

CSX CORP
Form 10-Q
July 14, 2016
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 24, 2016

OR

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

For the transition period from _____ to _____

Commission

File

Number

1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(State or other jurisdiction of incorporation or
organization)

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

500 Water Street, 15th Floor, Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip
Code)

(Telephone number, including area
code)

No
Change

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically 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 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 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).

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Yes () No (X)

There were 945,990,945 shares of common stock outstanding on June 24, 2016 (the latest practicable date that is closest to the filing date).

CSX Q2 2016 Form 10-Q p.1

Table of Contents

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 24, 2016
INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Income Statements (Unaudited) -</u> <u>Quarters Ended June 24, 2016 and June 26, 2015</u>	<u>3</u>
<u>Consolidated Comprehensive Income Statements (Unaudited) -</u> <u>Quarters Ended June 24, 2016 and June 26, 2015</u>	<u>3</u>
<u>Consolidated Balance Sheets -</u> <u>At June 24, 2016 (Unaudited) and December 25, 2015</u>	<u>4</u>
<u>Consolidated Cash Flow Statements (Unaudited) -</u> <u>Six Months Ended June 24, 2016 and June 26, 2015</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>36</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>36</u>
Item 1A. <u>Risk Factors</u>	<u>36</u>
Item 2. <u>CSX Purchases of Equity Securities</u>	<u>37</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>37</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>37</u>
Item 5. <u>Other Information</u>	<u>37</u>
Item 6. <u>Exhibits</u>	<u>38</u>
<u>Signature</u>	<u>39</u>

CSX Q2 2016 Form 10-Q p.2

Table of Contents

CSX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2016	2015	2016	2015
Revenue	\$2,704	\$3,064	\$5,322	\$6,091
Expense				
Labor and Fringe	749	825	1,545	1,704
Materials, Supplies and Other	519	559	1,069	1,186
Fuel	172	263	322	533
Depreciation	319	299	632	594
Equipment and Other Rents	105	101	210	214
Total Expense	1,864	2,047	3,778	4,231
Operating Income	840	1,017	1,544	1,860
Interest Expense	(141)	(134)	(284)	(268)
Other Income - Net	8	4	15	6
Earnings Before Income Taxes	707	887	1,275	1,598
Income Tax Expense	(262)	(334)	(474)	(603)
Net Earnings	\$445	\$553	\$801	\$995
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$0.47	\$0.56	\$0.84	\$1.01
Net Earnings Per Share, Assuming Dilution	\$0.47	\$0.56	\$0.84	\$1.00
Average Shares Outstanding (In millions)	952	988	957	989
Average Shares Outstanding, Assuming Dilution (In millions)	952	989	958	990
Cash Dividends Paid Per Common Share	\$0.18	\$0.18	\$0.36	\$0.34

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2016	2015	2016	2015
Total Comprehensive Earnings (Note 10)	\$454	\$565	\$817	\$1,005

See accompanying notes to consolidated financial statements.

CSX Q2 2016 Form 10-Q p.3

Table of Contents

CSX CORPORATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	(Unaudited)	
	June 24, 2016	December 25, 2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 566	\$ 628
Short-term Investments	262	810
Accounts Receivable - Net (Note 1)	912	982
Materials and Supplies	399	350
Other Current Assets	89	70
Total Current Assets	2,228	2,840
Properties	42,345	41,574
Accumulated Depreciation	(11,738) (11,400
Properties - Net	30,607	30,174
Investment in Conrail	818	803
Affiliates and Other Companies	595	591
Other Long-term Assets	302	337
Total Assets	\$ 34,550	\$ 34,745
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 766	\$ 764
Labor and Fringe Benefits Payable	464	490
Casualty, Environmental and Other Reserves (Note 4)	133	131
Current Maturities of Long-term Debt (Note 7)	632	20
Income and Other Taxes Payable	137	108
Other Current Liabilities	150	439
Total Current Liabilities	2,282	1,952
Casualty, Environmental and Other Reserves (Note 4)	246	269
Long-term Debt (Note 7)	9,905	10,515
Deferred Income Taxes - Net	9,355	9,179
Other Long-term Liabilities	1,137	1,162
Total Liabilities	22,925	23,077
Shareholders' Equity:		
Common Stock, \$1 Par Value	946	966
Other Capital	116	113
Retained Earnings	11,199	11,238
Accumulated Other Comprehensive Loss (Note 10)	(649) (665
Noncontrolling Interest	13	16
Total Shareholders' Equity	11,625	11,668
Total Liabilities and Shareholders' Equity	\$ 34,550	\$ 34,745

Certain prior year data has been reclassified to conform to the current presentation.
See accompanying notes to consolidated financial statements.

