

CSX CORP  
Form PRE 14A  
April 03, 2017

**Table of Contents**

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

<input type="checkbox"/>	Preliminary Proxy Statement
<input type="checkbox"/>	Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
<input type="checkbox"/>	Definitive Proxy Statement
<input type="checkbox"/>	Definitive Additional Materials
<input type="checkbox"/>	Soliciting Material Under Rule 14a-12

**CSX Corporation**

(Name of Registrant as Specified In Its Charter)  
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

<input type="checkbox"/>	No fee required.
<input type="checkbox"/>	Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
	1) Title of each class of securities to which transaction applies:
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**Table of Contents**

[PRELIMINARY PROXY - SUBJECT TO COMPLETION]

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**Table of Contents**

**Letter to Our Shareholders**

\_\_\_\_\_, 2017

Dear Shareholder:

We cordially invite you to attend the 2017 Annual Meeting of Shareholders of CSX Corporation ( CSX ). The Annual Meeting will be held at 10:00 a.m. (EDT) on Monday, June 5, 2017, at The Jefferson Hotel, 101 W. Franklin Street, Richmond, Virginia 23220.

Details regarding admission to the Annual Meeting and the business to be conducted are described in the Notice of Internet Availability of Proxy Materials (Notice) you received in the mail and in this Proxy Statement. CSX also has made available with this Proxy Statement a copy of our 2016 Annual Report to Shareholders. We encourage you to read our Annual Report, which includes CSX s audited financial statements and additional information about CSX s business.

CSX has elected to provide electronic access to our proxy materials under the Securities and Exchange Commission s notice and access rules. CSX believes that providing Internet access to our proxy materials increases the ability of our shareholders to review important information about the Company, while reducing the environmental impact of our Annual Meeting. If you want more information regarding electronic access or the Annual Meeting, please see the Questions and Answers section of this Proxy Statement or visit the Annual Shareholders Meeting section of our Investor Relations website.

Every shareholder vote is important. Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented and voted at the Annual Meeting. Therefore, we urge you to promptly vote and submit your proxy via the Internet, by phone or by signing, dating and returning the enclosed white proxy card in the enclosed envelope. If you decide to attend the Annual Meeting, you will be able to vote in person, even if you have previously submitted your proxy. Please review the instructions on each of your voting options described in this Proxy Statement as well as in the Notice you received in the mail or via email.

We would like to express our appreciation for your continued support of CSX and look forward to seeing you at the Annual Meeting.

CSX Corporation

**Table of Contents**

**Notice of 2017 Annual Meeting of Shareholders**

**To Our Shareholders:**

**The Annual Meeting of Shareholders (the Annual Meeting ) of CSX Corporation ( CSX or the Company ) will be held at 10:00 a.m. (EDT) on Monday, June 5, 2017 at The Jefferson Hotel, 101 W. Franklin Street, Richmond, Virginia, for the purpose of considering and acting upon the following matters:**

1. To elect the 13 director nominees named in the attached Proxy Statement to the Company s Board of Directors;
2. To ratify the appointment of Ernst & Young LLP as the Independent Registered Public Accounting Firm for 2017;
3. To vote on an advisory (non-binding) resolution to approve compensation for the Company s named executive officers;
4. To hold an advisory (non-binding) vote on whether future votes on the compensation for the Company s named executive officers should be held every one, two or three years;
5. To hold an advisory (non-binding) vote concerning the reimbursement arrangements sought in connection with the retention of E. Hunter Harrison as CEO at CSX; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The persons named as proxies will use their discretion to vote on other matters that may properly come before the Annual Meeting.

The above matters are described in the attached Proxy Statement. You are urged, after reading the attached Proxy Statement, to vote your shares by proxy using one of the following methods: (i) vote by telephone or via the Internet; or (ii) if you requested printed proxy materials, complete, sign, date and return your proxy card or voting instruction form if you hold your shares through a broker, bank or other nominee in the postage-paid envelope provided. White proxy cards are being solicited on behalf of the Company s Board of Directors

Only shareholders of record at the close of business on April 17, 2017, which is the record date for the Annual Meeting, are entitled to vote. The Notice of Internet Availability, the Proxy Statement and the Annual Report for the fiscal year ended December 30, 2016 (the Annual Report ) are being mailed or made available to those shareholders on or about [ ], 2017.

By Order of the Board of Directors,

**Ellen M. Fitzsimmons**

Executive Vice President-Law and Public Affairs  
General Counsel and Corporate Secretary

**Table of Contents**

**Table of Contents**

<b><u>3</u></b>	<b><u>Notice of 2017 Annual Meeting of Shareholders</u></b>	
<b><u>6</u></b>	<b><u>Proxy Summary</u></b>	
<b><u>10</u></b>	<b><u>Proxy Statement for 2017 Annual Meeting of Shareholders</u></b>	
<b><u>10</u></b>		<u>What is the purpose of the Annual Meeting?</u>
<b><u>10</u></b>		<u>When and where will the Annual Meeting be held?</u>
<b><u>10</u></b>		<u>Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?</u>
<b><u>10</u></b>		<u>How do I get electronic access to the proxy materials?</u>
<b><u>11</u></b>		<u>Who is soliciting my vote?</u>
<b><u>11</u></b>		<u>Who is entitled to vote?</u>
<b><u>11</u></b>		<u>How many votes do I have?</u>
<b><u>11</u></b>		<u>How many shares must be present to hold the Annual Meeting?</u>
<b><u>11</u></b>		<u>What are the vote requirements for each proposal?</u>
<b><u>12</u></b>		<u>How do I vote?</u>
<b><u>12</u></b>		<u>Can I change my vote?</u>
<b><u>12</u></b>		<u>Will my shares be voted if I do not provide voting instructions to my broker?</u>
<b><u>13</u></b>		<u>What happens if I return my proxy card but do not give voting instructions?</u>
<b><u>13</u></b>		<u>What happens if other matters are properly presented at the Annual Meeting?</u>
<b><u>13</u></b>		<u>How are votes counted?</u>
<b><u>13</u></b>		<u>What happens if the Annual Meeting is postponed or adjourned?</u>
<b><u>13</u></b>		<u>How do I obtain admission to the Annual Meeting?</u>
<b><u>14</u></b>		<u>What is the deadline for consideration of shareholder proposals for the 2018 Annual Meeting of Shareholders?</u>
<b><u>14</u></b>		<u>Does the Board consider director nominees recommended by shareholders?</u>
<b><u>15</u></b>	<b><u>Item 1: Election of Directors</u></b>	
<b><u>30</u></b>		<u>What are the directors' qualifications to serve on the CSX Board of Directors?</u>
<b><u>30</u></b>		<u>What if a nominee is unable to serve as director?</u>
<b><u>31</u></b>		<u>Director Independence</u>
<b><u>31</u></b>		<u>Principles of Corporate Governance</u>
<b><u>32</u></b>		<u>Board of Directors' Role in Risk Oversight</u>
<b><u>32</u></b>		<u>Board of Directors' Role in Succession Planning</u>
<b><u>33</u></b>		<u>Transactions with Related Persons and Other Matters</u>
<b><u>33</u></b>		<u>Involvement in Certain Legal Proceedings</u>
<b><u>33</u></b>		<u>Compensation Committee Interlocks and Insider Participation</u>
<b><u>34</u></b>		<u>Board Leadership and Committee Structure</u>
<b><u>38</u></b>		<u>Meetings of the Board and Executive Sessions</u>
<b><u>38</u></b>		<u>Director Compensation</u>
<b><u>39</u></b>		<u>2016 Directors' Compensation Table</u>
<b><u>41</u></b>	<b><u>Item 2: Ratification of Independent Registered Public Accounting Firm</u></b>	
<b><u>42</u></b>		<u>Fees Paid to Independent Registered Public Accounting Firm</u>
<b><u>42</u></b>		<u>Pre-Approval Policies and Procedures</u>
<b><u>43</u></b>	<b><u>Report of the Audit Committee</u></b>	

**Table of Contents**

<u>45</u>	<b><u>Compensation Discussion and Analysis</u></b>
<u>45</u>	<u>Executive Overview</u>
<u>47</u>	<u>Executive Compensation Practices</u>
<u>53</u>	<u>Base Salary</u>
<u>53</u>	<u>Short-Term Incentive Compensation</u>
<u>55</u>	<u>2016 MICP Strategic Performance Goals</u>
<u>59</u>	<u>Long-Term Incentive Compensation</u>
<u>62</u>	<u>Benefits</u>
<u>63</u>	<u>Severance and Change-of-Control Agreements</u>
<u>65</u>	<u>2016 Summary Compensation Table</u>
<u>67</u>	<u>2016 Grants of Plan-Based Awards Table</u>
<u>68</u>	<u>2016 Outstanding Equity Awards at Fiscal Year End</u>
<u>69</u>	<u>2016 Option Exercises and Stock Vested Table</u>
<u>70</u>	<u>Pension Benefits Table</u>
<u>72</u>	<u>Nonqualified Deferred Compensation Table</u>
<u>74</u>	<u>Post-Termination and Change-of-Control Payments</u>
<u>77</u>	<u>Potential Payouts Under Change-of-Control Agreements</u>
<u>79</u>	<b><u>Report of the Compensation Committee</u></b>
<u>80</u>	<b><u>Item 3: Advisory (Non-Binding) Vote to Approve the Compensation of CSX's Named Executive Officers</u></b>
 	<b><u>Item 4: Advisory (Non-Binding) Vote on the Frequency of Future Advisory Votes on the Compensation of CSX's Named Executive Officers</u></b>
<u>81</u>	
 	<b><u>Item 5: Advisory (Non-Binding) Vote Concerning Reimbursement Arrangements Sought in Connection with Retention of E. Hunter Harrison as CEO at CSX</u></b>
<u>82</u>	
<u>84</u>	<b><u>Mantle Ridge and E. Hunter Harrison Agreements</u></b>
<u>85</u>	<b><u>Other Matters</u></b>
<u>86</u>	<b><u>Security Ownership of Management and Certain Beneficial Owners</u></b>
<u>88</u>	<b><u>Section 16(a) Beneficial Ownership Reporting Compliance</u></b>
<u>89</u>	<b><u>Equity Compensation Plan Information</u></b>
<u>90</u>	<b><u>Householding of Proxy Materials</u></b>
<u>91</u>	<b><u>Notice of Electronic Availability of Proxy Materials</u></b>

**Table of Contents**

**Proxy Summary**

This summary highlights information contained elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider, and you should read the entire Proxy Statement carefully before voting. For more complete information regarding the Company's 2016 performance, please review the Company's 2016 Annual Report.

**Visit our Annual Meeting Website**

Review and download easy to read, interactive versions of our Proxy Statement and 2016 Annual Report

<http://shareholder.broadridge.com/CSX>

Sign up for future electronic delivery to reduce our impact on the environment

**Attend our Annual Meeting of Shareholders**

**Date and Time:** Monday, June 5, 2017 at 10:00 a.m. (EDT)

**Place:** The Jefferson Hotel, 101 W. Franklin Street, Richmond, Virginia 23220

**Eligibility to Vote**

You can vote if you were a shareholder of record at the close of business on April 17, 2017, which is the record date for the Annual Meeting.

**Voting Matters and Board Recommendation**

The Board of Directors unanimously recommends a vote:

1. **FOR** the election of the thirteen director nominees named in this Proxy Statement;
2. **FOR** the ratification of the appointment of Ernst & Young LLP as CSX's Independent Registered Public Accounting Firm for 2017;
3. **FOR** the approval, on an advisory (non-binding) basis, of the compensation of the Company's named executive officers as disclosed in these materials; and
4. **FOR** the approval, on an advisory (non-binding) basis, of the frequency of **EVERY YEAR** for future advisory votes on executive compensation. The Board is not making a recommendation with respect to Item 5, which is an advisory (non-binding) vote concerning the reimbursement arrangements sought in connection with the retention of E. Hunter Harrison as GEO at CSX.

