Total Current Assets	1,879	3,360	(2,752)	2,487
Properties	1	40,518	2,708	43,227
Accumulated Depreciation	(1)	(10,634)	(1,442)	(12,077)
Properties - Net	—	29,884	1,266	31,150
Investments in Conrail	—	—	840	840
Affiliates and Other Companies	(39)	643	15	619
Investment in Consolidated Subsidiaries	24,179	—	(24,179)	—
Other Long-term Assets	2	607	(291)	318
Total Assets	\$ 26,021	\$ 34,494	\$ (25,101)	\$ 35,414
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	\$ 95	\$ 678	\$ 33	\$ 806
Labor and Fringe Benefits Payable	40	440	65	545
Payable to Affiliates	3,457	500	(3,957)	—
Casualty, Environmental and Other Reserves	—	102	13	115
Current Maturities of Long-term Debt	313	19	(1)	331
Income and Other Taxes Payable	(346)	459	16	129
Other Current Liabilities	—	112	2	114
Total Current Liabilities	3,559	2,310	(3,829)	2,040
Casualty, Environmental and Other Reserves	—	208	51	259
Long-term Debt	10,203	759	—	10,962
Deferred Income Taxes - Net	(203)	9,541	258	9,596
Other Long-term Liabilities	783	410	(330)	863
Total Liabilities	\$ 14,342	\$ 13,228	\$ (3,850)	\$ 23,720
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 928	\$ 181	\$ (181)	\$ 928
Other Capital	138	5,095	(5,095)	138
Retained Earnings	11,253	15,994	(15,994)	11,253
Accumulated Other Comprehensive Loss	(640)	(19)	19	(640)
Noncontrolling Minority Interest	—	15	—	15
Total Shareholders' Equity	\$ 11,679	\$ 21,266	\$ (21,251)	\$ 11,694
Total Liabilities and Shareholders' Equity	\$ 26,021	\$ 34,494	\$ (25,101)	\$ 35,414

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued**Consolidating Cash Flow Statements***(Dollars in millions)*

Three Months 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 644	\$ 566	\$ (167)	\$ 1,043
Investing Activities				
Property Additions	—	(397)	(44)	(441)
Purchases of Short-term Investments	(75)	—	—	(75)
Proceeds from Sales of Short-term Investments	205	—	—	205
Other Investing Activities	(1)	(24)	50	25
<i>Net Cash Provided by (Used in) Investing Activities</i>	129	(421)	6	(286)
Financing Activities				
Dividends Paid	(166)	(150)	150	(166)
Shares Repurchased	(258)	—	—	(258)
Other Financing Activities	(6)	(4)	4	(6)
<i>Net Cash Provided by (Used in) Financing Activities</i>	(430)	(154)	154	(430)
Net Increase (Decrease) in Cash and Cash Equivalents	343	(9)	(7)	327
Cash and Cash Equivalents at Beginning of Period	305	281	17	603
Cash and Cash Equivalents at End of Period	\$ 648	\$ 272	\$ 10	\$ 930

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements

(Dollars in millions)

Three Months 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 36	\$ 834	\$ (116)	\$ 754
Investing Activities				
Property Additions	—	(391)	(34)	(425)
Purchases of Short-term Investments	(235)	—	—	(235)
Proceeds from Sales of Short-term Investments	670	—	—	670
Other Investing Activities	(1)	26	6	31
<i>Net Cash Provided by (Used in) Investing Activities</i>	434	(365)	(28)	41
Financing Activities				
Dividends Paid	(173)	(150)	150	(173)
Shares Repurchased	(249)	—	—	(249)
Other Financing Activities	1	(271)	—	(270)
<i>Net Cash Provided by (Used in) Financing Activities</i>	(421)	(421)	150	(692)
Net Increase (Decrease) in Cash and Cash Equivalents	49	48	6	103
Cash and Cash Equivalents at Beginning of Period	444	175	9	628
Cash and Cash Equivalents at End of Period	\$ 493	\$ 223	\$ 15	\$ 731

CSX CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2017 HIGHLIGHTS

- The Company named E. Hunter Harrison CEO and began implementing Precision Scheduled Railroading.
- The Company reduced the management workforce and completed other restructuring activities that resulted in a restructuring charge of \$173 million.

	<u>First Quarters</u>			
	<u>2017</u>	2016	<i>Fav / (Unfav)</i>	<i>% Change</i>
Volume <i>(in thousands)</i>	1,592	1,551	41	3%
<i>(in millions)</i>				
Revenue	\$ 2,869	\$ 2,618	\$ 251	10%
Expense	2,157	1,914	(243)	(13)%
Operating Income	\$ 712	\$ 704	\$ 8	1%
Operating Ratio	75.2%	73.1%	(210) bps	
Earnings Per Diluted Share	\$ 0.39	\$ 0.37	\$ 0.02	5%

On March 6, 2017, the Company named E. Hunter Harrison as its new CEO and began implementing Precision Scheduled Railroading. As a result, CSX is adjusting its strategy to successfully execute this new model, relentlessly focusing on providing customer service, controlling costs, operating safely, developing people and optimizing assets.

CSX CORPORATION

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

RESULTS OF OPERATIONS

Volume and Revenue (Unaudited)

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

First Quarters

	Volume			Revenue			Revenue Per Unit		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
<u>Agricultural</u>									
Agricultural and Food Products ^(a)	121	121	— %	\$ 332	\$ 323	3 %	\$ 2,744	\$ 2,669	3%
Fertilizers ^(a)	77	76	1	129	127	2	1,675	1,671	—
<u>Industrial</u>									
Chemicals ^(a)	175	175	—	566	546	4	3,234	3,120	4
Automotive	119	113	5	316	290	9	2,655	2,566	3
Metals and Equipment ^(a)	70	62	13	190	165	15	2,714	2,661	2
<u>Housing and Construction</u>									
Minerals ^(a)	70	58	21	114	94	21	1,629	1,621	—
Forest Products	67	68	(1)	192	189	2	2,866	2,779	3
Total Merchandise	699	673	4	1,839	1,734	6	2,631	2,577	2
Coal	205	200	3	522	399	31	2,546	1,995	28
Intermodal	688	678	1	434	405	7	631	597	6
Other	—	—	—	74	80	(8)	—	—	—
Total	1,592	1,551	3 %	\$ 2,869	\$ 2,618	10 %	\$ 1,802	\$ 1,688	7%

(a) At the beginning of the third quarter 2016, in order to better align markets with the Company's business strategy, changes were made in the categorization of certain lines of business. Prior periods have been reclassified to conform to the current presentation and are posted on the Company's website at csx.com under the investors section.

- Agricultural and Food Products includes the combination of the previous Agricultural Products and Food and Consumer markets.
- Fertilizers was previously named Phosphates and Fertilizers.
- Metals and Equipment includes the Equipment portion of the previous Waste and Equipment market.
- Chemicals includes the Waste portion of the previous Waste and Equipment market. Chemicals also includes fly ash for remediation purposes (a form of waste) which was previously included within the Minerals market.

CSX CORPORATION

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

First Quarter 2017

Revenue

Revenue increased \$251 million to \$2.9 billion from the prior year's first quarter due to volume growth, pricing gains and increased fuel surcharge.

Merchandise

Agricultural Sector

Agricultural and Food Products - Volume was flat as gains in ethanol driven by higher production levels were offset by declines in the export grain market as the strong South American harvest and low barge rates negatively impacted rail volumes.

Fertilizers - Volume increased modestly due to rail conversion of phosphate rock traffic that would otherwise move by truck. This growth was partially offset by reduced demand for nitrogen reflecting the anticipated shift of acres planted from corn to soybeans.

Industrial Sector

Chemicals - Volume was flat as fly ash shipments, which began moving a year ago, ramped up over several quarters to current levels. Growth was also driven by soil remediation projects and frac sand due to an increase in drilling activity. These gains were offset by lower crude oil shipments as crude by rail economics remained challenged.

Automotive - Volume increased, driven by SUV and truck shipments, as North American vehicle production increased versus the prior year at several CSX-served plants.

Metals and Equipment - Volume grew due to improved domestic steel production, which reflected moderating import steel pressure and increased construction-related activity.

Housing and Construction Sector

Minerals - Volume grew as shipments of aggregates increased, reflecting construction project activity and periods of mild winter weather, which allowed for additional production and movement. In addition, salt demand improved after a few significant snow storms depleted stockpiles in the northeast.

Forest Products - Volume was down modestly as truck competition from excess capacity continued to constrain growth despite positive momentum in the housing market and rail shipments of building products. In addition, headwinds from electronic substitution continued to negatively impact shipments of paper products.

CSX CORPORATION

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

Coal

Domestic Utility Coal - Volume declined due to mild winter weather and a competitive loss of short-haul interchange traffic as previously conveyed.

Domestic Coke, Iron Ore and Other - Iron ore shipments were down as a large customer retooled its production, but overall demand was stable.

Export Coal - Volume increased as global supply levels and pricing conditions extended the strong demand environment for U.S. coal exports.

Intermodal

Domestic - Volume declined one percent as the impact of a short-haul competitive loss in the third quarter of last year was partially offset by continued growth in CSX's highway-to-rail initiative.

International - Volume increased five percent, reflecting improving demand in international freight flows and strong performance in several large customer accounts.

Expenses

Expenses increased \$243 million to \$2.2 billion year over year, primarily driven by a restructuring charge and a fuel price increase, partially offset by efficiency savings. Variances versus the prior year's first quarter are described below.

Labor and Fringe expense decreased \$7 million due to the following:

- Inflation of \$36 million was driven primarily by increased health and welfare costs.
- Incentive compensation was \$30 million higher reflecting the expected award payouts on existing plans.
- Volume-related costs were \$21 million higher.
- Efficiency savings of \$74 million were driven by lower T&E and operating support costs.
- Other costs decreased by \$20 million primarily due to a \$14 million decrease in pension expense.

Materials, Supplies and Other expense increased \$17 million due to the following:

- Inflation resulted in \$9 million of additional cost.
- Volume-related costs were \$15 million higher.
- Efficiency savings of \$41 million were primarily related to lower operating support costs.
- Other costs increased \$34 million due to \$14 million in prior year favorable adjustments that did not repeat in the current quarter and several other items.

Fuel expense increased \$68 million due to the following:

- A 45 percent price increase drove \$67 million in additional fuel expense.
- Volume-related costs were \$6 million higher due to a five percent year-over-year increase in gross ton miles.
- Efficiency savings of \$5 million were related to process improvement and locomotive fuel reduction initiatives.

Depreciation expense increased \$7 million primarily due to a larger asset base.