CSX Q2 2016 Form 10-Q p.4

Table of Contents

CSX CORPORATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

	Six Months	
	2016	2015
OPERATING ACTIVITIES		
Net Earnings	\$801	\$995
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	632	594
Deferred Income Taxes	165	33
Gain on Property Dispositions	—	(19)
Other Operating Activities	(27)	65
Changes in Operating Assets and Liabilities:		
Accounts Receivable	66	101
Other Current Assets	(61)	(52)
Accounts Payable	—	(68)
Income and Other Taxes Payable	27	78
Other Current Liabilities	(11)	(145)
Net Cash Provided by Operating Activities	1,592	1,582
INVESTING ACTIVITIES		
Property Additions	(1,066)	(1,288)
Purchase of Short-term Investments	(260)	(775)
Proceeds from Sales of Short-term Investments	810	390
Proceeds from Property Dispositions	8	47
Other Investing Activities	27	52
Net Cash Used in Investing Activities	(481)	(1,574)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	—	600
Long-term Debt Repaid (Note 7)	—	(210)
Dividends Paid	(344)	(336)
Shares Repurchased	(515)	(284)
Other Financing Activities	(314)	(9)
Net Cash Used in Financing Activities	(1,173)	(239)
Net Decrease in Cash and Cash Equivalents	(62)	(231)
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	628	669
Cash and Cash Equivalents at End of Period	\$566	\$438

See accompanying notes to consolidated financial statements.

CSX Q2 2016 Form 10-Q p.5

Table of Contents

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, also part of CSXT, 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., a subsidiary responsible for the Company's operating and non-operating real estate sales, leasing, acquisition and management and development activities. These activities are classified in either operating income or other income - net depending upon the nature of the activity. Results of these activities fluctuate with the timing of real estate transactions.

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 six months ended June 24, 2016 and June 26, 2015;
- Consolidated comprehensive income statements for the six months ended June 24, 2016 and June 26, 2015;
- Consolidated balance sheets at June 24, 2016 and December 25, 2015; and
- Consolidated cash flow statements for the six months ended June 24, 2016 and June 26, 2015.

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.

Table of Contents

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 second fiscal quarters of 2016 and 2015 consisted of 13 weeks ending on June 24, 2016 and June 26, 2015, respectively.

Fiscal year 2016 will consist of 53 weeks ending on December 30, 2016.

Fiscal year 2015 consisted of 52 weeks ending on December 25, 2015.

Except as otherwise specified, references to "second quarter(s)" or "six months" indicate CSX's fiscal periods ending June 24, 2016 and June 26, 2015, and references to "year-end" indicate the fiscal year ended December 25, 2015.

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 \$30 million and \$37 million is included in the consolidated balance sheets as of the end of second quarter 2016 and December 25, 2015, respectively.

New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), Improvements to Employee Share-based Payment Accounting, which requires excess tax benefits and deficiencies to be recorded as income tax expense or benefit in the income statement rather than being recorded in additional paid-in capital. The Company adopted the provisions of this ASU during the second quarter of 2016 which did not have a material effect on the Company's financial condition, results of operations or liquidity.

In November 2015, the FASB issued ASU, Balance Sheet Classification of Deferred Taxes, which requires that all deferred income taxes be classified as noncurrent in the balance sheet, rather than being separated into current and noncurrent amounts. The Company adopted the provisions of this ASU during second quarter 2016 and applied them retrospectively. Current deferred income tax assets of \$132 million and \$126 million as of the end of the second quarter 2016 and December 25, 2015, respectively, are reclassified and reported as a reduction of deferred income tax liabilities on the balance sheet. Adoption did not have a material effect on the Company's 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 is effective for fiscal years beginning after December 15, 2018. While the Company is still assessing the impact of this standard, CSX does not believe this standard will have a material effect on the Company's financial condition, results of operations or liquidity.

CSX Q2 2016 Form 10-Q p.7