**How to Cast Your Vote**

**By internet**

**using a computer**

until 11:59 p.m. EDT on June 4, 2017

Visit 24/7  
[www.proxyvote.com](http://www.proxyvote.com)

**By internet**

**using a smartphone or tablet**

until 11:59 p.m. EDT on June 4, 2017

Scan this **QR code** 24/7 to vote with your mobile device (may require free software)

**By telephone**

until 11:59 p.m. EDT on June 4, 2017

Dial toll-free 24/7  
**1-800-690-6903**

**By mail**

received on or before June 4, 2017

**Sign and date your proxy card or voting instruction form and send by mail**

**Table of Contents**

## Board Nominees

Name	Director since	Independent		Committee Memberships	Other Public Company Boards
		Yes	No		
Donna M. Alvarado	2006			Audit Compensation Public Affairs	CoreCivic, Inc. Park National Corporation
John B. Breaux	2005			Executive Governance Public Affairs (Chair)	LHC Group, Inc.
Pamela L. Carter	2010			Executive Finance (Chair) Governance	Spectra Energy Corporation Hewlett-Packard Enterprise
Steven T. Halverson	2006			Audit Compensation Executive (Chair)	
E. Hunter Harrison	2017			Compensation Executive Finance Governance	
Paul C. Hilal	2017			Compensation Executive Finance Governance	
Edward J. Kelly, III	2002			Compensation Executive Governance	XL Group plc MetLife Inc.
John D. McPherson	2008			Finance Public Affairs	
David M. Moffett	2015			Audit (Chair) Executive Finance	PayPal Holdings, Inc. Genworth Financial, Inc.
Dennis H. Reilley	2017			Audit Executive Finance Governance (Chair)	Marathon Oil Corporation Dow Chemical Company
Linda H. Riefler	2017			Audit Compensation Public Affairs	MSCI, Inc.
J. Steven Whisler	2011			Audit Finance	Brunswick Corporation International Paper Co.
John J. Zillmer	2017			Compensation (Chair) Executive Governance Public Affairs	Reynolds American, Inc. Ecolab, Inc. Veritiv Corporation Performance Food Group Company



## **Table of Contents**

### **Corporate Governance Highlights**

Directors elected annually  
Independent Chairman of the Board  
All directors in 2016 attended 75% or more of the Board and Committee meetings in 2016  
Audit Committee comprised solely of independent directors  
Stock ownership guidelines for officers and directors  
Bylaws providing proxy access and rights to call special meetings  
Majority voting standard and resignation policy  
Executive sessions of independent directors at all regular meetings

### **Business Highlights for 2016**

CSX's performance in 2016 illustrated the underlying strength of the Company's business, as well as its ability to deliver value for customers and shareholders, while preparing for long-term growth. Despite substantial gains in the Company's intermodal and merchandise business, significant declines in coal volumes impaired top-line growth for the year. Nevertheless, CSX delivered a Company-record operating ratio of 69.4% in 2016. In addition, CSX returned approximately \$1.75 billion to shareholders in the form of dividends and share repurchases. For more detail on CSX's performance in 2016, please see the 2016 Annual Report.

### **Stock Performance Graph**

The cumulative five-year shareholder returns, assuming reinvestment of dividends, on \$100 invested at December 31, 2011 are illustrated on the graph below. The Company references the Standard & Poor's 500 Stock Index ( S&P 500 ), which is a registered trademark of the McGraw-Hill Companies, Inc., and the Dow Jones U.S. Transportation Average Index ( DJT ), which provide comparisons to a broad-based market index and other companies in the transportation industry.

**Table of Contents**

## 2016 Target Compensation Mix for the Named Executive Officers

Information regarding the compensation mix for the Chief Executive Officer ( CEO ) and each of the other executive officers named in the Summary Compensation Table ( Named Executive Officers or NEOs ) is set forth in the tables. The tables indicate that 52% of the CEO s compensation and an average of 49% of the other Named Executive Officers compensation is at risk and subject to the achievement of one or more performance goals.

**2016 CEO  
Target  
Compensation  
Mix**      **2016 NEO  
Target  
Compensation  
Mix (excluding  
CEO)**

## Executive Compensation Highlights

The table below highlights the 2016 compensation for the Named Executive Officers as disclosed in the *Summary Compensation Table*.

Name and 2016 Title	Salary	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation
<b>Michael J. Ward</b> <sup>(1)</sup> Chairman and CEO	\$1,200,000	\$6,317,982	\$2,316,907	\$2,059,200	\$1,563,377	\$122,638
<b>Clarence W. Gooden</b> <sup>(1)</sup> President	\$700,000	\$1,754,999	\$643,584	\$1,001,000	\$438,531	\$56,509
<b>Frank A. Lonegro</b> Executive Vice President and CFO	\$500,000	\$1,520,986	\$386,150	\$643,500	\$484,797	\$31,825
<b>Fredrik J. Eliasson</b> <sup>(1)</sup> Executive Vice President and Chief Sales and Marketing Officer	\$600,000	\$1,872,005	\$514,867	\$772,200	\$901,672	\$35,567
<b>Cynthia M. Sanborn</b> Executive Vice President and COO CSX Transportation	\$550,000	\$1,872,005	\$514,867	\$807,850	\$1,113,588	\$35,976

(1) On February 14, 2017, Mr. Gooden resigned as President of the Company and assumed the title of Vice Chairman, and Mr. Eliasson was appointed President and Chief Sales and Marketing Officer of the Company, effective February 15, 2017. On March 6, 2017, (i) Mr. Ward resigned as Chairman and CEO, (ii) Mr. Gooden resigned as Vice Chairman and (iii) E. Hunter Harrison was appointed CEO, in each case, effective immediately. On March 7, 2016, Mr. Ward and Mr. Gooden each assumed the title of consultant and will retire from the Company as of May 31, 2017.

**Table of Contents**

**Proxy Statement for 2017 Annual Meeting of Shareholders**

What is the purpose of the Annual Meeting?	At our Annual Meeting, shareholders will act upon the matters outlined in the Notice of Annual Meeting of Shareholders above, including the election of the 13 director nominees named in this Proxy Statement, the ratification of the selection of the Independent Registered Public Accounting Firm (the Independent Auditors ) of CSX, the consideration of an advisory (non-binding) vote on executive compensation, the consideration of an advisory (non-binding) vote concerning the frequency of future votes on executive compensation and the consideration of an advisory (non-binding) vote concerning the reimbursement arrangements sought in connection with the retention of E. Hunter Harrison as CEO at CSX.
When and where will the Annual Meeting be held?	The Annual Meeting will be held at 10:00 a.m. (EDT) on Monday, June 5, 2017 at The Jefferson Hotel, 101 W. Franklin Street, Richmond, Virginia 23220. The facility is accessible to persons with disabilities. If you have a disability, we can provide assistance to help you participate in the Annual Meeting upon request. If you would like to obtain directions to attend the Annual Meeting and vote in person, you can write to us at CSX Corporation, Office of the Corporate Secretary, 500 Water Street, C160, Jacksonville, Florida 32202, or call us at (904) 359-3256.
Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?	In accordance with rules adopted by the Securities and Exchange Commission (the SEC ), we may furnish proxy materials, including this Proxy Statement and our 2016 Annual Report, to our shareholders by providing access to such documents on the Internet instead of mailing printed copies. Most shareholders will not receive printed copies of the proxy materials unless requested. Instead, the Notice of Internet Availability of Proxy Materials (the Notice ), which was mailed to most of our shareholders, instructs you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice.
How do I get electronic access to the proxy materials?	The Notice provides you with instructions on how to:  view CSX s proxy materials for the Annual Meeting on the Internet; and  instruct CSX to send future proxy materials to you electronically by email. Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of the printing and mailing of these materials on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until terminated.

**Table of Contents**

Who is soliciting my vote?	The Board of Directors of CSX (the Board) is soliciting your vote on matters being submitted for shareholder approval at the Annual Meeting. The Company will pay the costs of preparing proxy materials and soliciting proxies, including the reimbursement, upon request, of trustees, brokerage firms, banks and other nominee record holders for the reasonable expenses they incur to forward proxy materials to beneficial owners. In addition to using mail, proxies may be solicited in person, by telephone or by electronic communication by officers and employees of the Company acting without special compensation.
Who is entitled to vote?	Only shareholders of record at the close of business on April 17, 2017 (the Record Date) are entitled to notice of, and to vote at, the Annual Meeting or any adjournments or postponements thereof, unless a new record date is set in connection with any such adjournments or postponements. On April 17, 2017, there were issued and outstanding [ ] shares of common stock, the only outstanding class of voting securities of the Company.
How many votes do I have?	You will have one vote for every share of CSX common stock you owned at the close of business on the Record Date.
How many shares must be present to hold the Annual Meeting?	The Company's bylaws provide that a majority of the outstanding shares of stock entitled to vote constitutes a quorum at any meeting of shareholders. If a share is represented for any purpose at the Annual Meeting, it is deemed to be present for the transaction of all business. Abstentions and shares held of record by a broker, bank or other nominee that are voted on any matter are included in determining the number of shares present.  Shares held by a broker, bank or other nominee that are not voted on any matter at the Annual Meeting will not be included in determining whether a quorum is present.  Your vote is important and we urge you to vote by proxy even if you plan to attend the Annual Meeting.
What are the vote requirements for each proposal?	<b>Election of Directors.</b> In an uncontested election, a director is elected by a majority of votes cast for his or her election by the shares entitled to vote at a meeting at which a quorum is present. In accordance with the Company's Corporate Governance Guidelines, in an uncontested election, any incumbent director nominated for re-election as a director who is not re-elected in accordance with the Company's bylaws shall promptly tender his or her resignation following certification of the shareholder vote. For more information on the procedures in these circumstances, see <i>Principles of Corporate Governance</i> below.  <b>Other Proposals.</b> For the ratification of the appointment of Ernst & Young LLP as the Company's Independent Auditors for 2017 (Item 2); for the approval, on an advisory (non-binding) basis, of the compensation of the Company's NEOs (Item 3); and for the approval, on an advisory (non-binding) basis, of the reimbursement arrangements sought in connection with the retention of E. Hunter Harrison as CEO at CSX (Item 5), the proposal will be approved if the votes cast in favor of the proposal exceed the votes cast against the proposal. For the advisory (non-binding) vote concerning the frequency of future votes on NEO compensation (Item 4), if a majority is not received by any of the frequency choices, the frequency choice that receives a plurality of the votes cast will be considered the shareholders' preferred frequency for holding future advisory (non-binding) votes on executive compensation, which will be considered by the Board in selecting a frequency choice.  Abstentions are not considered votes cast on any proposal and will have no effect on the outcome of the vote. Broker non-votes are not considered votes cast on Item 1, Item 3, Item 4 or Item 5, and will have no effect on the outcome of the vote. Brokers will have discretionary voting power regarding Item 2 in the event that beneficial owners, who own their shares in street name, do not provide voting instructions regarding Item 2.

**Table of Contents**

How do I vote?

You can vote either in person at the Annual Meeting or by proxy without attending the Annual Meeting. The shares represented by a properly executed proxy will be voted as you direct.