CSX CORPORATION

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

Equipment and Other Rents expense decreased \$15 million due to the following:

- Inflation resulted in \$3 million of additional cost due to higher rates on automotive freight cars.
- Volume-related costs decreased by \$4 million, despite an overall year-over-year volume increase, due to lower rents on certain boxcars primarily attributable to demand decreases in paper products.
- Efficiency savings of \$3 million were due to improved miles per car.
- Other costs decreased \$11 million primarily due to rental income that was previously classified as other income in the prior years being reclassified to operating expense in the current year.

Restructuring charge includes costs related to the management workforce reduction, the proration of equity awards and other advisory costs related to the leadership transition.

Interest expense decreased \$6 million primarily due to lower average interest rates, partially offset by higher average debt balances.

Other income - net did not change versus prior year's first quarter.

Income tax expense increased \$8 million primarily due to increased earnings before income taxes.

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 Operating Results

Management believes that adjusted operating income, adjusted operating ratio, adjusted net earnings and adjusted net earnings per share, assuming dilution are important in evaluating the Company's operating performance and for planning and forecasting future business operations and future profitability. These non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends. The \$173 million restructuring charge impact to net earnings and net earnings per share, assuming dilution was tax effected using a tax rate of 37.8%.

	For the Quarter ended March 31, 2017			
<i>(in millions, except operating ratio and net earnings per share, assuming dilution)</i>	Operating Income	Operating Ratio	Net Earnings	Net Earnings Per Share, Assuming Dilution
GAAP Operating Results	\$ 712	75.2 %	\$ 362	\$ 0.39
Restructuring Charge	173	(6.0)%	108	0.12
Adjusted Operating Results (non-GAAP)	\$ 885	69.2 %	\$ 470	\$ 0.51

Free Cash Flow

Management believes that free cash flow is 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 should be considered in addition to, rather than a substitute for, cash provided by operating activities. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities. 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 was tax effected using a tax rate of 37.8%.

	Quarter Ended	
<i>(Dollars in millions)</i>	March 31, 2017	March 25, 2016
Net cash provided by operating activities	1,043	754
Property additions	(441)	(425)
Other investing activities	25	31
Free Cash Flow (before payment of dividends)	627	360
Add back: Cash paid related to Restructuring Charge (after-tax)	7	—
Adjusted Free Cash Flow Before Dividends (non-GAAP)	\$ 634	\$ 360

CSX CORPORATION

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

Operating Statistics (Estimated)

	First Quarters		
	2017	2016	Improvement/ (Deterioration)
Safety and Service Measurements			
FRA Personal Injury Frequency Index	0.99	0.91	(9)%
FRA Train Accident Rate	2.37	3.14	25 %
On-Time Originations	81%	81%	— %
On-Time Arrivals	61%	64%	(5)%
Train Velocity	20.2	21.1	(4)%
Dwell	26.1	26.0	— %
Cars-On-Line	210,589	207,357	(2)%

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

Key Performance Measures Definitions

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

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

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

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

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

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

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

The Company measures and reports safety and service performance. The Company strives for continuous improvement in these measures through training, innovation and investment. Increased investment in training and technology also is designed to allow CSX employees to have an additional layer of protection that can detect and avoid many types of human factor incidents. The Company's safety programs are designed to prevent incidents that can adversely impact employees, customers and communities. Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance.

CSX's FRA reportable personal injury frequency index of 0.99 for the quarter was nine percent unfavorable, despite a slight reduction in the number of injuries, due to a significant decline in man-hours from fewer employees. The FRA train accident frequency rate of 2.37 for the quarter improved 25 percent from the prior year due to a substantial reduction in the number of accident occurrences in comparison to the prior year. The Company remains committed to ongoing improvement, with a focus on avoiding catastrophic events.

CSX's operating performance remained stable in the first quarter. On-time originations were 81 percent, which were consistent with the previous year, and on-time arrivals decreased to 61 percent, a five percent decline year-over-year. Average train velocity experienced a four percent decline to 20.2 miles per hour and terminal dwell of 26.1 hours remained relatively constant when compared to the prior year.

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

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

Consolidated Balance Sheets

Total assets increased \$298 million from prior year primarily due to an increase in cash, including short-term investment activity of approximately \$200 million and an increase in net properties of approximately \$110 million. Total liabilities and shareholders' equity combined increased \$298 million from year end primarily due to the net increase in income taxes payable of approximately \$170 million and a restructure charge of \$173 million, partially offset by a \$100 million reduction in Labor and Fringe primarily due to the payout of incentive compensation.

Significant Cash Flows

The following chart highlights net cash activity of \$327 million as compared to \$103 million for operating, investing and financing activities for three months ended 2017 and 2016.



- Cash provided by operating activities increased \$289 million primarily driven by higher collections of freight accounts receivable and the timing of tax, payroll and interest payments.
- Cash used in investing activities increased \$327 million primarily driven by lower net sales of short-term investments.
- Cash used in financing activities decreased \$262 million as a repayment of seller-financed assets that occurred in the prior year did not repeat in the current year.

CSX CORPORATION

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

Projected capital investments for 2017 are now expected to be \$2.1 billion, including approximately \$270 million for Positive Train Control ("PTC"). Of the 2017 investment, over half will be used to sustain the core infrastructure. The remaining amounts will be allocated to projects supporting profitable growth, productivity initiatives and service improvements. CSX intends to fund capital investments through cash generated from operations.

The Company has incurred significant capital costs in connection with the implementation of PTC and has substantial work ahead. CSX estimates that the total multi-year cost of PTC implementation will be approximately \$2.4 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 March 2017 was \$1.8 billion.

Liquidity and Working Capital

As of the end of first quarter 2017, CSX had \$1.2 billion of cash, cash equivalents and short-term investments. CSX has a \$1.0 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in May 2020 and as of the date of this filing, the Company has no outstanding balances under this facility. CSX uses current cash balances for general corporate purposes, which may include reduction or refinancing of outstanding indebtedness, capital expenditures, working capital requirements, contributions to the Company's qualified pension plan, redemptions and repurchases of CSX common stock and dividends to shareholders. See Note 7, Debt and Credit Agreements.

The Company has a receivables securitization facility with a three-year term scheduled to expire in September 2019. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity of up to \$200 million, depending on eligible receivables balances. As of the date of this filing, the Company has no outstanding balances under this facility.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of \$383 million and \$447 million as of March 31, 2017 and December 30, 2016, respectively. The decline since year-end in working capital of \$64 million is primarily due to an increase in current income taxes payable of \$173 million and a current restructuring severance liability of approximately \$80 million, partially offset by an increase of \$178 million in net cash and short-term investments.

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

CSX CORPORATION

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

CRITICAL ACCOUNTING ESTIMATES

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

CSX CORPORATION

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

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

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

CSX CORPORATION

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

- adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- labor and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or customers' ability to deliver goods to the Company for shipment;
- the Company's success in implementing its strategic, financial and operational initiatives;
- changes in operating conditions and costs or commodity concentrations; and
- the inherent uncertainty associated with projecting economic and business conditions.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, which are accessible on the SEC's website at www.sec.gov 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 March 31, 2017, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of March 31, 2017, 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 first quarter of 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

CSX CORPORATION
PART II

Item 2. CSX Purchases of Equity Securities

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

During the first quarters of 2017 and 2016, the Company repurchased approximately \$258 million, or six million shares, and \$249 million, or ten million shares, respectively under the \$2 billion share repurchase program announced in April 2015. As of April 5, 2017, the Company had completed all share repurchases under this program.

On April 20, 2017, the Company announced a new \$1 billion share repurchase program, which is expected to be completed over the next 12 months.

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. 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. Generally, retained earnings is only impacted by net earnings and dividends.

Share repurchase activity for the first quarter 2017 was as follows:

	CSX Purchases of Equity Securities for the Quarter			Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(b)	
First Quarter ^(a)				
Beginning Balance				\$ 270,270,134
January	2,044,818	\$ 38.93	1,938,768	195,428,197
February	1,660,565	47.58	1,660,500	116,424,432
March	2,175,500	47.78	2,175,500	12,474,350
Ending Balance	5,880,883	\$ 44.65	5,774,768	\$ 12,474,350

(a) First quarter 2017 consisted of the following fiscal periods: January (December 31, 2016 - January 27, 2017), February (January 28, 2017 - February 24, 2017), March (February 25, 2017 - March 31, 2017).

(b) The difference of 106,115 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
3.01	Amended and Restated Bylaws of the Registrant, effective as of March 6, 2017	March 7, 2017 Exhibit 3.1, Form 8-K
Material Contracts:		
10.01	CSX 2017-2019 Long Term Incentive Plan, effective as of February 22, 2017	February 27, 2017 Exhibit 10.1, Form 8-K
10.02	Separation Agreement, effective February 27, 2017, between Michael J. Ward and CSX Corporation	February 27, 2017 Exhibit 10.2, Form 8-K
10.03	Separation Agreement, effective February 27, 2017, between Clarence W. Gooden and CSX Corporation	February 27, 2017 Exhibit 10.3, Form 8-K
10.04	CSX Section 16 Officer Severance Benefit Plan, effective as of February 22, 2017	February 27, 2017 Exhibit 10.4, Form 8-K
10.05	Letter Agreement, dated as of March 6, 2017, between CSX Corporation and MR Argent Advisor LLC	March 7, 2017 Exhibit 10.1, Form 8-K
10.06	Registration Rights Agreement, dated as of March 30, 2017, between CSX Corporation and MR Argent Advisor LLC	April 3, 2017 Exhibit 10.1, Form 8-K
10.07*	Employment Agreement, effective as of March 6, 2017, between CSX Corporation and E. Hunter Harrison	
10.08*	Inducement Non-Qualified Stock Option Agreement Under the CSX 2010 Stock and Incentive Award Plan between CSX Corporation and E. Hunter Harrison	
10.09*	Inducement Non-Qualified Stock Option Agreement Under the CSX Special Executive Equity Award Program between CSX Corporation and E. Hunter Harrison	

Officer certifications:

31*	Rule13a-14(a) Certifications
32*	Section 1350 Certifications

Interactive data files:

101*	The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on April 19, 2017, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended March 31, 2017 and March 25, 2016, (ii) consolidated comprehensive income statements for the fiscal periods ended March 31, 2017 and March 25, 2016 (iii) consolidated balance sheets at March 31, 2017 and December 30, 2016, (iv) consolidated cash flow statements for the fiscal periods ended March 31, 2017 and March 25, 2016, and (v) the notes to consolidated financial statements.
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* 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/ Carolyn T. Sizemore
Carolyn T. Sizemore
Vice President and Controller
(Principal Accounting Officer)

Dated: April 20, 2017

March 6, 2017

E. Hunter Harrison

Dear Hunter:

It is with great pleasure that we present you with this letter (the “**Letter**”) to confirm our offer to you to join CSX Corporation (the “**Company**”), as Chief Executive Officer of the Company. In this capacity you shall report directly to the board of directors of the Company (the “**Board**”). You shall have such duties, responsibilities and authorities that are commensurate with the duties, authorities and responsibilities of chief executive officers of similar size and type companies, and such other duties, authorities and responsibilities not inconsistent with your position as may reasonably be assigned to you by the Board from time to time. All employees of the Company shall report to you or your designee (*provided*, that Company risk officers may separately report to the Audit Committee or the Board). In addition, if asked from time to time to serve as a director or officer of one or more of the Company’s Affiliates, you agree to do so without further compensation. On the Effective Date (as defined below), you shall be appointed to the Board. Thereafter during the Term (as defined below), the Company shall cause you to be nominated for re-election to the Board each time that your term on the Board would otherwise expire.