To vote by proxy, you must do one of the following:

**Vote by Telephone.** If you are a shareholder of record, you can vote your shares by telephone 24 hours a day by calling 1-800-690-6903 on a touch-tone telephone. Easy-to-follow voice prompts enable you to vote your shares and confirm that your instructions have been properly recorded. If you are a beneficial owner, or you hold your shares in street name (that is, through a bank, broker or other nominee), please check your voting instruction card or contact your bank, broker or nominee to determine whether you will be able to vote by telephone.

**Vote by Internet.** If you are a shareholder of record, you can also vote via the Internet by following the instructions in the Notice. The website address for Internet voting is indicated in the Notice. Internet voting is also available 24 hours a day. If you are a beneficial owner, or you hold your shares in street name, please check your voting instruction card or contact your bank, broker or nominee to determine whether you will be able to vote via the Internet.

**Vote by Mail.** If you requested printed proxy materials and choose to vote by mail, complete, sign, date and return your proxy card in the postage-paid envelope provided if you are a shareholder of record or your voting instruction card if you are a beneficial owner, or hold your shares in street name. Please promptly mail your proxy card or voting instruction card to ensure that it is received prior to the Annual Meeting.

If you want to vote in person at the Annual Meeting and you hold your CSX stock in street name, you must obtain a legal proxy from your bank, broker or other nominee and bring that proxy to the Annual Meeting.

Can I change my vote?

Yes. If you are a shareholder of record, you may change your vote or revoke your proxy any time before it is voted by delivering written notice to CSX Corporation, Office of the Corporate Secretary, 500 Water Street, C160, Jacksonville, Florida 32202, by timely receipt of a later-dated signed proxy card or written revocation, by a later vote via the Internet or by telephone, or by voting in person at the Annual Meeting. If you hold your shares in street name, you should follow the instructions provided by your bank, broker or other nominee if you wish to change your vote.

Will my shares be voted if I do not provide voting instructions to my broker?

If you are the beneficial owner of shares held in street name by a bank, broker or other nominee, the bank, broker or other nominee is required to vote those shares in accordance with your instructions. If you do not give instructions to the banker, broker or other nominee, the broker will be entitled to vote the shares with respect to discretionary items but will not be permitted to vote the shares with respect to non-discretionary items (those shares are treated as broker non-votes).

The proposal to ratify the appointment of Ernst & Young LLP as CSX's Independent Auditors for 2017 is considered a discretionary item for which a broker will have discretionary voting power if you do not give instructions with respect to this proposal. The proposals to: (i) elect directors, (ii) vote on an advisory (non-binding) resolution on executive compensation, (iii) vote on an advisory (non-binding) resolution concerning the frequency of future advisory votes on executive compensation, and (iv) vote on an advisory (non-binding) resolution concerning the reimbursement arrangements sought in connection with the retention of E. Hunter Harrison as CEO at CSX, are non-routine matters for which a broker will not have discretionary voting power and for which specific instructions from beneficial owners are required in order for a broker to vote your shares.

**Table of Contents**

What happens if I return my proxy card but do not give voting instructions? If you are a shareholder of record and sign, date and return the white proxy card but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board.

The Board of Directors unanimously recommends a vote:

1. **FOR** the election of the 13 director nominees named in this Proxy Statement;
2. **FOR** the ratification of the appointment of Ernst & Young LLP as CSX's Independent Auditors for 2017;
3. **FOR** the approval, on an advisory (non-binding) basis, of the compensation of the Named Executive Officers as disclosed in these materials; and
4. **FOR** the approval, on an advisory (non-binding) basis, of a frequency of **EVERY YEAR** for future advisory votes on executive compensation.

The Board is not making a recommendation with respect to Item 5, which is an advisory (non-binding) vote on the reimbursement arrangements sought in connection with the retention of E. Hunter Harrison as CEO at CSX. If a shareholder of record signs, dates and returns a white proxy card without providing voting instructions concerning Item 5, such shareholder's shares will be treated as having abstained for purposes of this resolution.

What happens if other matters are properly presented at the Annual Meeting? If any other matters are properly presented for consideration at the Annual Meeting, the persons named as proxies on the enclosed white proxy card will have discretion to vote on those matters for you. On the date we filed this Proxy Statement with the SEC, the Board did not know of any other matters to be brought before the Annual Meeting.

How are votes counted? Votes are counted by an independent inspector of elections appointed by the Company.

What happens if the Annual Meeting is postponed or adjourned? Unless a new record date has been fixed, your proxy will still be in effect and may be voted at the reconvened meeting. You will still be able to change your vote or revoke your proxy with respect to any item until the polls have closed for voting on such item.

How do I obtain admission to the Annual Meeting? You will be issued an admission ticket at the shareholder registration desk at the Annual Meeting. If you hold shares in your name, please be prepared to provide proper identification, such as a driver's license or other government-issued identification. If you hold your shares through a broker, bank or other nominee, you will need proof of ownership, such as a recent account statement or letter from your broker, bank or other nominee, along with proper identification. If you are a duly appointed proxy for a shareholder, you must provide proof of your proxy power and proof of share ownership for the shareholder for whom you are a proxy. In addition, if you are authorized to represent a corporate or institutional shareholder, you must also present proof that you are the authorized representative of such shareholder.

For security reasons, attendees will not be permitted to bring any packages, briefcases, large pocketbooks or bags into the meeting. Also, audio tape recorders, video and still cameras, laptops and other portable electronic devices will not be permitted into the meeting. We thank you in advance for your patience and cooperation with these rules.



**Table of Contents**

What is the deadline for consideration of shareholder proposals for the 2018 Annual Meeting of Shareholders?

**Shareholder Proposals for Inclusion in Next Year's Proxy Statement.** A shareholder who wants to submit a proposal to be included in the proxy statement for the 2018 Annual Meeting of Shareholders (the 2018 Annual Meeting ) must send the proposal to CSX Corporation, Office of the Corporate Secretary, 500 Water Street, C160, Jacksonville, Florida, 32202, so that it is received on or before [ ], unless the date of the 2018 Annual Meeting is changed by more than 30 days from June 5, 2018, in which case the proposal must be received a reasonable time before the Company begins to print and mail its proxy materials for the 2018 Annual Meeting.

**Shareholder Proposals or Director Nominees Not to be Included in Next Year's Proxy Statement.** A shareholder who wants to nominate a director or submit a proposal that will not be in the proxy statement but will be considered at the 2018 Annual Meeting, pursuant to the CSX bylaws, must send it to the principal office of CSX so that it is received not earlier than the close of business on February 5, 2018, nor later than the close of business on March 7, 2018 unless the date of the 2018 Annual Meeting is more than 30 days before or more than 70 days after June 5, 2018, in which case the nomination or proposal must be received not earlier than the 120<sup>th</sup> day prior to the date of the 2018 Annual Meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to the date of the 2018 Annual Meeting or the 10<sup>th</sup> day following the day on which the Company first publicly announces the date of the 2018 Annual Meeting.

**Director Nominees for Inclusion in Next Year's Proxy Statement (Proxy Access).** In 2015, the Company amended its bylaws to allow proxy access. Under the amended bylaws, a shareholder, or a group of up to 20 shareholders, owning 3% or more of the Company's outstanding common stock continuously for at least three years may submit director nominees (up to the greater of two directors or the number of directors representing 20% of the Board) for inclusion in the Company's proxy statement, subject to the other requirements set forth in the bylaws. To include a director nominee in the Company's 2018 proxy statement, the proposing shareholder(s) must send notice and the required information to CSX Corporation, Office of the Corporate Secretary, 500 Water Street, C160, Jacksonville, Florida, 32202, so that it is received by [ ].

Does the Board consider director nominees recommended by shareholders?

Yes. The Governance Committee of the Board will review recommendations as to possible nominees received from shareholders and other qualified sources. The Governance Committee will evaluate possible nominees received from shareholders using the same criteria it uses for other director nominees. Shareholder recommendations should be submitted in writing addressed to the Chair of the Governance Committee, CSX Corporation, 500 Water Street, C160, Jacksonville, Florida 32202, and should include a statement about the qualifications and experience of the proposed nominee, as discussed further below. Shareholders who wish to nominate a director nominee should do so in accordance with the nomination provisions of the Company's bylaws. In general, a shareholder nomination for the 2018 Annual Meeting must be delivered to the Company within the time periods described above and set forth in the Company's bylaws.



**Table of Contents**

**Item 1: Election of Directors**

**Election of Directors**

The Board unanimously recommends a vote **FOR** the election of the following Director nominees

Thirteen directors are to be elected to hold office until the 2018 Annual Meeting and their successors are elected and qualified. Unless otherwise specified, the proxy holders will cast votes FOR the election of the nominees named below. Each of the nominees, other than Messrs. Harrison, Hilal, Reilley, Zillmer and Ms. Riefler, was elected at the Company's 2016 Annual Meeting of Shareholders. Mr. Harrison, the Company's CEO, was appointed to the Board effective March 6, 2017, the date he was appointed as CEO. Ms. Riefler and Messrs. Harrison, Hilal, Reilley and Zillmer were recommended by Company shareholder MR Argent Advisor LLC ("Mantle Ridge" and, together with its affiliated funds, the "Mantle Ridge Group"), which as of March 6, 2017 beneficially owned approximately 4.8% of the outstanding shares of CSX common stock and had additional economic exposure to 570,600 shares of CSX common stock under certain cash settled total return swaps. Mr. Hilal is the managing member of Mantle Ridge GP LLC, which is the general partner of Mantle Ridge LP, which is the sole member of Mantle Ridge.

Messrs. Hilal, Reilley and Zillmer and Ms. Riefler were each appointed to the Board effective March 6, 2017. The appointments of Ms. Riefler and Messrs. Harrison, Hilal, Reilley and Zillmer resulted from discussions between the Company and the Mantle Ridge Group regarding the Company's strategic direction and Board composition. Following such discussions, on March 6, 2017, the Company entered into an agreement with the Mantle Ridge Group which is described under *Mantle Ridge and E. Hunter Harrison Agreements* and is referred to in this Proxy Statement as the MR Agreement.

As of the date of this Proxy Statement, the Board has no reason to believe that any of the nominees named will be unable or unwilling to serve. There are no family relationships among any of these nominees or among any of these nominees and any executive officer of the Company. With the exception of the MR Agreement, there is no agreement or understanding between any nominee and any other person pursuant to which the nominee was selected.

Nominees for Board membership are expected to be prominent individuals who demonstrate leadership and possess outstanding integrity, values and judgment. Directors and nominees must be willing to devote the substantial time required to carry out the duties and responsibilities of directors. In addition, each Board member is expected to represent the broad interests of the Company and its shareholders as a group, and not any particular constituency.

The Governance Committee has recommended to the Board, and the Board has approved, the persons named below as director nominees. The Board believes that each of the director nominees adds to the overall diversity of the Board. The director nominees bring a wide range of experience and expertise in management, railroad operations and financial markets. In addition, several of the director nominees are able to provide valuable perspective into the political and regulatory environments, as well as certain key markets.

**Information regarding each director nominee follows. Each nominee has consented to being named in this Proxy Statement and to serve if elected.**

**Table of Contents**

**BOARD DIVERSITY**

**CSX strives to cultivate an environment that embraces teamwork and capitalizes on the value of diversity.**

Although the Board does not have a formal written diversity policy, the Governance Committee has a long-standing commitment to diversity and is guided by the Company's diversity philosophy when considering director nominees. The Committee recognizes the importance of maintaining a Board with a broad scope of backgrounds and expertise that will expand the views and experiences available to the Board in its deliberations. Many factors are taken into account when evaluating director nominees, including their ability to assess and evaluate a company's strategies in the face of changing economic and regulatory environments that may impact customer and shareholder expectations. In addition, the Committee feels that candidates representing varied age, gender and cultural and ethnic backgrounds add to the overall diversity and viewpoints of the Board. The Governance Committee and the full Board believe that the director nominees listed below embody the breadth of backgrounds and experience necessary for a balanced and effective Board.