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1. Starting Date; Term; Place of Employment

Your employment with the Company will start as of March 6, 2017 (the “**Effective Date**”) and will continue until the fourth anniversary of the Effective Date (such period, the “**Term**”), unless terminated earlier as provided herein. Your principal work location shall be the Company’s headquarters in Jacksonville, Florida, but you may work from other locations as you deem not inappropriate in your reasonable, good faith discretion. You shall travel as necessary in connection with performing your duties.

2. Exclusivity

You agree that, while employed by the Company, you will devote your full business time and attention, business judgment, skill and knowledge to the advancement of the business interests of the Company and to the discharge of your duties and responsibilities for the Company. During the Term, it shall not be a violation of this Letter for you to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of your responsibilities as an employee of the Company in accordance with this Letter. It is expressly understood and agreed that to the extent that any such activities had been conducted by you while serving as chief executive officer of your prior employer, the continued conduct of such activities to a similar extent subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of your responsibilities to the Company.

3. **Base Salary**

Your annualized base salary shall be not less than \$2,200,000, payable in accordance with the regular payroll practices of the Company and subject to annual review for possible increase by the Compensation Committee of the Board (the “**Committee**”) (such base salary, as may be increased from time to time, “**Base Salary**”). The Base Salary may not be decreased during the Term.

4. **Annual Incentive Compensation**

In addition to the Base Salary, you shall be eligible to earn, for each calendar year during the Term, an annual bonus (the “**Annual Bonus**”) payable in cash, based on Company performance levels. Your target Annual Bonus will be 125% of your Base Salary (but not less than, \$2,800,000) (the “**Target Bonus**”), with appropriate threshold and maximum amounts determined by the Committee in its good faith discretion, with due regard for the historic maximum annual bonus percentages for the Company’s chief executive officer. The amount of your Annual Bonus, if any, for any calendar year shall be determined by the Committee in its good faith discretion based on the achievement of performance goals previously established by the Committee in its discretion after consultation with you. If necessary, the Company will seek shareholder approval to increase the maximum amount of annual incentive compensation that may be paid pursuant to the Company’s shareholder approved incentive compensation plan or the Company will establish a supplemental plan pursuant to which your annual bonus in excess of shareholder approved limits will be paid. Any such Annual Bonus shall be payable in accordance with Company policy in effect from

time to time and, except as provided herein, you must be continuously employed by the Company through the date on which cash awards for the prior year are paid in order to be eligible to receive a cash award in respect of such year. All bonuses shall be paid in the calendar year next following the calendar year for which the Annual Bonus is awarded but not later than March 15, unless deferred pursuant to the terms of a deferred compensation plan maintained by the Company. For 2017, your Annual Bonus shall not be less than \$2,800,000.

5. Stock Option Award

On the Effective Date, you shall receive a grant of stock options to purchase shares of the Company's common stock (the "Option Awards") as an inducement equity grant. The Option Awards shall be evidenced by the [an award agreement under the CSX stock plan and a separate inducement award agreement] (the "Award Agreements"). The exercise price of the options granted pursuant to the Option Awards shall be equal to the closing price of the Company's common stock on the grant date of the Option Awards, which shall be the Effective Date.

6. Incentive, Savings and Retirement Plans

During the Term, you shall be entitled to participate in all incentive and savings and retirement plans, practices, policies and programs applicable generally to other senior executives of the Company and its affiliated companies; *provided, however*, that you will not be entitled to receive awards under the Company's long-term incentive programs unless otherwise determined by the Committee in its sole discretion.

7. Welfare Benefit Plans

During the Term, you and your dependents shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies made available to other senior executives of the Company and its affiliates during their employment (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs).

Your participation shall be subject to the terms of the applicable plan or program documents and generally applicable Company policies, as the same may be in effect from time to time, and any other restrictions or limitations imposed by law. The benefit plans or programs maintained by the Company are subject to change and the Company reserves the right to amend, suspend or terminate any such benefits or benefit plans at any time.

8. Fringe Benefits

During the Term, you shall be entitled to fringe benefits and perquisites in accordance with most favorable plans, practices, programs and policies of the Company and its affiliated companies as provided by the Company to the chief executive officer immediately prior to the Effective Date, together with such other or additional fringe benefits or perquisites that the Company may deem appropriate to provide to you. The Company shall promptly conduct a security study to confirm the need for you to use Company provided aircraft for personal travel and you may make use of such aircraft for personal travel within North America when you would otherwise use commercial aircraft, subject to annual review by the Committee beginning with 2019. You will have imputed income for such use as required by applicable law. In addition, to the extent reasonably necessary the Company shall provide security for you. During the Term, the Company shall make available to you corporate housing in the Jacksonville, Florida area for use when you are in Jacksonville, Florida on Company business, as reasonably agreed between you and the Board.

9. Expenses

During the Term, you shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by you in carrying out your duties hereunder, in accordance with the policies, practices and procedures of the Company and its affiliated companies in effect and applicable to you. Any required reimbursements shall be paid to you no later than the last day of the calendar year following the calendar year in which you incurred the underlying expense, and the amount of expenses eligible for reimbursement during any

year shall not affect the expenses eligible for reimbursement in any other year.

10. Vacation

Your annual Company-paid vacation entitlement will be 20 days per year, accrued on a monthly basis, and subject to the Company's policies and procedures in effect from time to time. You will also be entitled to all Company holidays.

11. Termination of Employment

(a) *Death or Disability.* Your employment shall terminate automatically upon your death during the Term. If the Company determines in good faith that your Disability has occurred during the Term (pursuant to the definition of Disability set forth below), it may give you written notice in accordance with Section 23 of its intention to terminate your employment; *provided*, that such notice must be sent while you remain Disabled or within 14 days after you cease to be Disabled. In such event, your employment with the Company shall terminate effective on the receipt of such notice by you (the "**Disability Effective Date**"). For purposes of this Letter, "**Disability**" shall mean your failure to have significantly performed your duties with the Company for 180 days in any 365-day period as a result of your mental or physical illness or incapacity.

(b) *Cause.* The Company may terminate your employment during the Term for Cause. For purposes of this Letter, "**Cause**" shall mean: (i) your willful and continued failure to substantially perform your duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Board, which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, (i) the willful engaging by you in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company, (i) the material violation of any Company policy by you, or the commission by you of an act involving moral turpitude, in each case, that adversely and substantially affects the reputation or business of the Company or any affiliate or (i) a material breach by you of your obligations under this Agreement; *provided*, that you have been given written notice of the alleged material breach and have not reasonably cured such breach within thirty (30) days of the giving of such notice.

For purposes of this provision, no act or failure to act, on your part, shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of employment of you shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable advance notice (including the alleged grounds to terminate your employment for Cause) is provided to you and you are given an opportunity, together with counsel, to be heard before the Board), finding that grounds exist to terminate your employment for Cause under subparagraph (i), (ii), (iii) or (iv) above and the grounds are serious enough to justify termination.

(c) *Good Reason.* You may terminate your employment during the Term for Good Reason. For purposes of this Letter, "**Good Reason**" shall mean, without your written consent: (i) a substantial diminution of your duties or responsibilities as contemplated herein, excluding for this purpose an isolated and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by you; (i) a reduction in your Base Salary; (i) a reduction in your Target Bonus; (i) a reduction in your other incentive opportunities, benefits or perquisites set forth in this Letter, other than a comparable reduction

affecting all similarly situated senior executives of the Company; (i) the Company's requiring you to be based at any office or location other than the Company's headquarters in Jacksonville, Florida or any new Company headquarters not more than 35 miles from such location; (i) any action or inaction by the Company that constitutes a material breach of this Letter or any other material written agreement between you and the Company; or (i) any purported termination by the Company of your employment other than for Cause or Disability. Notwithstanding the foregoing, Good Reason shall not be deemed to exist solely as a result of the Company's appointment of an interim Chief Executive Officer, with all related authorities and duties, to fill your role and exercise such authorities and duties during the period of any extended absence by you from your role other than vacation; *provided* that the Board has consulted with you as to the person to serve as interim chief executive officer and considered such person in good faith. Notwithstanding the foregoing, no event of "Good Reason" shall be deemed to have occurred unless you provide written notice, within ninety (90) days of the initial occurrence of such event, to the Board specifying in reasonable detail the facts or circumstances that you believe constitute Good Reason, such facts or circumstances are not corrected or otherwise cured by the Company within thirty (30) days after the Board's receipt of such notice, and you actually terminate your employment within ninety (90) days after the end of the foregoing 30-day period.

(d) *Special Resignation.* You may terminate your employment by a Special Resignation, as defined [the Company's failure to assume specified obligations relating to executive's consulting agreement with MR Argent Advisor LLC].

(e) *Notice of Termination.* Any termination by the Company for Cause, or by you for Good Reason or in a Special Resignation, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 23. For purposes of this Letter, a "**Notice of Termination**" means a written notice which (i) indicates the specific termination provision in this Letter relied upon, (i) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and (i) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date, subject to Section 11(c) above). The failure by you or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right you or the Company, respectively, may have hereunder or preclude you or the Company, respectively, from asserting such fact or circumstance in enforcing your or the Company's rights hereunder.

(f) *Date of Termination.* "**Date of Termination**" means (i) if your employment is terminated by the Company for Cause, or by you for Good Reason or in a Special Resignation, the later of the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, subject to Section 11(c) above, (i) if your employment is terminated by the Company other than for Cause or Disability, the later of the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (i) if your employment is Terminated by you without Good Reason (other than in a Special Resignation), the date specified in the Notice of Termination, which shall be at least 30 days after the Company's receipt of the Notice of Termination or such earlier date elected by the Company in its discretion, and (i) if your employment is terminated by reason of death or Disability, the date of your death or the Disability Effective Date, as the case may be. For purposes of any benefit to be provided or any amount payable under this Agreement that is subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), termination of employment shall not be deemed to occur unless it is reasonably expected that you will provide no further services to the Company or its affiliates, as defined in Section 414(b) or (c) of the Code, or that the level of bona fide services will drop to 20% or less of the average level of services provided by you over the thirty-six (36) months preceding your termination of employment (a "**Separation from Service**"). If it is expected that you will continue to provide bona fide services to the Company or any of its affiliates at a level that is more than 20% of the average level of services provided by you over such thirty-six (36) month period, then you shall be

deemed not to have experienced a termination of employment and not have had a Separation from Service.