**Table of Contents**

**Donna M. Alvarado**

Independent Director Nominee

**Age:** 68

**Director since:** 2006

**CSX Committees:**

Audit / Compensation / Public Affairs

**Biographical Information:**

**Donna M. Alvarado** is the founder and current President of Aguila International, a business-consulting firm. Previously, Ms. Alvarado served as President and Chief Executive Officer of a global educational publishing company from 1989-1993. She has served on corporate boards in the manufacturing, banking, transportation and services industries. She has also led state and national workforce policy boards.

Ms. Alvarado previously served as Chairwoman of the Ohio Board of Regents. Following executive and legislative staff appointments at the U.S. Department of Defense and in the U.S. Congress, Ms. Alvarado was appointed by President Ronald Reagan to lead the federal agency ACTION, the nation's premier agency for civic engagement and volunteerism, a position which she held from 1985-1989.

**Skills and Qualifications:**

As a result of her experience in the public and private sector, Ms. Alvarado brings to the Board significant workforce planning expertise, which is complemented by her experience with the Ohio Board of Regents.

**Other Public Directorships:**

CoreCivic, Inc.

Park National Corporation

**Table of Contents**

**Senator John B. Breaux**

Independent Director Nominee

**Age:** 73

**Director since:** 2005

**CSX Committees:**

Executive / Governance / Public Affairs (Chair)

**Biographical Information:**

**Senator John B. Breaux** is a partner in the Breaux-Lott Leadership Group, a private consulting firm in Washington, D.C. owned by Squire Patton Boggs LLP. From 2005 through 2007, Senator Breaux served as Senior Counsel at Patton Boggs LLP. Senator Breaux held numerous leadership positions during his 14 years in the U.S. House of Representatives and 18-year tenure in the U.S. Senate, where he served on the House Public Works and Transportation Committee, the Senate Finance Committee and the Senate Commerce Committee. Senator Breaux also founded the Centrist Coalition of Senate Democrats and Republicans and served as chairman of the Democratic Leadership Council.

**Skills and Qualifications:**

Senator Breaux's extensive public policy and regulatory experience allows him to provide critical input on regulatory and legislative proposals that could have a material effect on railroad operations.

**Other Public Directorships:**

LHC Group, Inc.

**Table of Contents**

**Pamela L. Carter**

Independent Director Nominee

**Age:** 67

**Director since:** 2010

**CSX Committees:**

Executive / Finance (Chair) / Governance

**Biographical Information:**

**Pamela L. Carter** retired in July 2015 as Vice President of Cummins Inc. and President of Cummins Distribution Business, a division of Cummins Inc., a designer, manufacturer and marketer of diesel engines and related components and power systems. Ms. Carter joined Cummins Inc. in 1997 as Vice President General Counsel and held various management positions before her appointment in 2008 as President of Cummins Distribution Business, a \$5 billion business with a global footprint.

Prior to her career with Cummins, Ms. Carter served in various capacities with the State of Indiana and in the private practice of law. Ms. Carter was the first woman and the first African-American to be elected to the office of Attorney General in Indiana. Ms. Carter also became the first African-American woman to be elected state attorney general in the U.S.A. She served as Parliamentarian in the Indiana House of Representatives, Deputy Chief-of-Staff to Governor Evan Bayh, Executive Assistant for Health Policy & Human Services and Securities Enforcement Attorney for the Office of the Secretary of State.

**Skills and Qualifications:**

With strong operational experience and extensive service in government, Ms. Carter provides the Board with in-depth knowledge and insight into operations, technology, regulatory, legal and public policy matters.

**Other Public Directorships:**

Spectra Energy Corporation  
Hewlett-Packard Enterprise

**Table of Contents**

**Steven T. Halverson**

Independent Director Nominee

**Age:** 62

**Director since:** 2006

**CSX Committees:**

Audit / Compensation

**Biographical Information:**

**Steven T. Halverson** is the Chief Executive Officer of The Haskell Company, one of the largest design and construction firms in the United States. Prior to joining The Haskell Company in 1999, Mr. Halverson served as a Senior Vice President of M.A. Mortenson, a national construction firm. Mr. Halverson also serves as a director for Guidewell Insurance and Blue Cross Blue Shield of Florida, ACIG Insurance Co., the Florida Counsel of 100 (past chair), the Florida Chamber of Commerce (past chair), the Construction Industry Roundtable (past chair) and the Jacksonville Civic Council (past chair). From 2008 until its sale to McKesson Corporation in 2013, Mr. Halverson served on the board of directors of PSS World Medical.

**Skills and Qualifications:**

Mr. Halverson's expertise in the construction industry allows him to provide unique insight and perspective on the U.S. economy and certain CSX markets. In addition, through his roles with key organizations in Florida, Mr. Halverson provides broad leadership capabilities to the Board.

**Other Public Directorships:**

None

**Table of Contents**

**E. Hunter Harrison**

Management Director Nominee

Chief Executive Officer

**Age:** 72

**Director since:** 2017

**CSX Committees:**  
Executive (Chair)

**Biographical Information:**

**E. Hunter Harrison** successfully led the turnaround of three major railroads over the last 25 years through his Precision Scheduled Railroading model. Mr. Harrison served as the President and Chief Executive Officer of Canadian Pacific Railway Limited (“Canadian Pacific”) from 2012 to 2017, during which time he was also a member of the board of directors. Prior to leading Canadian Pacific, Mr. Harrison served as President and Chief Executive Officer at Canadian National Railway Company from 2003 to 2009 and as the Executive Vice President and Chief Operating Officer from 1998 to 2002. He also served on the board of directors of Canadian National Railway Company for 10 years. Mr. Harrison also draws upon experience from Illinois Central Corporation, Illinois Central Rail Road Company and Burlington Northern.

From 2014 to 2015, Mr. Harrison served on the board of directors of Foresight Energy LP. Additionally, Mr. Harrison was a director of Dynegy Inc. ( Dynegy ) from March 9 to December 16, 2011 (Chairman from July 11 to December 16, 2011), as well as Interim President and Chief Executive Officer from April 9 to July 11, 2011.

**Skills and Qualifications:**

Mr. Harrison has extensive experience successfully leading major railroads and implementing “Precision Scheduled Railroading.” He has been recognized by every major railroading publication, and he has twice been honored as Railroader of the Year. His decades of executive leadership in the rail industry provide significant insight and value to the Board.

**Other Public Directorships:**

None

**Table of Contents**

**Paul C. Hilal**

Director Nominee

**Age:** 50

**Director since:** 2017  
**Vice Chairman of the Board**

**CSX Committees:**  
Compensation / Executive / Finance / Governance

**Biographical Information:**

**Paul C. Hilal** founded and controls Mantle Ridge, and each of its related entities.

Prior to founding Mantle Ridge, Mr. Hilal was a partner and senior investment professional at Pershing Square Capital Management where he worked from 2006 to 2016. From 2012 to 2016, Mr. Hilal served as a director of Canadian Pacific where he was chair of the Management Resources and Compensation Committee and a member of the Finance Committee. Mr. Hilal currently serves on the Board of Overseers of Columbia Business School and served until 2016 on the Board of the Grameen Foundation an umbrella organization that helps micro-lending and micro-franchise institutions empower the world's poorest through financial inclusion and entrepreneurship.

**Skills and Qualifications:**

Mr. Hilal draws on his experience as a value investor, as a capital allocator, as an engaged director driving shareholder value and in the railroad industry to provide the Board valuable insight regarding the financial aspects of CSX's business.

**Other Public Directorships:**

None



**Table of Contents**

**Edward J. Kelly, III**

Independent Director Nominee

**Age:** 63

**Director since:** 2002  
**Chairman of the Board**

**CSX Committees:**  
Compensation / Executive / Governance

**Biographical Information:**

**Edward J. Kelly, III** retired as Chairman of the Institutional Clients Group at Citigroup, Inc. in July 2014. He joined Citigroup, Inc. in 2008, and served at various points as Vice Chairman, Chief Financial Officer and Head of Global Banking at Citigroup, among other roles.

Mr. Kelly previously served as Managing Director at The Carlyle Group and Vice Chairman of The PNC Financial Services Group, Inc. following PNC's acquisition of Mercantile Bankshares Corporation in March 2007. At Mercantile, Mr. Kelly held the offices of Chairman, Chief Executive Officer and President from March 2003 until March 2007, and was Chief Executive Officer and President from March 2001 to March 2003. Before joining Mercantile, Mr. Kelly served as Managing Director and co-head of Investment Banking Client Management at J.P. Morgan Chase and Managing Director and Head of Global Financial Institutions at J.P. Morgan. Previously, Mr. Kelly was General Counsel at J.P. Morgan and a partner at the law firm of Davis Polk & Wardwell LLP, where he specialized in matters related to financial institutions. Early in his career, Mr. Kelly served as a law clerk to Supreme Court Justice William J. Brennan, Jr. and U.S. Court of Appeals Judge Clement F. Haynsworth, Jr.

Mr. Kelly previously served on the boards of directors for The Hartford Financial Services Group, The Hershey Company and Paris RE Holdings.

**Skills and Qualifications:**

As an executive with expertise in the banking industry, Mr. Kelly provides extensive financial, regulatory and governance experience to the Board. He offers important perspective on global financial markets.

**Other Public Directorships:**

XL Group plc  
MetLife Inc.

**Table of Contents**

**John D. McPherson**

Independent Director Nominee

**Age:** 70

**Director since:** 2008

**CSX Committees:**

Finance / Public Affairs

**Biographical Information:**

**John D. McPherson** served as President and Chief Operating Officer of Florida East Coast Railway, a wholly-owned subsidiary of Florida East Coast Industries, Inc., from 1999 until his retirement in 2007. From 1993 to 1998, Mr. McPherson served as Senior Vice President Operations, and from 1998 to 1999, he served as President and Chief Executive Officer of the Illinois Central Railroad. Prior to joining the Illinois Central Railroad, Mr. McPherson served in various capacities at Santa Fe Railroad for 25 years.

From 2012 to 2015, Mr. McPherson served on the board of directors of Las Vegas Railway Express, a start-up passenger railroad that plans to operate between Los Angeles and Las Vegas. From 1997 to 2007, Mr. McPherson served as a member of the board of directors of TTX Company, a railcar provider and freight car management services joint venture of North American railroads.

**Skills and Qualifications:**

As a result of his extensive career in the rail industry, Mr. McPherson serves as an expert in railroad operations.

**Other Public Directorships:**

None

**Table of Contents**

**David M. Moffett**

Independent Director Nominee

**Age:** 65

**Director since:** 2015

**CSX Committees:**

Audit (Chair) / Executive / Finance

**Biographical Information:**

**David M. Moffett** served as the Chief Executive Officer and a director of the Federal Home Loan Mortgage Corporation from September 2008 until his retirement in March 2009. He previously served as a Senior Advisor with The Carlyle Group LLC from May 2007 to September 2008, and as the Vice Chairman and Chief Financial Officer of U.S. Bancorp from 2001 to 2007, after its merger with Firststar Corporation where he served as Vice Chairman and Chief Financial Officer from 1998 to 2001. Mr. Moffett also served as Chief Financial Officer of StarBanc Corporation, a predecessor to Firststar Corporation, from 1993 to 1998.

Mr. Moffett currently serves as a trustee on the boards of Columbia Fund Series Trust I and Columbia Funds Variable Insurance Trust, overseeing approximately 52 funds within the Columbia Funds mutual fund complex. He also serves as a trustee for the University of Oklahoma Foundation. Mr. Moffett also has served as a consultant to Bridgewater and Associates.

From 2007 to 2015, Mr. Moffett served on the board of directors of eBay, Inc. From 2010 to 2016, Mr. Moffett served on the board of directors of CIT Group Inc.

**Skills and Qualifications:**

Mr. Moffett has many years of experience as a chief executive officer or chief financial officer of public financial services companies, as well as significant public policy experience.

**Other Public Directorships:**

PayPal Holdings, Inc.

Genworth Financial, Inc.

**Table of Contents**

**Dennis H. Reilley**

Independent Director Nominee

**Age:** 63

**Director since:** 2017

**CSX Committees:**

Audit / Executive / Finance / Governance (Chair)

**Biographical Information:**

**Dennis H. Reilley** is the retired Chairman, President and CEO of Praxair, Inc. Prior to joining Praxair in 2000, Mr. Reilley served as Executive Vice President and Chief Operating Officer of E.I. Dupont de Nemours and Company and its former energy subsidiary, Conoco Inc., from 1999 to 2000. Mr. Reilley has served as non-executive chairman of Marathon Oil Corporation since 2014 and has served as board member since 2002. He has also served as director of Dow Chemical Company since 2007. Mr. Reilley served as a director of Covidien PLC from 2007 to 2015 (as Chairman from 2007 to 2008 and as Lead Director from 2008 to 2013). Prior to his appointment to the CSX Board, Mr. Reilley was an advisory board member of Trian Advisory Partners, of which he was a founding member. Additionally, Mr. Reilley served as a director of H.J. Heinz Company from 2005 to 2013 and the Entergy Corporation from 1999 to 2005, as well as a former chairman of the American Chemistry Council.

**Skills and Qualifications:**

Drawing on his expertise in finance, operations and leadership on the boards of Fortune 500 companies, Mr. Reilley provides the Board valuable insight and exposure to different approaches to governance and other key issues.

**Other Public Directorships:**

Marathon Oil Corporation

Dow Chemical Company

**Table of Contents**

**Linda H. Riefler**

Independent Director Nominee

**Age:** 55

**Director since:** 2017

**CSX Committees:**

Audit / Compensation / Public Affairs

**Biographical Information:**

**Linda H. Riefler** served as the Chairman of Global Research at Morgan Stanley from 2011 to 2013, and prior to that as Global Head of Research since 2008. From 2006 to 2008 she served as the Chief Talent Officer of Morgan Stanley. While at Morgan Stanley in these roles, she served on both the Management Committee for seven years and the Operating Committee for two years. Ms. Riefler joined Morgan Stanley in 1987 in the Capital Markets division and was elected a managing director in 1998, while in the research division.

**Skills and Qualifications:**

Ms. Riefler draws on her experience at Morgan Stanley to provide the Board perspective on internal growth strategies, risk and external growth strategies, debt and equity financings and capital market allocations.

**Other Public Directorships:**

MSCI, Inc.

**Table of Contents**

**J. Steven Whisler**

Independent Director Nominee

**Age:** 62

**Director since:** 2011

**CSX Committees:**

Audit / Finance

**Biographical Information:**

**J. Steven Whisler** is the retired Chairman and Chief Executive Officer of Phelps Dodge Corporation, a mining and manufacturing company, where he served in many roles from 1981 until his retirement in 2007. During his tenure at Phelps Dodge Corporation, Mr. Whisler was instrumental in the implementation of its Zero and Beyond safety program designed to eliminate workplace injuries and its Quest for Zero process-improvement program designed to, among other things, eliminate environmental waste while enhancing product quality.

Mr. Whisler also served as director of US Airways Group, Inc. from 2005 until 2011, and Burlington Northern Santa Fe from 1995 until its acquisition by Berkshire Hathaway in 2010.

**Skills and Qualifications:**

Through his prior tenure on the Burlington Northern Santa Fe board of directors and as a former executive in the mining industry, Mr. Whisler brings to the Board invaluable safety program experience, railroad knowledge and familiarity with certain key markets.

**Other Public Directorships:**

Brunswick Corporation  
International Paper Co.

**Table of Contents**

**John J. Zillmer**

Independent Director Nominee

**Age:** 61

**Director since:** 2017

**CSX Committees:**

Compensation (Chair) / Executive / Governance / Public Affairs

**Biographical Information:**

**John J. Zillmer** is the former executive chairman, president and chief executive officer of Univar Inc., a Fortune 500 company, where he also served as a director from 2009 to 2012. Prior to joining Univar, Mr. Zillmer served as chairman and chief executive officer of Allied Waste Industries, Inc. from 2005 to 2008, leading an operational transformation which has become an industry benchmark. He currently serves as a director of Reynolds American, Inc., Ecolab, Inc., Veritiv Corporation and Performance Food Group Company. Mr. Zillmer has also served as a director of Liberty Capital Partners, a private equity and venture capital firm specializing in start-ups, early stage, growth equity, buyouts and acquisitions, since June 2004. Mr. Zillmer also serves on the North American advisory board of CVC Capital Partners.

**Skills and Qualifications:**

Mr. Zillmer provides the Board valuable insight on business optimization and improvement, in addition to labor relations, environmental safety, logistics, corporate governance and talent management.

**Other Public Directorships:**

Reynolds American, Inc.

Ecolab, Inc.

Veritiv Corporation

Performance Food Group Company

**Table of Contents**

**What are the directors' qualifications to serve on the CSX Board of Directors?**

The table below highlights the qualifications and experience of each nominee that resulted in the Board's determination that each nominee is uniquely qualified to serve on the Board.

**Director Qualifications and Experience**

**BUSINESS OPERATIONS** gives directors a practical understanding of developing, implementing and assessing the Company's operating plan and business strategy.

**CORPORATE GOVERNANCE** experience supports Board and management accountability, transparency and protection of shareholder interests.

**FINANCE / CAPITAL ALLOCATION** experience is important in evaluating the Company's capital structure.

**FINANCIAL EXPERTISE / LITERACY** is important because it assists directors with their oversight of financial reporting and internal controls.

**GOVERNMENT / PUBLIC POLICY** experience is important in understanding the regulatory environment in which the Company operates.

**RISK MANAGEMENT** experience is critical to the Board's risk oversight role.

**MARKETING / SALES** experience is important to understanding the Company's business strategies in developing new markets.

**TALENT MANAGEMENT** experience is valuable in helping the Company attract, motivate and retain high performing employees, including succession planning efforts.

**TRANSPORTATION INDUSTRY** experience is important to understanding the dynamics within the freight transportation sector.

**What if a nominee is unable to serve as director?**

If any of the nominees named above is not available to serve as a director at the time of the Annual Meeting (an event which the Board does not now anticipate), the proxies will be voted for the election of such other person or persons as the Board may designate, unless the Board, in its discretion (but subject to the terms of the MR Agreement), reduces the number of directors. Furthermore, if Ms. Riefler or Messrs. Harrison, Hilal, Reilley or Zillmer are not available to serve as a director at the time of the Annual Meeting, proxies will be voted for the election of such other person or persons designated by Mantle Ridge pursuant to the MR Agreement, subject to the terms thereof.



## **Table of Contents**

### Director Independence

The Board annually evaluates the independence of each of its directors and, acting through its Governance Committee, the performance of each of its directors. In evaluating the independence of each of its directors, the Board considers the Nasdaq Global Select Market ( Nasdaq ) listing standards and reviews transactions or relationships, if any, between each director, director nominee or his or her immediate family and the Company or its subsidiaries. The purpose of this review is to determine whether any such relationships or transactions would interfere with the exercise of independent judgment by the director or director nominee in carrying out his or her responsibilities as a director, and thus, be inconsistent with a determination that the director or director nominee is independent.

In March 2017, after considering Nasdaq listing standards, the Board determined that the following directors are independent under the Nasdaq listing standards: Donna M. Alvarado, John B. Breaux, Pamela L. Carter, Steven T. Halverson, Edward J. Kelly, III, John D. McPherson, David M. Moffett, Dennis H. Reilley, Linda H. Riefler, J. Steven Whisler and John J. Zillmer. The Board also determined that David M. Ratcliffe and Donald J. Shepard, neither of whom is standing for re-election at the Annual Meeting, are independent under the Nasdaq listing standards.

### Principles of Corporate Governance

The Board is committed to corporate governance principles and practices that facilitate the fulfillment of its fiduciary duties to shareholders and to the Company. The Board has adopted Corporate Governance Guidelines that reflect the high standards that employees, investors, customers, suppliers and others can and should expect. Key corporate governance principles observed by the Board and the Company include:

nomination of a slate of directors for election to the Board, a substantial majority of which are independent, as that term is defined in the Nasdaq listing standards;

establishment of qualification guidelines for director candidates and review of each director's performance and continuing qualifications for Board membership;

the requirement that the Audit Committee be comprised solely of independent directors;

the requirement that the Governance and Compensation Committees be comprised solely of independent directors, unless the Board, in exceptional and limited circumstances, determines that electing one director who does not meet the independence requirements to serve on either such committee is required by the best interests of CSX and its shareholders;

authority for the Governance, Compensation and Audit Committees to retain outside, independent advisors and consultants when appropriate;

adoption of a Code of Ethics, which meets applicable rules and regulations and covers all directors, officers and employees of CSX;

adoption of a Policy Regarding Shareholder Rights Plans, establishing parameters around the adoption of any future shareholder rights plan, including the expiration of any such plan within one year of adoption if the plan does not receive shareholder approval or ratification;

adoption of a Policy Regarding Shareholder Approval of Severance Agreements, requiring shareholder approval of certain future severance agreements with senior executives that provide benefits in an amount exceeding a threshold set forth in the policy;

a majority voting standard with a director resignation policy in an uncontested election; and

adoption of proxy access bylaw.

CSX's Corporate Governance Guidelines and Code of Ethics are available on the Company's website at <http://investors.csx.com> under the heading "Corporate Governance." Shareholders may also request a free copy of any of these documents by writing to CSX

## Edgar Filing: CSX CORP - Form PRE 14A

Corporation, Office of the Corporate Secretary, 500 Water Street, C160, Jacksonville, Florida 32202. Any waivers of or changes to the Code of Ethics that apply to our directors or executive officers will be disclosed on CSX's website at <http://www.csx.com>. There were no waivers to the Code of Ethics in 2016.

Shareholders who wish to communicate with the Board, or with a particular director, may forward appropriate correspondence to CSX Corporation, Office of the Corporate Secretary, 500 Water Street, C160, Jacksonville, Florida 32202. Pursuant to procedures established by the non-management directors of the Board, the Office of the Corporate Secretary will forward appropriate correspondence to the Board or a particular director. Appropriate correspondence generally includes any legitimate, non-harassing inquiries or statements. Interested parties who wish to communicate with the Chairman of the Board or non-management directors may forward correspondence to CSX Corporation, the Chairman of the Board, CSX Board of Directors, 500 Water Street, C160, Jacksonville, Florida 32202.

**Table of Contents**

**Board of Directors Role in Risk Oversight**

Pursuant to its charter, the Audit Committee of the Board has primary responsibility for overseeing the Company’s business risk management ( BRM ) processes. In addition to regular risk presentations to the Audit Committee, management periodically reports to the Board and its other committees on current risks and the Company’s approach to avoiding and mitigating risk exposure.