12. Consequences of Termination

(a) *Accrued Obligations.* Upon any termination of your employment, the Company shall pay or provide you with the following: (i) accrued but unpaid Base Salary through the Date of Termination, to be paid in accordance with the Company's normal payroll practice; (ii) any accrued unused vacation time through the Date of Termination, paid only to the extent and in the manner payable in accordance with the Company's general vacation policies applicable to senior executives; (iii) any unreimbursed business expenses incurred by you through the Date of Termination, to be paid in accordance with the provisions of Section 9; (iv) to the extent not theretofore paid or provided, the Company shall timely pay or provide you any other amounts or benefits required to be paid or provided or which you are eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies, including earned but unpaid stock and similar compensation and any annual or long-term incentive compensation earned with respect to a performance period completed prior to your termination date but not yet fully paid as of such termination date, in accordance with the terms of the applicable plan, program, policy or practice; and (v) if applicable, [specified obligations relating to executive's consulting agreement with MR Argent Advisor LLC] (collectively, the "**Accrued Obligations**").

(b) *Without Cause or Good Reason.* If, during the Term, the Company shall terminate your employment other than for Cause or Disability or you shall terminate your employment for Good Reason, then the Company shall provide you the following payments and benefits: (i) a lump sum cash payment equal to \$5,000,000, paid within 40 days after the Date of Termination (the "**Base Severance Amount**"); (ii) any earned but unpaid Annual Bonus for the year preceding the year of termination, paid without duplication when bonuses are paid to active employees, but in no event later than the 75th day after the end of such year (the "**Prior Year Bonus**"); (iii) the product of (x) the Annual Bonus you would have received for the year of termination (based upon your Target Bonus and the annual incentive plan's achievement percentage) had you remained employed for the entire performance period to which such Annual Bonus relates and (y) a fraction, the numerator of which is the number of days in the year of your termination occurring prior to the Date of Termination during which you were employed, and the denominator of which is 365, paid when bonuses for such year are paid to active employees, but in no event later than the 75th day after the end of such year (the "**Pro-Rata Bonus**"); and (iv) a lump sum cash payment equal to 100% of the estimated aggregate cost of Benefit Continuation (as defined below) for the shorter of 18 months or the period remaining until the fourth anniversary of the Effective Date, paid within 30 days of the Date of Termination. In addition, you and your current spouse shall have access to Benefit Continuation for the remainder of your respective lives. For purposes of this Letter, "**Benefit Continuation**" means continuation by the Company of the medical benefits to you and/or your family equal to those which would have been provided to you and/or them in accordance with the plans, programs, practices and policies described in Section 7 of this Letter if your employment had not been terminated; *provided, however*, that if you become reemployed with another employer and are eligible to receive medical benefits under another employer-provided plan, then the medical benefits described herein shall become secondary. With respect to any Benefit Continuation, you shall pay 100% of the cost of such coverage on an after-tax basis, *provided* that until further guidance from the Internal Revenue Service, full cost shall be equal to the COBRA payment. In the event medical coverage is provided under the Company's existing plan, any COBRA continuation coverage obligation under Section 4980B of the Code will run concurrently with the benefits provided hereunder. Notwithstanding any requirement of the Company to provide any medical benefits for the life of you or your current spouse under any provision of this Letter, such benefits shall cease upon ninety (90) days' notice if at any time they would entail any unintended non de minimis tax or penalty for the Company or are otherwise precluded by law.

(c) *Death.* If your employment is terminated by reason of the your death during the Term, your employment shall

terminate without further obligations to your legal representatives under this Letter, other than for payment of Accrued Obligations, a lump sum cash payment equal to 100% of the estimated aggregate cost of Benefit Continuation (as defined above) for the shorter of the three-year period following the Date of Termination or the period remaining until the fourth anniversary of the Effective Date, paid within 30 days of the Date of Termination, the Prior Year Bonus and the Pro-Rata Bonus. Accrued Obligations shall be paid to your estate or beneficiary, as applicable. If your death occurs on or after March 6, 2018 and during the term, your current spouse shall also have Benefit Continuation. With respect to the provision of benefits pursuant to (iv) of the definition of Accrued Obligations, such benefits shall include, without limitation, and your estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding date of your death. Notwithstanding the preceding sentence, benefits payable under a plan, practice, policy, or program that has been amended to reduce benefits or terminated within the 120-day period immediately preceding the date of your death for reasons unrelated to affecting benefits due hereunder shall not be taken into account. In the case of a plan, practice, policy or program amended to reduce benefits, only the higher pre-amendment benefit shall be disregarded.

(d) *Disability.* If your employment is terminated by reason of your Disability during the Term, your employment shall terminate without further obligation to you, other than (i) payment of the Accrued Obligations, (i) if your Disability occurs on or after March 6, 2018 and during the Term, a lump sum cash payment equal to 100% of the estimated aggregate cost of Benefit Continuation (as defined above) for the shorter of one year or the period remaining until the fourth anniversary of the Effective Date, (i) the Prior Year Bonus and (i) the Pro-Rata Bonus. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. Provided that your Disability occurs on or after March 6, 2018 and during the term, you and your current spouse shall also have Benefit Continuation. With respect to the provision of benefits pursuant to (iv) of the definition of Accrued Obligations, such benefits shall include, and you shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Disability Effective Date. Notwithstanding the preceding sentence, benefits payable under a plan, practice, policy, or program that has been amended to reduce benefits or terminated within the 120-day period immediately preceding the Disability Effective Date for reasons unrelated to affecting benefits due hereunder shall not be taken into account. In the case of a plan, practice, policy or program amended to reduce benefits, only the higher pre-amendment benefit shall be disregarded.

(e) *Cause; Other than for Good Reason.* If your employment shall be terminated for Cause during the Term, you shall receive the Accrued Obligations. If you voluntarily terminate employment during the Term, or at or after the expiration of the Term, excluding a termination for Good Reason, you shall receive the Accrued Obligations, the Prior Year Bonus and the Pro-Rata Bonus. If you terminate your employment upon or within one year following the expiration of the Term or the Company terminates your employment without Cause during such period, you and your current spouse shall also receive Benefit Continuation.

(f) *Special Resignation.* If you terminate your employment by a Special Resignation, the Company shall pay you \$5,000,000 payable in cash within 40 days of the Date of Termination (the “**Special Payments**”). In addition, you shall receive the Pro-Rata Bonus and the Accrued Obligations.

(g) *Release Requirement.* Notwithstanding the provisions above in this Section 12 or anything else to the contrary herein, neither you nor any other party who is entitled to receive any such amounts shall receive any portion of the Base Severance Amount, Pro-Rata Bonus, Special Payments, Excess Amount or any payments in respect of the Benefit Continuation unless, within 60 days of the Date of Termination, you or such party (as applicable) has executed and not revoked a customary written waiver and release of claims for the benefit of the Company, its affiliates and their respective officers, directors and employees in a substantially the form [specified] (the “**Release**”). Payment of any amounts conditioned on the Release shall be delayed until the Release is effective and then paid promptly after such time, *provided* that, if the aforesaid 60 day period overlaps two calendar years, the amounts shall not be paid until the second calendar year.

(h) *Change in Control.* If your employment is terminated by the Company other than for Cause, death or Disability or you voluntarily terminate employment for Good Reason, either (i) prior to the date on which the Change of Control occurs, and it is reasonably demonstrated by you that such termination of employment (x) was at the request of a third party who has taken steps reasonably calculated to effect such Change of Control or (y) otherwise arose in connection with or anticipation of such Change of Control (an “**In Contemplation Termination**”) or (i) upon or following a Change of Control (a “**COC Termination**”), then in addition to the payments and benefits set forth in Section 12(b) hereof, you shall be entitled to receive a lump sum payment equal to the difference between (1) the product of (I) 2.99 and (II) the sum of (x) the your Base Salary in effect on the date of your termination of employment (or, if greater, your Base Salary in effect immediately before any salary reduction therein triggering the event leading to your termination) and (y) the Target Bonus and (2) the Base Severance (such difference, the “**Excess Amount**”). The Excess Amount shall be paid within 40 days following a COC Termination. In the event of an In Contemplation Termination, the Excess Amount shall be paid to you in a lump sum within 40 days of the Change of Control; *provided, however*, that such Change of Control constitutes a “change in control event” with the meaning of the Treasury Regulation Section 1.409A-3(i)(5) (a “**409A COC**”), or if not a 409A COC, such later date within two years thereafter as a 409A COC occurs, *provided, further*, that if the 409A COC does not occur within such period, the Excess Amount shall be forfeited.

13. Change of Control

For the purpose of this Letter, a “**Change of Control**” shall mean:

(a) *Stock Acquisition.* The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) (a “**Person**”) of beneficial ownership (within the meaning of Rule 13(d)-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the “**Outstanding Company Common Stock**”) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “**Outstanding Company Voting Securities**”); *provided, however*, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (i) any acquisition by the Company, (i) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (i) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 13; or

(b) *Board Composition.* Individuals who, as of the Effective Date, constitute the Board and any individuals appointed to the Board pursuant to any agreement between the Company and MR Agent Advisors LLC and its affiliates entered into prior to or as of the date of this Letter (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; *provided*,

however, that any individual becoming a director subsequent to such date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) *Business Combination.* Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or its principal subsidiary (a "**Business Combination**") that is not subject, as a matter of law or contract, to approval by the Surface Transportation Board or any successor agency or regulatory body having jurisdiction over such transactions (the "**Agency**"), in each case, unless, following such Business Combination: (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or its principal subsidiary or all or substantially all of the assets of the Company or its principal subsidiary either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; (i) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination; and (i) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) *Regulated Business Combination.* Consummation of a Business Combination that is subject, as a matter of law or contract, to approval by the Agency (a "**Regulated Business Combination**") unless such Business Combination complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 13.

(e) *Liquidation or Dissolution.* Consummation of a complete liquidation or dissolution of the Company or its principal subsidiary approved by the Company's shareholders.

14. Limitations on Payments by the Company

(a) Except as provided in this Section 14, the Company shall determine whether to reduce any payment or distribution to be made by the Company to or for the benefit of you (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or under another plan or arrangement) (a "**Payment**") in accordance with paragraph (i) of this Section 14, or to make such Payments in full in accordance with paragraph (ii) of this Section 14(a).

(i) If any Payment or Payments would otherwise constitute an "excess parachute payment," as defined in Section 280G of the Code, the Payment or Payments shall be reduced (but not below zero) to the largest amount that will result in no portion of the Payments being subject to the excise tax imposed under Section 4999 of the Code (the "**Reduced Amount**").

(ii) Notwithstanding Section 14(a)(i), you shall receive full Payment if it is determined that the net after-tax benefit you would receive, after taking into account both income taxes and any excise tax imposed under Section 4999 of the Code (“**Excise Tax**”), is greater than the net after-tax amount you would receive based on the application of Section 14(a)(i). In this event, you shall be responsible for the payment of any Excise Tax.

If Payments are reduced pursuant to Section 14(a)(i), to the extent permitted by applicable law, and not a violation of Sections 280G, 409A or 4999 of the Code, you shall be entitled to elect the order in which Payments will be reduced. If your electing the order in which Payments will be reduced would result in violation of Section 409A of the Code or loss of the benefit of reduction under Sections 280G or 4999 of the Code, Payments shall be reduced by the Company in the following order: (A) reduction of any cash severance payments otherwise payable to you starting with the last such payment due, (B) reduction of any other cash payments or benefits otherwise payable to you starting with the last such payment due, but excluding any payment attributable to the acceleration of vesting or payment with respect to any equity award, (C) non-acceleration of vesting of any equity valued at full fair value and not subject to Treasury Regulation 1.280G Q&A 24(c) starting with the last such vesting, and (D) non-acceleration of any equity attributable to the acceleration of vesting with respect to any equity award that is subject to Treasury Regulation 1.280G Q&A 24(c) starting with the last such vesting.

(b) Subject to the provisions of Section 14(c), all determinations required to be made under this Section 14, including whether you will receive a Reduced Amount or full Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized certified public accounting firm as may be designated by the Company (the “**Advisor**”) which shall provide detailed supporting calculations both to the Company and you at least seven business days prior to the date any Payment is scheduled to be made or commence. In the event that the Advisor is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Company shall appoint another nationally recognized certified public accounting firm to make the determinations required hereunder (which firm shall then be referred to as the Advisor). All fees and expenses of the Advisor shall be borne solely by the Company. Any determination by the Advisor shall be binding upon the Company and you. As a result of the uncertainty in the application of the Excise Tax at the time of the initial determination by the Advisor hereunder, it is possible that Payments which will not have been made by the Company should have been made (“**Underpayment**”), consistent with the calculations required to be made hereunder. The Advisor shall determine the amount of any Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to you or for your benefit.

(c) If you receive a Payment, you shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by you of an Excise Tax. Such notification shall be given as soon as practicable but no later than 15 business days after you are informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. You shall not pay such claim prior to the expiration of the 30-day period following the date on which you give such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall: (i) give the Company any information reasonably requested by the Company relating to such claim, (i) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company, (i) cooperate with the Company in good faith in order to effectively contest such claim, and (i) permit the Company to participate in any proceedings relating to such claim; *provided, however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold you harmless, on an after-tax

basis, for any unintended tax liability (including interest and penalties with respect thereto) resulting from such representation and the payment of costs and expenses. Without limitation on the foregoing provisions of this Section 14(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that if the Company directs you to pay such claim and sue for a refund, the Company shall advance the amount of such payment to you, on an interest-free basis and shall indemnify and hold you harmless, on an after-tax basis, from any unintended tax liability (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and, *provided, further*, that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which an Excise Tax would be payable hereunder with respect to a Reduced Amount and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by you of an amount advanced by the Company pursuant to Section 14(c), you become entitled to receive any refund with respect to such claim, you shall (subject to the Company's complying with the requirements of Section 14(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by you of an amount advanced by the Company pursuant to Section 14(c), a determination is made that you shall not be entitled to any refund with respect to such claim and the Company does not notify you in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid.

15. Full Settlement

The Company's obligation to make the payments provided for in this Letter and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against you or others. In no event shall you be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to you under any of the provisions of this Letter and such amounts shall not be reduced whether or not you obtain other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which you may reasonably incur as a result of any contest regardless of the outcome thereof by the Company, you or others of the validity or enforceability of, or liability under, any provision of this Letter or any guarantee of performance thereof (including as a result of any contest by you about the amount of any payment pursuant to this Letter), plus in each case interest on any delayed payment, at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code; *provided*, that you shall repay to the Company all such amounts paid by the Company, and shall not be entitled to any further payments hereunder, in connection with a contest originated by you if the trier of fact in such contest determines that your claim was not brought in good faith or was frivolous.

16. Confidential Information and Restrictive Covenants

(a) *Confidential Information.* You shall hold in a fiduciary capacity for the benefit of the Company all confidential or proprietary information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which you shall have obtained during your employment by the Company or any of its affiliated companies and which shall not be or

become public knowledge (other than by act by you or your representatives in violation of this Letter). After termination of your employment with the Company, you shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge and such information, knowledge or data to anyone other than the Company and those designated by it. In addition, to the extent that you are a party to any other agreement relating to confidential information, inventions or similar matters with the Company, you shall continue to comply in all material respects with the provisions of such agreements. Notwithstanding the foregoing, nothing in this Letter prohibits you from reporting possible violations of law or regulation to any governmental agency or regulatory body or making other disclosures that are protected under any law or regulation, or from filing a charge with or participating in any investigation or proceeding conducted by any governmental agency or regulatory body. You do not need prior authorization from the Company to make any such reports or disclosures, nor are you required to notify the Company that you have made such reports or disclosures. In no event shall any asserted violation of the provisions of this paragraph constitute a basis for deferring or withholding any amounts otherwise payable to you under this Letter.

(b) *Company Property.* All documents, encoded media, and other tangible items provided to you by the Company, or prepared, generated or created by you or others in the performance of your duties under this Agreement are the property of the Company. Upon cessation of your employment with the Company, you will promptly deliver to the Company all such documents, media and other items in your possession, including all complete or partial copies, recordings, abstracts, notes or reproductions of any kind made from or about such documents, media, items or information contained therein. You will neither have nor claim any right, title or interest in any trademark, service mark or trade name owned or used by the Company. You may retain your address book and if your cell phone is in the Company's name, the Company shall cooperate with you in transferring the number to you.

(c) *Non-Competition.* You acknowledge that by reason of your employment the services you render to the Company are of a special or unusual character with a unique value to the Company, the loss of which the Company believes cannot adequately be compensated by damages in an action at law. In view of the confidential information known or to be obtained by, or disclosed to you, as set forth above, and as a material inducement to the Company to enter into this Agreement, you covenant and agree during your employment with the Company and during the Covenant Period (as defined below), you will not, except as otherwise authorized by this Agreement, directly or indirectly, anywhere in North America, own, manage, engage in, operate, control, work for, consult with, render services for, do business with, maintain any interest in (proprietary, financial or otherwise) or participate in the ownership, management, operation or control of, any business, whether in corporate, proprietorship or partnership form or otherwise, engaged in the business of a Class 1 Railroad (the "**Restricted Business**"), *provided, however,* that the restrictions contained in this Agreement shall not restrict the acquisition by you, directly or indirectly, of less than 2% of the outstanding capital stock of any publicly traded company engaged in a Restricted Business, ownership in a private equity or other commingled entity which owns a Restricted Business or the acquisition of an interest in any company which purchases an interest in any entity in the Company. As used herein, the "**Covenant Period**" shall mean the period of your employment with the Company and eighteen (18) months following the termination of your employment, regardless of the reason for termination; *provided,* that this provision shall not apply if your termination is a Special Resignation.

(d) *Non-Solicitation.* You further covenant and agree that during the Covenant Period, you shall not, directly or indirectly: (i) cause, solicit, induce or encourage any employee of the Company to leave such employment or hire, employ or otherwise engage any such individual; or (i) cause, induce or encourage any material actual or prospective client, customer, supplier or licensor of the Company (including any existing or former customer of the Company and any person or entity that becomes a client or customer of the Company after termination of your employment) or any other person or entity who has a material business relationship with the

Company, to terminate or modify any such actual or prospective relationship, except in connection with marketing the services of an entity that is not a Restricted Business. As used in this Agreement, a “former customer” is a person or entity which has been a customer of the Company within the immediately preceding twenty-four (24) month period from the date of solicitation, and a “prospective client or customer” is a person or entity to which the Company has submitted a material proposal in writing to perform services within the immediately preceding twelve (12) month period from the date of solicitation. For purposes of the above, general newspaper and other media advertisements shall not be considered solicitation of Company employees and serving as a reference upon request shall not be deemed a violation of the foregoing. This provision shall not apply if your termination is a Special Resignation.

(e) *Certain Terminations*. In the event that, during the Term of this Agreement, your employment is terminated without Cause or by you for Good Reason (the “**Termination**”) you shall be entitled to seek employment or provide consulting services to a Class 1 Railroad in North America, other than Canadian Pacific Railways Limited and its affiliates (collectively, “**CP**”) or Norfolk Southern Corporation and its affiliates (collectively, “**NS**”). For the avoidance of doubt, the foregoing shall not apply if your termination is a Special Resignation.

17. Other Agreements/Prior Employment

You represent and warrant to the Company that you have disclosed to the Company any and all agreements or arrangements relating to your prior or concurrent employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. It is the Company’s understanding that any such agreements shall not prevent you in any material manner from performing the duties of your position and you represent that such is and will remain the case. Similarly, you agree not to bring any third-party confidential information to the Company, including that of your former employer(s), and that you will not in any way utilize any such information in performing your duties for the Company.

18. No Mitigation or Offset

You shall not be required, as a condition of receiving any payments or benefits under this Letter, to seek or obtain any other employment after termination of employment hereunder or to take any steps to reduce the amount of any payment or benefit described in this Letter. Further, the amount of any payment or benefit provided in this Letter shall not be reduced by any compensation earned by you as a result of any employment by another employer.

19. Withholding

All payments made by the Company under this Letter shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

20. Indemnification

(a) To the fullest extent permitted under applicable law, the Company will indemnify you and hold you harmless against all losses, claims, expenses or other liabilities arising by reason of the fact that you are or were a director, officer, employee, fiduciary or agent of the Company. You are entitled to indemnification and advancement of costs to the extent permitted by the Company’s by-laws and charter as in effect on the Effective Date, or if greater, as amended thereafter.

(b) In addition, the indemnity shall also cover a CP Protected Event (as defined below) as if such CP Protected Event was an event covered by Section 20(a) above. A “**CP Protected Event**” is a violation or an alleged violation by the Company or the Board, or by the employees or agents of the Company of any of the Activity Limitations (as defined below) as if they were a party to

them, except to the extent of your knowing, intentional and material violation of the Activity Limitations other than with advance approval by the Board. Any action or inaction taken on the advice of Company counsel shall be deemed not knowing with regard to any allegation by CP of a violation of the Activity Limitations. You shall be entitled to advancement of legal fees by the Company (subject to a repayment obligation if it is proven in a court of law that you were in violation and not entitled to be indemnified and held harmless). “**Activity Limitations**” shall have the meaning in Section 6 of the Consulting Agreement between you and MR Argent Advisor LLC [] (the “**Consulting Agreement**”)

21. D&O Insurance

The Company shall provide you with director’s and officer’s indemnification insurance coverage in an amount and scope equal to that of the Company’s other officers and directors both during the Term and after termination of your employment for so long as liability may exist, *provided, however*, that such coverage shall exclude liabilities that would not be indemnified under Section 20(b) above, with the same carveout as to legal fees.