The BRM process at CSX includes activities related to the identification, assessment, mitigation and monitoring of risks. The CSX risk universe is divided into the following broad risk categories:

**Compliance** Risks directly impacting CSX’s ability to meet or comply with state, federal or local rules and regulations (*e.g.*, environmental law and regulation);

**Strategic** Risks (and opportunities) directly impacting CSX’s ability to achieve or exceed its stated longer term strategic objectives (*e.g.*, market demand shifts); and

**External** Risks arising from events outside CSX and beyond the Company’s direct influence or control (*e.g.*, economic downturn).

The objective of the BRM process is to facilitate timely identification and review of new and existing risks along with overseeing the development and execution of mitigation plans. A well-established risk management structure is leveraged to govern the program.

**BRM Oversight Structure**



Risks are prioritized based on their inherent and residual impacts on the Company. On an ongoing basis, risks are evaluated to track the status of key mitigation activities along with the trends of key indicators. Ultimately, the BRM process provides an opportunity for business and functional leadership to collaborate on the key Company risks and identify needed mitigation steps to help advance the Company’s objectives.

**Board of Directors Role in Succession Planning**

The Board is responsible for succession planning for the Board, as well as senior management. In addition to routine succession planning efforts by the Board and the Governance Committee throughout the year, the full Board engages in a comprehensive management succession planning exercise at its annual strategy conference where it analyzes potential succession candidates across all senior management positions. Although the Board focuses on the senior executive team and CEO succession, directors also discuss the pipeline for other key roles in the Company. As part of this exercise, the Board reviews skills, competencies and readiness levels of succession candidates and recommends development plans to ensure that management succession candidates are adequately prepared for planned transitions.

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As part of its succession planning efforts for potential director nominees, the Board considers, among other factors, diversity of backgrounds and experience, the tenure and skill sets of existing directors and expertise in areas of strategic focus.

In connection with the Board's succession planning, on February 21, 2017 the Company announced the retirements of Michael Ward, as CEO of the Company and Clarence Gooden, as President of the Company. Mr. Ward was succeeded as CEO by Mr. Harrison, effective March 6, 2017, and Mr. Gooden was succeeded as President by Fredrik Eliasson, effective February 15, 2017.

## **Table of Contents**

The Board believes that the thirteen director nominees standing for election at this year's Annual Meeting possess a diverse breadth of experience that will bolster management's positioning of CSX to respond to volatile macroeconomic conditions and challenges facing CSX and the rail industry.

## **Transactions with Related Persons and Other Matters**

CSX operates under a Code of Ethics that requires all employees, officers and directors, without exception, to avoid engaging in activities or relationships that conflict, or would be perceived to conflict, with the Company's interests or adversely affect its reputation. It is understood, however, that certain relationships or transactions may arise that would be deemed acceptable and appropriate upon full disclosure of the transaction, following review to ensure there is a legitimate business reason for the transaction and that the terms of the transaction are no less favorable to CSX than could be obtained from an unrelated person. The Audit Committee is responsible for review and oversight of all transactions with related persons. CSX has not adopted written procedures for reviewing Related Person Transactions, but generally follows the procedures described below.

A Related Person Transaction is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which: (i) CSX (including any of its subsidiaries) was, is or will be a participant; (ii) the amount involved exceeds \$120,000 in any fiscal year; and (iii) any Related Person had, has or will have a direct or indirect material interest (other than solely as a result of being a director or a less than 10% beneficial owner of another entity).

CSX considers a Related Person to be: (i) any person who is, or at any time since the beginning of the last fiscal year was, a director or executive officer or a nominee to become a director; (ii) any person who is known to be the beneficial owner of more than 5% of any class of CSX's voting securities; (iii) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and (iv) any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

On an annual basis, in response to the Directors and Officers Questionnaire ( Questionnaire ) and a Related Person Transaction survey ( Survey ), each director, director nominee and executive officer submits to the Corporate Secretary a description of any current or proposed Related Person Transactions. Directors and executive officers are expected to notify the Corporate Secretary of any updates to the list of Related Person Transactions during the year. If Related Person Transactions are identified, those transactions are reviewed by the Audit Committee.

The Audit Committee will evaluate Related Person Transactions based on:

information provided by the Board during the required annual affirmation of independence;

applicable responses to the Questionnaires and Survey submitted to the Company; and

any other applicable information provided by any director or executive officer of the Company, or obtained through internal database queries.

In connection with the review of any Related Person Transaction, the Audit Committee will consider whether the transaction will be a conflict of interest or give the appearance of a conflict of interest. In the case of any Related Person Transaction involving an outside director or nominee for director, the Audit Committee will also consider whether the transaction will compromise the director's status as an independent director as prescribed in the Nasdaq listing standards.

There were no Related Person Transactions in 2016. On March 6, 2017, the Company entered into the MR Agreement with Mantle Ridge Group regarding, among other things, the membership and composition of the Board and the appointment of Mr. Harrison as CEO of the Company. Mr. Hilal is the managing member of Mantle Ridge GP LLC, which is the general partner of Mantle Ridge LP, which is the sole member of Mantle Ridge. The MR Agreement is described in detail under "Mantle Ridge and E. Hunter Harrison Agreements" below. On March 30, 2017, the Company and the Mantle Ridge Group entered into a registration rights agreement (the Registration Rights Agreement ). The Registration Rights Agreement was contemplated by the MR Agreement. Pursuant to the Registration Rights Agreement, the Mantle Ridge Group shareholders may request that the Company file a registration statement

to register the sale of shares of CSX common stock that the Mantle Ridge Group shareholders beneficially own, subject to the limitations and conditions provided in the Registration Rights Agreement. The Registration Rights Agreement is more fully described in, and is attached as an exhibit to, the Company's Current Report on Form 8-K filed on April 3, 2017 with the SEC.

#### Involvement in Certain Legal Proceedings

Mr. Harrison was a director of Dynegy from March 9 to December 16, 2011 (Chairman from July 11 to December 16, 2011), as well as Interim President and Chief Executive Officer from April 9 to July 11, 2011. On July 6, 2012, Dynegy filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code as a preliminary step necessary to facilitate the restructuring of one or more of Dynegy's subsidiaries. Dynegy exited bankruptcy on October 1, 2012.

#### Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is an executive officer or former executive officer of the Company. In addition, no executive officer of the Company served on the board of directors of any entity whose executive officers included a director of the Company.

**Table of Contents****Board Leadership and Committee Structure**

On March 6, 2017, CSX separated the roles of Chairman and CEO. The Board believes that at this time, and based on the Company's current circumstances, the positions of Chairman and CEO should be separate, with the Chairman of the Board role being filled by an independent director. As the Chairman will be an independent director, the Presiding Director role has been eliminated as of March 6, 2017. Mr. Kelly, who previously served as Presiding Director, currently serves as the Chairman of the Board. The duties of the Chairman include: (i) calling special meetings of the Board, (ii) presiding at all meetings of the Board and shareholders, (iii) in consultation with the Vice Chairman of the Board, determining the agenda, schedule and meeting materials for meetings of the Board, (iv) guiding Board discussions and facilitating discussions between the Board and the Company's management, (v) interacting with the Company's analysts, investors, employees and other key constituencies and (vi) keeping the Vice Chairman informed, and consulting with the Vice Chairman, as to material internal and external discussions the Chairman has, and material developments the Chairman learns, about the Company and the Board.

On March 6, 2017, CSX also created the role of Vice Chairman of the Board to consult with, advise and assist the Chairman of the Board in the performance of the duties of the Chairman. Mr. Hilal currently serves as the Vice Chairman of the Board. The duties of the Vice Chairman include: (i) providing input on the agenda, schedules and meeting materials for meetings of the Board, (ii) assisting in guiding Board discussions and facilitating communication between the Board and the Company's management, (iii) interacting with the Company's analysts, investors, employees and other key constituencies, (iv) performing the duties of Chairman in the absence or at the request of the Chairman and (v) keeping the Chairman informed, and consulting with the Chairman, as to material internal and external discussions the Vice Chairman has, and material developments the Vice Chairman learns, about the Company and the Board.

The CSX Board has six standing committees: the Audit Committee, the Compensation Committee, the Executive Committee, the Finance Committee, the Governance Committee and the Public Affairs Committee. Each of these committees has a written charter approved by the Board, a copy of which can be found on the Company's website at <http://investors.csx.com> under the heading Corporate Governance. As of the Record Date, the composition of the committees of the Board was as follows:

<b>Director</b>	Audit	Compensation	Executive	Finance	Governance	Public Affairs
Donna M. Alvarado						
John B. Breaux						
Pamela L. Carter						
Steven T. Halverson						
E. Hunter Harrison						
Paul C. Hilal						
Edward J. Kelly, III						
John D. McPherson						
David M. Moffett						
David M. Ratcliffe <sup>(1)</sup>						
Dennis H. Reilley						
Linda H. Riefler						
Donald J. Shepard <sup>(1)</sup>						
J. Steven Whisler						
John J. Zillmer						

*(1) Messrs. Ratcliffe and Shepard are not standing for re-election at the Annual Meeting.*





**Table of Contents****Executive Committee****Meetings in 2016:** 0**Committee Members:**

John B. Breaux  
 Pamela L. Carter  
 Paul C. Hilal  
 Edward J. Kelly, III  
 David M. Moffett  
 Dennis H. Reilley  
 John J. Zillmer

**Committee Chair:** E. Hunter Harrison**Independent Members:** 6

The Executive Committee meets for the purpose of acting on behalf of the full Board between regularly scheduled meetings of the Board when time is of the essence. The Executive Committee has and may exercise all the authority of the Board, except as may be prohibited by Section 13.1-689 of the Virginia Stock Corporation Act, as it may from time to time be amended. Pursuant to the Executive Committee charter, a notice of a meeting of the Executive Committee is required to be provided to all Board members. The Executive Committee has eight members, consisting of the CEO, Chairman of the Board, Vice Chairman and the chairs of each of the five other standing committees. Messrs. Harrison, Hilal, Reilley and Zillmer joined the Executive Committee in March 2017.

**Audit Committee****Meetings in 2016:** 8**Committee Members:**

Donna M. Alvarado  
 Steven T. Halverson  
 Dennis H. Reilley  
 Linda H. Riefler  
 Donald J. Shepard  
 J. Steven Whisler

**Committee Chair:** David M. Moffett**Independent Members:** 7

The primary functions of the Audit Committee include oversight of: (i) the integrity of the Company's financial statements and accounting methodology; (ii) the Company's compliance with legal and regulatory requirements; (iii) the Independent Auditors' qualifications and independence; (iv) the Company's risk management processes; (v) the performance of the Independent Auditors; and (vi) the Company's internal audit function.

The Audit Committee recommends the appointment of the Independent Auditors and the Board approves the selection. This appointment is then submitted to shareholders for ratification. The Audit Committee also approves compensation of the Company's Independent Auditors, reviews the scope and methodology of the Independent Auditors' proposed audits, reviews the Company's financial statements, and monitors the Company's internal control over financial reporting by, among other things, discussing certain aspects thereof with the Independent Auditors and management. The Audit Committee is responsible for the approval of all services performed by the Independent Auditors. Finally, the Committee maintains procedures for the receipt and treatment of complaints regarding the Company's accounting, internal accounting controls or auditing matters.

The Audit Committee has seven members, each of whom the Board has determined to be independent pursuant to the independence standards promulgated by Nasdaq and the SEC. Mr. Reilley and Ms. Riefler joined the Audit Committee in March 2017; Mr. Shepard is not standing for re-election at the Annual Meeting.

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The Board has determined that all members of the Audit Committee are financially literate and Messrs. Moffett, Shepard and Whisler are audit committee financial experts, as that term is defined by SEC rules and regulations. Please refer to the Report of the Audit Committee below for additional information.