22. Severability

If any portion or provision of this Letter shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Letter, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Letter shall be valid and enforceable to the fullest extent permitted by law.

23. Notices

All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, or by overnight courier with receipt at location signature required, addressed as follows:

If to you:

At the last address on record in the Company’s files.

If to the Company:

CSX Corporation
500 Water Street, 15th Floor
Jacksonville, Florida 32202
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance with this Section 23. Notice and communications shall be effective when actually received by the addressee or at the required location or delivery is refused.

24. Code Section 409A

It is intended that this Letter shall be exempt from, or comply with, Section 409A of the Code, and this Letter shall be administered accordingly and interpreted and construed on a basis consistent with that intent. To the extent that any provision of this Letter or action

by the Company would subject you to liability for interest or additional taxes under Section 409A of the Code, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Company. Anything to the contrary herein notwithstanding, no severance or similar payments or benefits shall be payable hereunder on account of your termination unless such termination constitutes a "separation from service" within the meaning of Section 409A of the Code. For purposes of Section 409A of the Code, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments. To the extent any reimbursements or in-kind benefit payments under this agreement are subject to Code Section 409A, such reimbursements and in-kind payments shall be made in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv). This Letter may be amended to the extent necessary (including retroactively) by the Company to avoid application of taxes or interest under Section 409A of the Code, while maintaining to the maximum extent practicable the original intent of the Letter.

In the event that you are a "specified employee" within the meaning of Section 409A of the Code (as determined by the Company or its delegate), any payments hereunder subject to Section 409A of the Code shall not be paid or provided until the earlier of (A) your death, or (B) the day after the expiration of the six-month period following your termination of employment (the "**Delay Period**"). Any payments that are delayed by virtue of this subparagraph shall be paid in one payment at the conclusion of the Delay Period.

25. Governing Law

This Letter shall be governed by and construed in accordance with the laws of the State of Florida, without regard to principles of conflicts of law.

26. Arbitration

You and the Company agree that all disputes, controversies, and claims arising between them concerning the subject matter of this Letter, other than Section 14 and Section 16, shall be settled by arbitration in accordance with the rules and procedures of the American Arbitration Association then in effect. The location of the arbitration will be Palm Beach County, Florida or such other place as the parties may mutually agree. In rendering any award or ruling, the arbitrator or arbitrators shall determine the rights and obligations of the parties according to the substantive and procedural laws of the State of Florida. The parties to any such dispute, controversy, or claim shall attempt to agree upon the selection of a single arbitrator. If after a reasonable period of time the parties are unable to agree upon such a single arbitrator, then three arbitrators will be appointed with each party selecting an arbitrator from the American Arbitration Association's available panel of arbitrators, and the parties agreeing upon the selection of a third arbitrator. If the parties cannot agree upon the selection of a third arbitrator, then the two arbitrators selected by the parties shall agree upon a third arbitrator from the panel of American Arbitration Association arbitrators. If the two arbitrators are unable to so agree on a third arbitrator, the third arbitrator shall be selected by the American Arbitration Association. Any arbitration pursuant to this section shall be final and binding on the parties, and judgment upon any award rendered in such arbitration may be entered in any court, state or federal, having jurisdiction. All fees and expenses of the arbitration shall be born in accordance with Section 15. The arbitrator or arbitrators shall have no authority to award provisional relief, injunctive remedies, or punitive damages. The parties expressly acknowledge that they are waiving their right to seek remedies in court, including without limitations the right if any to a jury trial.

27. Assignment

This Letter is personal to you and without the prior written consent of the Company shall not be assignable by you otherwise than by will or the laws of descent and distribution. This Letter shall inure to the benefit of and be enforceable by your legal

representatives. This Letter shall inure to the benefit of and be binding upon the Company and its successors and permitted assigns. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Letter in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Except for the foregoing, this Letter and the obligations hereunder may not be assigned by the Company. As used in this Letter, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or all or substantially all of its assets as aforesaid which assumes and agrees to perform this Letter by operation of law, or otherwise.

28. Amendments/No Waiver/Entire Agreement

This Letter may not be changed, modified, amended, waived, released, discharged, abandoned or otherwise terminated, in whole or in part, except by an instrument in writing signed by you and the Company. In the event either party to this Letter fails to enforce any provision, such failure shall not constitute a waiver of that or any other provision of this Letter. This Letter, together with the Award Agreements, shall upon execution embody the entire agreement of the parties regarding the subject matter hereof. All representations, promises and/or prior or contemporaneous understandings on the subject matter herein are merged into and expressed in this Letter, and this Letter supersedes and nullifies any prior agreement, arrangement, contract or understanding between the Company and you regarding the subject matter hereof.

Please confirm your acceptance of this Letter by signing and dating in the space provided, and returning it to me no later than March 6, 2017.

[signature page follows]

Sincerely,
CSX CORPORATION

By: _____

I HAVE READ AND UNDERSTOOD THE FOREGOING OFFER OF EMPLOYMENT AND HEREBY ACCEPT IT IN ALL OF ITS TERMS AND CONDITIONS.

E. Hunter Harrison

(Date)

CSX CORPORATION

**Inducement Non-Qualified Stock Option Agreement
Under the CSX 2010 Stock and Incentive Award Plan**

THIS OPTION AGREEMENT (the “**Option Agreement**”) is made and entered into as of March 6, 2017, between CSX Corporation (“**CSX**” or the “**Company**”) and E. Hunter Harrison (“**Optionee**”).

The Company hereby grants Optionee the non-qualified stock options to purchase CSX common stock listed in Section 1 below (collectively the “**Options**”) subject to the vesting and forfeiture provisions set forth herein. The Options are being granted to Optionee in connection with Optionee being hired as an employee of the Company and are being made pursuant to CSX’s 2010 Stock and Incentive Award Incentive Plan (the “**Plan**”). Optionee agrees that, except as provided herein, this Option Agreement is governed by the terms and conditions of the Plan, which are incorporated herein by reference. Unless defined in this Option Agreement, capitalized terms shall have the meanings ascribed to them in the Plan.

Notwithstanding the provision of this Option Agreement or the Plan, any dispute as to Cause, Good Reason, Disability or other terms defined in the Offer Letter shall be determined de novo in accordance with the dispute resolution provisions of the Offer Letter.

In accordance with this grant of the Options, and as a condition thereto, the Company and Optionee agree as follows:

Section 1. Option Grant Summary. The following table sets forth the number and type of Options granted to Optionee and the Grant Date, Exercise Price and Expiration Date of the Options. Each Option represents the right to purchase one share of Common Stock pursuant to the terms of this Option Agreement.

Options:	1,000,000
Grant Date:	March 6, 2017
Option Exercise Price:	\$49.79
Expiration Date:	March 5, 2027, except as set forth in the Option Agreement

Section 2. Defined Terms. For the purposes of this Agreement, the terms below shall have the meanings designated for such terms below.

“**Cause**” shall have the meaning set forth in the Offer Letter.

“**Disability**” shall have the meaning set forth in the Offer Letter.

“**Exercised Option**” shall have the meaning designated in Section 5(a).

“**Good Reason**” shall have the meaning set forth in the Offer Letter.

“**Offer Letter**” shall mean that certain employment Offer Letter between Optionee and the Company dated March 6, 2017.

“**Termination Date**” shall mean the last day of Optionee’s employment with the Company.

Section 3. Vesting.

Except as set forth below in Section 4, the Options shall vest as follows shall vest and become exercisable on the third anniversary of the Grant Date, subject to your continued employment with the Company through such date:

Section 4. Termination of Employment.

- (a) *Termination Prior to March 6, 2021.* The provisions of this Section 4(a) shall govern the treatment of the Options in the event of the termination of Optionee’s employment prior to March 6, 2021 as specified in subsections (i) through (iii) below.
 - (i) *Termination Without Cause or Resignation for Good Reason Prior to March 6, 2021.* If Optionee’s employment is terminated prior to March 6, 2021 by the Company without Cause or Optionee resigns Optionee’s employment with the Company for Good Reason:
 - (A) any Options that are vested as of the Termination Date shall remain outstanding until the Expiration Date; and
 - (B) any Options that are unvested as of the Termination Date shall vest in full and become exercisable and shall remain outstanding until the Expiration Date.
 - (ii) *Resignation or Retirement without Good Reason Prior to March 6, 2021.* If Optionee resigns Optionee’s employment without Good Reason, including due to Optionee’s retirement, prior to March 6, 2021:

- (A) all Options that are unvested as of the Termination Date shall be forfeited and cancelled as of the Termination Date; and
 - (B) any Options that are vested as the Termination Date shall remain outstanding for one (1) year following Optionee's Termination Date and shall be forfeited and cancelled as of the day following the end of such one (1) year period, to the extent not exercised prior to that date.
- (iii) *Death or Disability Prior to March 6, 2021.* If Optionee terminates employment due to his death or Disability prior to March 6, 2021:
- (A) if Optionee's termination of employment occurs due to Optionee's death or Disability on or after the first anniversary of the Grant Date, (1) any Options that are vested as of the Termination Date shall remain outstanding until the Expiration Date and (2) if the Termination Date (x) occurs between the second and third anniversaries of the Grant Date, any unvested Options shall immediately vest and shall remain outstanding for two years thereafter and (y) occurs prior to the second anniversary of the Grant Date, all unvested Options shall be forfeited and cancelled as of the Termination Date.
- (b) *Termination Other than for Cause On or After March 6, 2021.* If Optionee separates from employment on or after March 6, 2021 other than upon a termination of Optionee's employment by the Company for Cause, any Options that are vested as the Termination Date shall remain outstanding until the Expiration Date.
- (c) *Termination for Cause.* Notwithstanding anything to the contrary, if Optionee's employment is terminated for Cause at any time all rights under any outstanding Options (whether vested or unvested) shall be forfeited and cancelled immediately.

Section 5. Exercise.