**Table of Contents**

**Compensation Committee**

**Meetings in 2016:** 6

**Committee Members:**

Donna M. Alvarado  
 Steven T. Halverson  
 Paul C. Hilal  
 Edward J. Kelly, III  
 Linda H. Riefler  
 Donald J. Shepard

**Committee Chair:**

John J. Zillmer

**Independent Members:**

6

The primary functions of the Compensation Committee are to: (i) establish the Company's philosophy with respect to executive compensation and benefits; (ii) review the Company's compensation practices and policies, benefit plans and perquisites applicable to all employees and executives to ensure consistency with the Company's compensation philosophy; (iii) assure that the Company's benefit plans, practices, programs and policies maintained for employees and directors comply with all applicable laws; (iv) in consultation with the Board, review and approve corporate goals and objectives relevant to compensation and benefits for the CEO, and evaluate the CEO's performance in light of those goals and objectives, and as directed by the Board, set the level of compensation of the CEO based on such evaluation; (v) review and recommend approval of management compensation and Company compensation plans, including benefits for key employees as determined by the Committee from time to time; (vi) establish performance objectives for certain executives, and certify the attainment of those objectives in connection with the payment of performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code (Section 162(m)); and (vii) review the Compensation Discussion and Analysis (CD&A) section of this Proxy Statement and, as appropriate, recommend to the Board for approval the inclusion of the CD&A section in the Company's Annual Report on Form 10-K and Proxy Statement. In addition, the Committee monitors the administration of certain executive and management compensation and benefit programs.

The Compensation Committee has seven members, six of whom are: (i) outside directors within the meaning of regulations promulgated pursuant to Section 162(m); (ii) non-employee directors within the meaning of Rule 16b-3 of Securities and Exchange Act of 1934; and (iii) independent pursuant to the independence standards promulgated by Nasdaq. Mr. Hilal is not an independent director due to his relationship with Mr. Harrison. As permitted by Nasdaq (under Nasdaq Stock Market Rule 5605), Mr. Hilal has been appointed to the Compensation Committee, to serve for no longer than two years, in limited and exceptional circumstances due to Mr. Hilal's qualifications, including his experience in the railroad industry and analyzing company performance, and his long-standing relationship with Mr. Harrison. As a result of these qualifications, the Board has determined Mr. Hilal's appointment to the Compensation Committee is in the best interest of CSX and its shareholders. Furthermore, Mr. Hilal will recuse himself from any compensation decisions related to Mr. Harrison. Messrs. Hilal and Zillmer and Ms. Riefler joined the Compensation Committee in March 2017; Mr. Shepard is not standing for re-election at the Annual Meeting.

No member of the Compensation Committee was an officer or employee of CSX during 2016. No member of the Compensation Committee is a former officer of CSX. During 2016, none of our executive officers served as a member of a board of directors or compensation committee of any entity that has one or more executive officers who serve on our Board of Directors or the Compensation Committee.

**Table of Contents**

**Finance Committee**

**Meetings in 2016:** 5

**Committee Members:**

Paul C. Hilal  
 John D. McPherson  
 David M. Moffett  
 David M. Ratcliffe  
 Dennis H. Reilley  
 J. Steven Whisler

**Committee Chair:**

Pamela L. Carter

**Independent Members:**

6

The Finance Committee provides general oversight and review of financial matters affecting the Company, including the monitoring of corporate debt, cash flow and the assets and liabilities maintained by the Company and its affiliates in conjunction with employee benefit plans, including monitoring the funding and investment policies and performances of the assets. In addition, the Committee reviews and recommends policies and practices related to dividends and share repurchases programs. Messrs. Hilal and Reilley joined the Finance Committee in March 2017; Mr. Ratcliffe is not standing for re-election at the Annual Meeting.

**Governance Committee**

**Meetings in 2016:** 5

**Committee Members:**

John B. Breaux  
 Pamela L. Carter  
 Paul C. Hilal  
 Edward J. Kelly, III  
 John J. Zillmer

**Committee Chair:**

Dennis H. Reilley

**Independent Members:**

5

The Governance Committee of the Board identifies individuals qualified to become Board members and recommends candidates for election to the Board. In identifying and recommending director nominees, the Governance Committee uses criteria established by the Board with respect to qualifications for nominations to the Board and for continued membership on the Board. In considering potential director candidates, the Committee considers whether the individual has demonstrated leadership ability, integrity, values and judgment. The Governance Committee seeks to maintain a Board with a broad diversity of experience in business matters and the ability to assess and evaluate the role and policies of the Company in the face of changing economic conditions, regulatory environment and customer expectations.

The Governance Committee generally identifies nominees for directors through its director succession planning process. The Committee will also consider persons recommended by shareholders of the Company in selecting director nominees. Potential nominees suggested by shareholders will be evaluated by the Committee on the same basis as individuals identified directly by the Committee or from other sources. For more information on the director nominees, see Item 1: Election of Directors.

The Committee develops, recommends and monitors corporate governance principles and conducts regular evaluations of director performance and of the effectiveness of the Board as a working group. In addition, the Committee reviews and recommends changes to Board committee structure and director compensation.

Five of the six members of the Governance Committee are independent directors pursuant to the independence standards promulgated by Nasdaq. Mr. Hilal is not an independent director due to his relationship with Mr. Harrison. As permitted by Nasdaq

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(under Nasdaq Stock Market Rule 5605), Mr. Hilal has been appointed to the Governance Committee, to serve for no longer than two years, in limited and exceptional circumstances due to Mr. Hilal's qualifications, including his experience in the railroad industry and analyzing company performance, and his long-standing relationship with Mr. Harrison. As a result of these qualifications, the Board has determined Mr. Hilal's appointment to the Governance Committee is in the best interest of CSX and its shareholders. Messrs. Hilal, Reilley and Zillmer joined the Governance Committee in March 2017.

**Table of Contents****Public Affairs Committee****Meetings in 2016:** 5**Committee Members:**Donna M. Alvarado  
John D. McPherson  
David M. Ratcliffe  
Linda H. Riefler  
John J. Zillmer**Committee Chair:**

John B. Breaux

**Independent Members:** 6

The Public Affairs Committee reviews significant legal, legislative and regulatory initiatives and rulemaking by federal, state, local and foreign government authorities, as well as other public issues of significance that affect the Company and its shareholders. The Committee also reviews key issues, assumptions, risks and opportunities that relate to the development and implementation of the Company's operations and safety initiatives. Additionally, the Committee provides oversight of the Company's compliance with legal requirements and internal policies relating to equal employment, diversity in the workplace, employee safety and environmental protection. Ms. Riefler and Messrs. Zillmer and Harrison joined the Public Affairs Committee in March 2017; Mr. Ratcliffe is not standing for re-election at the Annual Meeting.

**Meetings of the Board and Executive Sessions**

During 2016, there were eight meetings of the Board. Each of the directors then serving attended at least 85% of the meetings of the Board and the committees on which he or she served. The non-management directors met alone in executive session at each regular Board meeting. These executive sessions were chaired by the Presiding Director. In accordance with the CSX Corporate Governance Guidelines, the independent directors (when different than non-management directors) meet in executive session at least once a year. While the Company does not have a formal policy regarding director attendance at annual shareholder meetings, the Company strongly encourages directors to attend absent an emergency. All directors then in office attended the 2016 Annual Meeting.

**Director Compensation**

The Board periodically, but at least once every three years, reviews and sets the compensation for non-management directors based on the recommendation of the Governance Committee. Director compensation includes both cash and stock-based components. In recommending the amount and form of director compensation, the Committee considers, among other factors, the level of compensation necessary to attract and retain qualified, independent directors.

For 2016, the Board approved an annual retainer of \$90,000, which was payable in cash unless the director chose to receive his or her fee in the form of CSX common stock. The Board also approved: (i) an additional \$30,000 retainer for the Presiding Director, (ii) an additional \$10,000 for the chair of each Board committee other than the Audit and Compensation Committees; (iii) an additional \$20,000 for the Chair of the Audit Committee; (iv) an additional \$5,000 for each member of the Audit Committee; and (v) an additional \$15,000 for the Chair of the Compensation Committee. At the February 2016 Board meeting, each non-employee director also received an annual grant of common stock in the amount of \$150,000 with the number of shares based on the average closing price of CSX stock in the months of November 2015, December 2015 and January 2016.

**Table of Contents**

Each non-employee director was eligible to defer all or a portion of his or her director's fees in 2016, including cash and stock compensation, under the CSX Directors' Deferred Compensation Plan (the Directors' Plan). Cash deferrals are credited to an unfunded account and invested in various investment choices or deferred as shares of CSX common stock. The investment choices parallel the investment options offered to employees under CSX's 401(k) plan. Stock deferrals are automatically held as outstanding shares in a rabbi trust, with dividends credited in the form of shares.

Non-employee directors also are eligible to receive other compensation and benefits as discussed below. The CEO does not receive compensation for his services as a director.

**2016 Directors' Compensation Table**

The following table summarizes the compensation of each of the non-employee directors in 2016.

<b>Name</b>	<b>Fees Earned or Paid in Cash<sup>(1)</sup></b>	<b>Stock Awards<sup>(2)</sup></b>	<b>Option Awards<sup>(3)</sup></b>	<b>Non-Equity Incentive Plan Compensation Earnings</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation</b>	<b>All Other Compensation<sup>(4)</sup></b>	<b>Total<sup>(5)</sup></b>
Donna M. Alvarado	\$95,000	\$140,412				\$1,321	\$236,733
John B. Breaux	\$100,000	\$140,412				\$18,821	\$259,233
Pamela L. Carter	\$90,000	\$140,412				\$26,321	\$256,733
Steven T. Halverson	\$110,000	\$140,412				\$51,321	\$301,733
Edward J. Kelly, III	\$130,000	\$140,412				\$51,321	\$321,733
John D. McPherson	\$90,000	\$140,412				\$41,321	\$271,733
David M. Moffett	\$95,000	\$140,412				\$51,321	\$286,733
Timothy T. O Toole <sup>(6)</sup>	\$90,000	\$140,412				\$6,321	\$236,733
David M. Ratcliffe <sup>(6)</sup>	\$100,000	\$140,412				\$51,321	\$291,733
Donald J. Shepard <sup>(6)</sup>	\$110,000	\$140,412				\$51,321	\$301,733
J. Steven Whisler	\$95,000	\$140,412				\$21,321	\$256,733

(1) *Fees Earned or Paid in Cash* Includes a cash retainer of \$90,000 and any Committee Chair, Audit Committee or Presiding Director fees earned in 2016. Messrs. Breaux, McPherson, O Toole, Ratcliffe and Shepard elected to defer 100% of their cash retainers and fees in the form of stock into the Directors' Plan. Ms. Alvarado elected to defer 100% of her cash retainer and fees as cash into the Directors' Plan.

(2) *Stock Awards* Amounts disclosed in this column are based on the February 10, 2016 grant date fair value of the annual stock grant to directors calculated in accordance with FASB ASC Topic 718 (Topic 718). The number of shares granted is based on an award value of \$150,000 divided by the average closing price of CSX stock in the months of November 2015, December 2015 and January 2016. All such stock awards to directors vested immediately upon grant.

(3) *Option Awards* As of December 30, 2016, there were no stock options outstanding for directors.

(4) *All Other Compensation* Includes excess liability insurance and Company matches under the Directors' Matching Gift Program. The only perquisites to exceed \$10,000 for any director were Company matches under the Directors' Matching Gift Program, which included matches in the following amounts: \$50,000 for each of Messrs. Halverson, Kelly, Moffett, Ratcliffe and Shepard, \$40,000 for Mr. McPherson, \$25,000 for Ms. Carter, \$20,000 for Mr. Whisler, \$17,500 for Senator Breaux and \$5,000 for Mr. O Toole.