- (a) *Manner of Exercise.* Optionee may exercise vested Options, in whole or in part, to purchase a whole number of shares of Company Stock at any time following the date on which such vested Options become vested by following the exercise procedures below. If Optionee wishes to exercise a vested Option, Optionee shall notify the Company of the number of shares as to which Optionee wishes to exercise (the "**Exercised Option**") and within 24 hours of such notice the Company shall notify Optionee whether or not the Company elects to apply a net exercise of exercise price and withholding. If the Company elects not to apply a net exercise, Optionee may exercise the

Exercised Option pursuant to any procedures applicable under the Company's employee option program at the time of such exercise, including by tendering the full exercise price and applicable tax withholding or by executing a market-based cashless exercise to cover the exercise price and applicable tax withholding through the Company's stock plan administrator. If the Company elects to apply a net exercise, the Company shall arrange to cancel a portion of the Exercised Option covering shares of Company Stock with a Fair Market Value equal to the sum of the exercise price and applicable tax withholding and issue the net number of shares of Company Stock to Optionee, pursuant to procedures mutually agreed between Optionee and the Company. In the case of a net exercise the applicable withholding shall be at the rate applied by the Company to option holders resident in Florida.

- (b) *Expiration.* All exercises must take place before the Expiration Date or any outstanding and unexercised Options shall lapse and terminate on the Expiration Date.
- (c) *Delivery of Shares.* No shares of Company Stock shall be delivered pursuant to any exercise of an Option until payment in full of the Exercise Price and the related withholding taxes for federal, state or local jurisdictions, or adequate provision therefor (in the discretion of the Committee), is received by the Company. Optionee shall not have any rights as a shareholder with respect to any Company Stock underlying any Options until the Option has been exercised and Optionee has been issued such Company Stock.

Section 6. Non-Transferability.

The Options may not be assigned, sold or transferred by Optionee other than by will or by the laws of descent and distribution, and are exercisable during Optionee's life only by Optionee.

Section 7. Adjustments; Change in Control.

- (a) *Adjustments.* In the event that any corporate transaction or distribution (including, without limitation, any stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split up, spin off, repurchase, combination or exchange of Company Stock or other securities of the Company, but not including ordinary dividends) affects the Company Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Options, then (a) the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number of shares of Company Stock or other securities of the Company (or number and kind of other securities and property) subject to the Options; and (ii) the Exercise Price of the Options or, (b) if deemed appropriate, the Committee may make provision for a cash payment to Optionee in full or partial satisfaction of the

any of the Options, provided that such Committee action shall be consistent with what it does for other outstanding options.

- (b) *Change in Control.* In the event of a Change in Control in which the Company is not the successor or acquiring company or a direct or indirect parent entity of the successor or acquiring company (the “Surviving Company”) and the Surviving Company does not arrange to continue or convert the Option or grant a Substitute Award, as provided under Section 20 of the Plan, the Company may, without Optionee’s consent, elect to provide any one or more of the following:
- (i) The Option shall be terminated as of the Change in Control in exchange for a payment in cash and/or securities equal to the amount, if any, by which the Fair Market Value of the shares of Company Stock underlying the Option exceeds the Option Exercise Price;
 - (ii) The Option shall become immediately and fully exercisable as of a date prior to the Change in Control, to the extent not previously exercised or terminated, and shall be terminated as of the Change in Control; or
 - (iii) To the extent that the Option Exercise Price exceeds the Fair Market Value of the shares of Company Stock underlying the Option as of the Change in Control, the Option shall lapse and terminate as of the Change in Control.

Section 8. Severability.

If any terms and conditions herein are, become, or are deemed to be invalid, illegal, or unenforceable in any jurisdiction, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Company, it shall be stricken and the remainder of the terms and conditions shall remain in force and effect.

Section 9. Choice of Law; Jurisdiction.

All questions pertaining to the construction, regulation, validity, and effect of the terms and conditions shall be determined in accordance with the laws of the state of Florida, without regard to the conflict of laws doctrine.

Section 10. Registration and Resales of Shares Acquired Pursuant to Option Exercise.

- (a) *Registration.* The Company shall register the shares of Company Stock underlying the Options under the Securities Act of 1933 on a Form S-8

registration statement prior to the date on which the Options become exercisable within respect to such shares and shall maintain that registration statement in effect until the date that such Options have been exercised or cease to be exercisable with respect such shares.

- (b) *Resale.* The Company may impose such reasonable restrictions, conditions or limitations as it in good faith deems appropriate as to the timing and manner of any resales by Optionee or other subsequent transfers by Optionee of any Common Stock issued as a result of the exercise of the Option, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Optionee and other option-holders and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers so long as similar provisions are implemented to apply to all executive officers of the Company and does not cause the Option to expire without being able to be exercised.

Section 11. Nonqualified Stock Option.

The Option is intended to be a nonqualified stock option and is not intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended and shall be interpreted accordingly.

Section 12. Income Taxes.

An exercise of Options may generate federal and applicable state income and employment tax withholding obligations. The full purchase price of the shares of Company Stock being purchased through exercise of Options and the related withholding taxes for federal, state or local jurisdictions must be paid to the Company at the time of an exercise of Options. Optionee acknowledges that the Company shall have the right to deduct any taxes required to be withheld by law in connection with the exercise of the Option from any amounts payable by it to Optionee (including, without limitation, future cash wages).

Section 13. Counterparts. This Option Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, with the same effect as if signatures thereto and hereto were upon the same instrument. This Option Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Option Agreement to be duly executed as of the date first above written.

CSX CORPORATION

By: ___

OPTIONEE

By: ___
Name: E. Hunter Harrison

[Signature Page to Harrison Option Agreement]

CSX CORPORATION

**Inducement Non-Qualified Stock Option Agreement
Under the CSX Special Executive Equity Award Program**

THIS OPTION AGREEMENT (the “**Option Agreement**”) is made and entered into as of March 6, 2017, between CSX Corporation (“**CSX**” or the “**Company**”) and E. Hunter Harrison (“**Optionee**”).

The Company hereby grants Optionee the non-qualified stock options to purchase CSX common stock listed in Section 1 below (collectively the “**Options**”) subject to the vesting and forfeiture provisions set forth herein. The Options are being granted to Optionee in connection with Optionee being hired as an employee of the Company and are being made as an inducement grant, not pursuant to CSX’s 2010 Stock and Incentive Award Incentive Plan (the “**Plan**”). Optionee agrees that, except as provided herein, this Option Agreement is governed by the terms and conditions of the Plan, which are incorporated herein by reference. Unless defined in this Option Agreement, capitalized terms shall have the meanings ascribed to them in the Plan.

Notwithstanding the provision of this Option Agreement or the Plan, any dispute as to Cause, Good Reason, Disability or other terms defined in the Offer Letter shall be determined de novo in accordance with the dispute resolution provisions of the Offer Letter.

In accordance with this grant of the Options, and as a condition thereto, the Company and Optionee agree as follows:

Section 1. Option Grant Summary. The following table sets forth the number and type of Options granted to Optionee and the Grant Date, Exercise Price and Expiration Date of the Options. Each Option represents the right to purchase one share of Common Stock pursuant to the terms of this Option Agreement.

Time Options:	3,500,000
[Performance] Options:	[4,500,000]
Total Options:	8,000,000
Grant Date:	March 6, 2017
Option Exercise Price:	\$49.79
Expiration Date:	March 5, 2027, except as set forth in the Option Agreement

Section 2. Defined Terms. For the purposes of this Agreement, the terms below shall have the meanings designated for such terms below.

[Performance measures and performance-related descriptors omitted]

“Audit Report Date.” The Audit Report Date for a Fiscal Year shall be the date of issuance of the audit report by the Company’s auditor for the Financial Statements for such Fiscal Year.

“Cause” shall have the meaning set forth in the Offer Letter.

“CSX Special Executive Equity Award Program” means the option award embodied in this Option Agreement.

“Disability” shall have the meaning set forth in the Offer Letter.

“Exercised Option” shall have the meaning designated in Section 5(a).

“Financial Statements.” The Financial Statements for a Fiscal Year shall mean the Company’s audited annual financial statements for such Fiscal Year.

“First Year Disability” means a Disability occurring after the first anniversary of the Grant Date that is based on Optionee’s inability to perform his duties for a series of days which include dates occurring between the Grant Date and the first anniversary of the Grant Date.

“Fiscal Year” refers to the fiscal year of the Company ended in 2017, 2018, 2019 or 2020, as indicated.

“Good Reason” shall have the meaning set forth in the Offer Letter.

“Offer Letter” shall mean that certain employment Offer Letter between Optionee and the Company dated March 6, 2017.

“Performance Options” shall mean the [Tranche One through Tranche Four Performance Options], collectively.

“Service-Based Vesting Conditions” shall mean, with respect to the Performance Options, the requirement that Optionee remains employed through an applicable Audit Report Date.

“Termination Date” shall mean the last day of Optionee’s employment with the Company.

“Time Options” shall mean the 3,500,000 Options identified as Time Options in Section 1 that are eligible to vest in accordance with Section 3(a).

Section 3. Vesting.

Except as set forth below in Section 4, the Options shall vest as follows:

- (a) *Time Options.* A portion of the Time Options shall vest and become exercisable on each of the first four anniversaries of the Grant Date as described below, subject to your continued employment with the Company as of the applicable anniversary date provided that the “Fourth Anniversary” in the table below shall be the day before the actual fourth anniversary of the Grant Date.

<u>Grant Date Anniversary</u>	<u>Number of Time Options That Vest</u>
First Anniversary	1,125,000
Second Anniversary	1,125,000
Third Anniversary	125,000
Fourth Anniversary	1,125,000

- (b) *Performance Options.* A portion of the [Performance] Options shall be eligible to vest and become exercisable as of each Audit Report Date as provided below, subject to your continued employment with the Company as of the applicable Audit Report Date except as otherwise provided herein, and provided that for the Audit Report Date for fiscal year 2020, Optionee shall only need to be employed on the day before the fourth anniversary of the Grant Date.
- (i) *[Tranche One Performance] Options.* 500,000 [Performance] Options shall vest and become exercisable as of the Audit Report Date for each Fiscal Year [2017 through 2020 based on prescribed performance targets, subject to prescribed performance catchups].
- (ii) *[Tranche Two Performance] Options.* 62,500 [Performance] Options shall vest and become exercisable as of the Audit Report Date for each Fiscal Year [2017 through 2020 based on prescribed performance targets, subject to prescribed performance catchups].
- (iii) *[Tranche Three Performance] Options.* 500,000 [Performance] Options shall vest and become exercisable as of the Audit Report Date each Fiscal Year [2017 through 2020 based on prescribed performance targets, subject to prescribed performance catchups].
- (iv) *[Tranche Four Performance] Options.* 62,500 [Performance] Options shall vest and become exercisable as of the Audit Report Date each Fiscal Year [2017 through 2020 based on prescribed performance targets, subject to prescribed performance catchups].

- (v) *Vesting End Date.* Any Performance Options that have not vested and become exercisable as of the Audit Report Date for the Fiscal Year ending in 2020 shall be forfeited and cancelled as of such Audit Report Date.

Section 4. Termination of Employment.

- (a) *Termination Prior to March 6, 2021.* The provisions of this Section 4(a) shall govern the treatment of the Options in the event of the termination of Optionee's employment prior to March 6, 2021 as specified in subsections (i) through (iii) below.
 - (i) *Termination Without Cause or Resignation for Good Reason Prior to March 6, 2021.* If Optionee's employment is terminated prior to March 6, 2021 by the Company without Cause or Optionee resigns Optionee's employment with the Company for Good Reason:
 - (A) any Options that are vested as of the Termination Date shall remain outstanding until the Expiration Date;
 - (B) any Time Options that are unvested as of the Termination Date shall vest in full and become exercisable and shall remain outstanding until the Expiration Date; and
 - (C) the Service-Based Vesting Condition applicable to any unvested Performance Options shall be satisfied in full and such Performance Options shall remain outstanding and eligible to vest subject to satisfaction of the applicable Performance-Based Vesting Conditions applied as if Optionee continued to be employed by the Company through each of the remaining Audit Report Dates. Any Performance Options that become vested upon satisfaction of the applicable Performance-Based Vesting Condition in accordance with this Section 4(a)(i)(C), shall remain exercisable until the Expiration Date. Any such Performance Options that have not become vested and exercisable as of the Audit Report Date for the Fiscal Year ending in 2020 shall be forfeited and cancelled as of such Audit Report Date.
 - (ii) *Resignation or Retirement without Good Reason Prior to March 6, 2021.* If Optionee resigns Optionee's employment without Good Reason, including due to Optionee's retirement, prior to March 6, 2021:
 - (A) all Options that are unvested as of the Termination Date shall be forfeited and cancelled as of the Termination Date; and
 - (B) any Options that are vested as the Termination Date shall remain outstanding for one (1) year following Optionee's Termination Date and

shall be forfeited and cancelled as of the day following the end of such one (1) year period, to the extent not exercised prior to that date.

- (iii) *Death or Disability Prior to March 6, 2021.* If Optionee terminates employment due to his death or Disability prior to March 6, 2021:
- (A) if Optionee's termination of employment occurs due to Optionee's death or Disability prior to the first anniversary of the Grant Date all Options shall be forfeited and cancelled as of the Termination Date; and
 - (B) if Optionee's termination of employment occurs due to Optionee's death or Disability on or after the first anniversary of the Grant Date, (1) any Options that are vested as of the Termination Date shall remain outstanding until the Expiration Date, (2) the unvested Time Options that would vest on the next vesting date shall immediately vest and any other unvested Time Options shall be forfeited and cancelled as of the Termination Date, (3) any vested [Performance] Options shall remain outstanding until the Expiration Date, (4) any unvested [Performance] Options for which the Service-Vesting Condition has been satisfied prior to the Termination Date and a pro rata portion of those due to vest on the next vesting date based on the relative period of service during the vesting year prior to the Termination Date (which service period shall be deemed satisfied) shall remain outstanding and eligible to vest subject to satisfaction of the applicable Performance-Based Vesting Conditions applied as if Optionee continued to be employed by the Company through each of the remaining Audit Report Dates and (5) any unvested [Performance] Options for which the Service-Vesting Condition has not been satisfied prior to or at the Termination Date shall be forfeited and cancelled as of the Termination Date. Any Performance Options that vest in accordance with clause (4) of the preceding sentence shall remain outstanding until the Expiration Date. Any such Performance Options that have not become vested and exercisable as of the Audit Report Date for the Fiscal Year ending in 2020 shall be forfeited and cancelled as of such Audit Report Date. Notwithstanding the foregoing, if the termination is a First Year Disability after the first anniversary of the Grant Date, then there shall be no additional vesting of Time-Based Options not then vested or of Performance-Based Options for which the Service-Based Vesting Conditions had not been satisfied and any such Time-Based Options that are vested as of such Termination Date shall remain outstanding for two years thereafter and any such Performance-Based Options for which the Service-Based Vesting Conditions have been satisfied that vest upon satisfaction of applicable Performance-Based Vesting Conditions shall remain outstanding for two years after

the applicable Audit Report Date on which any such Performance-Based Options vest.

- (b) *Termination Other than for Cause On or After March 6, 2021.* If Optionee separates from employment on or after March 6, 2021 other than upon a termination of Optionee's employment by the Company for Cause, any Options that are vested as the Termination Date shall remain outstanding until the Expiration Date.
- (c) *Termination for Cause.* Notwithstanding anything to the contrary, if Optionee's employment is terminated for Cause at any time all rights under any outstanding Options (whether vested or unvested) shall be forfeited and cancelled immediately.

Section 5. Exercise.

- (a) *Manner of Exercise.* Optionee may exercise vested Options, in whole or in part, to purchase a whole number of shares of Company Stock at any time following the date on which such vested Options become vested by following the exercise procedures below. If Optionee wishes to exercise a vested Option, Optionee shall notify the Company of the number of shares as to which Optionee wishes to exercise (the "**Exercised Option**") and within 24 hours of such notice the Company shall notify Optionee whether or not the Company elects to apply a net exercise of exercise price and withholding. If the Company elects not to apply a net exercise, Optionee may exercise the Exercised Option pursuant to any procedures applicable under the Company's employee option program at the time of such exercise, including by tendering the full exercise price and applicable tax withholding or by executing a market-based cashless exercise to cover the exercise price and applicable tax withholding through the Company's stock plan administrator. If the Company elects to apply a net exercise, the Company shall arrange to cancel a portion of the Exercised Option covering shares of Company Stock with a Fair Market Value equal to the sum of the exercise price and applicable tax withholding and issue the net number of shares of Company Stock to Optionee, pursuant to procedures mutually agreed between Optionee and the Company. In the case of a net exercise the applicable withholding shall be at the rate applied by the Company to option holders resident in Florida.
- (b) *Expiration.* All exercises must take place before the Expiration Date or any outstanding and unexercised Options shall lapse and terminate on the Expiration Date.
- (c) *Delivery of Shares.* No shares of Company Stock shall be delivered pursuant to any exercise of an Option until payment in full of the Exercise Price and the related withholding taxes for federal, state or local jurisdictions, or adequate provision therefor (in the discretion of the Committee), is received by the Company. Optionee shall not have any rights as a shareholder with respect to any Company Stock underlying any Options until the Option has been exercised and Optionee has been issued such Company Stock.

Section 6. Non-Transferability.

The Options may not be assigned, sold or transferred by Optionee other than by will or by the laws of descent and distribution, and are exercisable during Optionee's life only by Optionee.

Section 7. Adjustments; Change in Control.

- (a) *Adjustments.* In the event that any corporate transaction or distribution (including, without limitation, any stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split up, spin off, repurchase, combination or exchange of Company Stock or other securities of the Company, but not including ordinary dividends) affects the Company Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Options, then (a) the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number of shares of Company Stock or other securities of the Company (or number and kind of other securities and property) subject to the Options; and (ii) the Exercise Price of the Options or, (b) if deemed appropriate, the Committee may make provision for a cash payment to Optionee in full or partial satisfaction of the any of the Options, provided that such Committee action shall be consistent with what it does for other outstanding options.
- (b) *Change in Control.* In the event of a Change in Control in which the Company is not the successor or acquiring company or a direct or indirect parent entity of the successor or acquiring company (the "Surviving Company") and the Surviving Company does not arrange to continue or convert the Option or grant a Substitute Award, as provided under Section 20 of the Plan, the Company may, without Optionee's consent, elect to provide any one or more of the following:
 - (i) The Option shall be terminated as of the Change in Control in exchange for a payment in cash and/or securities equal to the amount, if any, by which the Fair Market Value of the shares of Company Stock underlying the Option exceeds the Option Exercise Price;
 - (ii) The Option shall become immediately and fully exercisable as of a date prior to the Change in Control, to the extent not previously exercised or terminated, and shall be terminated as of the Change in Control; or
 - (iii) To the extent that the Option Exercise Price exceeds the Fair Market Value of the shares of Company Stock underlying the Option as of the Change in Control, the Option shall lapse and terminate as of the Change in Control.

Section 8. Severability.

If any terms and conditions herein are, become, or are deemed to be invalid, illegal, or unenforceable in any jurisdiction, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Company, it shall be stricken and the remainder of the terms and conditions shall remain in force and effect.

Section 9. Choice of Law; Jurisdiction.

All questions pertaining to the construction, regulation, validity, and effect of the terms and conditions shall be determined in accordance with the laws of the state of Florida, without regard to the conflict of laws doctrine.

Section 10. Registration and Resales of Shares Acquired Pursuant to Option Exercise.

- (a) *Registration.* The Company shall register the shares of Company Stock underlying the Options under the Securities Act of 1933 on a Form S-8 registration statement prior to the date on which the Options become exercisable within respect to such shares and shall maintain that registration statement in effect until the date that such Options have been exercised or cease to be exercisable with respect such shares.
- (b) *Resale.* The Company may impose such reasonable restrictions, conditions or limitations as it in good faith deems appropriate as to the timing and manner of any resales by Optionee or other subsequent transfers by Optionee of any Common Stock issued as a result of the exercise of the Option, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Optionee and other option-holders and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers so long as similar provisions are implemented to apply to all executive officers of the Company and does not cause the Option to expire without being able to be exercised.

Section 11. Nonqualified Stock Option.

The Option is intended to be a nonqualified stock option and is not intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended and shall be interpreted accordingly.

Section 12. Income Taxes.

An exercise of Options may generate federal and applicable state income and employment tax withholding obligations. The full purchase price of the shares of Company Stock being purchased through exercise of Options and the related withholding taxes for federal, state or local jurisdictions must be paid to the Company at the time of an exercise of Options. Optionee acknowledges that the Company shall have the right to deduct any taxes required to be withheld by law in connection with the exercise of the Option from any amounts payable by it to Optionee (including, without limitation, future cash wages).

Section 13. Counterparts. This Option Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, with the same effect as if signatures thereto and hereto were upon the same instrument. This Option Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Option Agreement to be duly executed as of the date first above written.

CSX CORPORATION

By: ___

OPTIONEE

By: ___
Name: E. Hunter Harrison

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

I, E. Hunter Harrison, 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: April 18, 2017

/s/ E. HUNTER HARRISON
E. Hunter Harrison
President and Chief Executive Officer

I, Frank A. Lonegro, 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: April 17, 2017

/s/ FRANK A. LONEGRO

Frank A. Lonegro
Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of CSX Corporation on Form 10-Q for the period ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Hunter Harrison, 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: April 18, 2017

/s/ E. HUNTER HARRISON
E. Hunter Harrison
President and Chief Executive Officer

In connection with the Quarterly Report of CSX Corporation on Form 10-Q for the period ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank A. Lonagro, 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 issuer.

Date: April 17, 2017

/s/ FRANK A. LONAGRO
Frank A. Lonagro
Executive Vice President and Chief Financial Officer