(5) *Total* The differences in the amounts in this column are largely attributable to fees for committee Chairs, for service on the Audit Committee or as then-Presiding Director and the Company match on charitable contributions under the Directors' Matching Gift Program.

(6) *Mr. O Toole resigned from the Board on March 6, 2017. Messrs. Ratcliffe and Shepard are not standing for re-election at the Annual Meeting.*

## **Table of Contents**

### Charitable Gift Plan

Directors elected before 2004 are eligible to participate in the CSX Directors' Charitable Gift Plan (the "Charitable Plan"). Under the Charitable Plan, if a director serves for five consecutive years, CSX will make contributions totaling \$1 million on his or her behalf to charitable institutions designated by the director. Contributions to designated charities are made in installments, with \$100,000 payable upon the director's retirement and the balance payable in installments of \$100,000 per year, starting at the time of the director's death. In 2016, only four directors were eligible to participate in the Charitable Plan.

### Matching Gift Program and Other Benefits

Non-management directors may participate in the CSX Directors' Matching Gift Program, which is considered an important part of CSX's philanthropy and community involvement. CSX will match director contributions to organizations that qualify for support under Company guidelines, up to a maximum annual CSX contribution of \$50,000 per non-employee director per year. During 2016, 17 philanthropic organizations in areas served by the Company collectively received \$357,500 under the Directors' Matching Gift Program.

In addition, CSX makes available to non-employee directors personal excess liability insurance at no expense to the directors. During 2016, the excess liability insurance premium, which is reflected in the "All Other Compensation" column of the Directors Compensation Table, was approximately \$1,300 for each participating non-employee director.

### Stock Ownership Guidelines

The Board has adopted Stock Ownership Guidelines to better align the interests of non-employee directors with the interests of shareholders. These guidelines require that all non-employee directors own shares of CSX common stock. Within five years of election to the Board, a non-employee director is expected to acquire and hold an amount of CSX common stock equal in value to five times the amount of such non-employee director's annual cash retainer. If the annual cash retainer increases, the non-employee directors will have five years from the time of the increase to acquire any additional shares needed to satisfy the guidelines. Further information on the Stock Ownership Guidelines is available on CSX's website at <http://investors.csx.com> under the heading "Corporate Governance."



**Table of Contents**

**Item 2: Ratification of Independent Registered Public Accounting Firm**

**Ratification of Independent Registered Public Accounting Firm**

The Board unanimously recommends that the shareholders vote **FOR** this proposal.

The Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the Independent Auditors retained to audit the Company's financial statements. Pursuant to this responsibility, the Audit Committee engages in a comprehensive annual evaluation of the Independent Auditors' qualifications, performance and independence. Additionally, the Audit Committee periodically considers whether there should be a rotation of the Independent Auditors. Furthermore, in conjunction with the mandated rotation of the Independent Auditors' lead engagement partner, the Audit Committee and its chair were directly involved in the selection of the Independent Auditors' lead engagement partner.

The Audit Committee has selected and appointed Ernst & Young LLP ( EY ) as the Company's Independent Auditors to audit and report on CSX's financial statements for the fiscal year ending December 29, 2017. EY or its predecessors have continuously served as the Company's Independent Auditors since 1981. The Audit Committee and the Board believe that the continued retention of EY as the Company's Independent Auditors is in the best interests of the Company and its shareholders.

Action by shareholders is not required by law in the appointment of independent accountants. If shareholders do not ratify this appointment, however, the appointment will be reconsidered by the Audit Committee and the Board.

EY has no direct or indirect financial interest in CSX or in any of its subsidiaries, nor has it had any connection with CSX or any of its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee. Representatives of EY will be present at the Annual Meeting and will be afforded an opportunity to make a statement if they desire to do so. It also is expected they will be available to respond to appropriate questions.

**Table of Contents**

**Fees Paid to Independent Registered Public Accounting Firm**

EY served as the Independent Auditors for the Company in 2016. The Audit Committee was responsible for the audit fee negotiations associated with the retention of EY. Fees paid to EY were as follows:

	2016	2015
<b>Audit Fees:</b>		
Includes fees associated with the integrated audit, testing internal controls over financial reporting (SOX 404), the reviews of the Company's quarterly reports on Form 10-Q, statutory audits and other attestation services related to regulatory filings.	\$2,740,000	\$2,808,000
<b>Audit Related Fees:</b>		
Includes audits of employee benefit plans and subsidiary audits.	\$277,000	\$336,000
<b>Tax Fees:</b>		
Includes fees for tax compliance and tax advice and planning.		
<b>All Other Fees:</b>		
Includes fees for advisory services for non-audit projects. The Audit Committee has concluded that the services covered under the caption All Other Fees are compatible with maintaining EY's independent status.	\$77,000	\$34,000

**Pre-Approval Policies and Procedures**

The Audit Committee is responsible for the approval of all services performed by EY. The Chairman of the Audit Committee has the authority to approve all engagements that will cost less than \$250,000 and, in such cases, will report any pre-approvals to the full Audit Committee for ratification at its next scheduled meeting.

All engagements expected to cost \$250,000 or more require pre-approval of the full Audit Committee. In addition, it is Company policy that tax and other non-audit services should not equal or exceed base audit fees plus fees for audit-related services. In 2015 and 2016, all services performed by EY were pre-approved.

**Table of Contents****Report of the Audit Committee**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements, for establishing and maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited financial statements, including a discussion of the quality of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

During 2016, the Audit Committee was comprised solely of independent directors as defined by Nasdaq listing standards and Rule 10A-3 of the Securities Exchange Act of 1934. The members of the Audit Committee in 2016, together with appointment dates and meeting attendance, is set forth below:

<b>Members</b>	<b>Committee member since</b>	<b>Attendance at full meetings during 2016</b>
Donald J. Shepard, Chairman	December 2007	8/8
Donna M. Alvarado	August 2006	8/8
Steven T. Halverson	August 2006	8/8
David M. Moffett	May 2015	7/8
J. Steven Whisler	May 2011	8/8

The meetings of the Audit Committee are designed to facilitate and encourage communication among the Audit Committee, the Company, the Company's internal audit function and the Company's independent auditor. The Audit Committee discussed with the Company's internal auditors and independent auditor the overall scope and plans for their respective audits. The Audit Committee meets with the internal auditors and the independent auditor, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls over financial reporting and the overall quality of the Company's financial reporting.

Each year, the Audit Committee evaluates the qualifications, performance and independence of the Company's independent auditor, and determines whether to re-engage the current independent auditor. In doing so, the Audit Committee considers the quality and efficiency of the services provided by the auditors, the auditor's capabilities, technical expertise and knowledge of the Company's operations and industry. Based on this evaluation, the Audit Committee has retained EY as the Company's independent auditor for 2017. Although the Audit Committee has the sole authority to appoint the independent auditors, the Audit Committee will continue to recommend that the Board ask shareholders to ratify the appointment of the independent auditors at the Annual Meeting.

EY, the Company's independent registered public accounting firm for 2016, is responsible for expressing an opinion that: (i) the Company's consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with generally accepted accounting principles in the United States; and (ii) the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2016.

**Table of Contents**

In this context, the Audit Committee has:

- (i) reviewed and discussed with management, the audited financial statements for the year ended December 30, 2016;
- (ii) discussed with EY, the matters required to be discussed by Auditing Standard No. 1301, Communications with Audit Committee, as adopted by the Public Company Accounting Oversight Board (the PCAOB );
- (iii) received the written disclosures and the letter from EY as required by applicable requirements of the PCAOB regarding communications about Audit Committee independence and discussed EY's independence with them; and
- (iv) reviewed and discussed with management and EY, the results of management's assessment of the effectiveness of the Company's internal control over financial reporting and EY's audit of the Company's internal control over financial reporting. Based on its review and on the discussions described above, the Audit Committee has recommended to the Board, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2016.

**Members of the Audit Committee**

Donald J. Shepard, Chairman  
Donna M. Alvarado  
Steven T. Halverson  
David M. Moffett  
J. Steven Whisler

Jacksonville, Florida

February 7, 2017

## Table of Contents

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis ( CD&A ) describes and analyzes the principles of the Company 's executive compensation programs, how those principles are applied and how the Company 's compensation programs are designed to drive performance. This CD&A focuses on the compensation of the Named Executive Officers ( NEOs ) as of December 30, 2016.

Name	Title
Michael J. Ward <sup>(1)</sup>	Chairman of the Board and Chief Executive Officer ( CEO )
Clarence W. Gooden <sup>(1)</sup>	President
Frank A. Lonergo	Executive Vice President and Chief Financial Officer ( CFO )
Fredrik J. Eliasson <sup>(1)</sup>	Executive Vice President and Chief Sales and Marketing Officer
Cynthia M. Sanborn	Executive Vice President and Chief Operating Officer ( COO )

*On February 14, 2017, Mr. Gooden resigned as President of the Company and assumed the title of Vice Chairman, and Mr. Eliasson was appointed President and Chief Sales and Marketing Officer of the Company, effective February 15, 2017. On (1) March 6, 2017, (i) Mr. Ward resigned as Chairman and CEO, (ii) Mr. Gooden resigned as Vice Chairman and (iii) E. Hunter Harrison was appointed CEO, in each case, effective immediately. Mr. Ward and Mr. Gooden each assumed the title of consultant and will retire from the Company as of May 31, 2017.*

### Executive Overview

#### 2016 Business Highlights

In 2016, the Company experienced continued declines in coal volumes driven primarily by low natural gas prices with coal volumes declining 21% year-over-year. Additionally, freight volume declined overall as global economic markets responded to continued strength in the U.S. dollar. Below are notable business highlights for 2016.

Operating income and operating ratio of \$3.389 billion and 69.4%, respectively

Earnings per share of \$1.81

Achieved productivity of \$427 million

Achieved one-year share price appreciation of 38.5%

Repurchased approximately 38 million shares of CSX common stock

CSX remains committed to delivering value to shareholders through a balanced approach to deploying cash that includes investments in the business, dividend growth and share repurchases. In 2016, CSX returned approximately \$1.75 billion to its shareholders in the form of dividends and share repurchases. In 2016, the Company also invested \$2.7 billion to further enhance safety, service, capacity and flexibility of its transportation network.

**Table of Contents**

**Aligning Compensation Program with Leading Governance Practices**

The Compensation Committee of the Board (for purposes of the CD&A, the Committee) establishes compensation programs that incorporate leading governance principles. Highlighted below are certain executive compensation practices designed to drive performance and foster strong corporate governance.

**CSX Compensation Practices Include:**

- High percentage of executive compensation that is performance-based
- Performance measures that are highly correlated to shareholder value creation
- Engagement of an independent compensation consultant
- Significant share ownership requirements for officers and directors
- Change of control agreements requiring a double-trigger (i.e., change of control plus termination) for severance
- Clawbacks in short- and long-term incentive plans
- Inclusion of multiple financial measures in long-term incentive program

**CSX Compensation Practices Do NOT Include / Allow:**

- Dividends or dividend equivalents on unvested performance units
- Excise tax gross ups
- Re-pricing of underwater options without shareholder approval
- Recycling of shares withheld for taxes

**Aligning Executive Compensation with Company Performance**

The Committee's performance-based compensation philosophy is designed to attract, retain and motivate executives to deliver superior performance. The Committee structures the Company's executive compensation program to reward short- and long-term performance that creates value for shareholders. The compensation program is designed to provide an appropriate allocation between fixed and variable compensation while mitigating unnecessary or inappropriate risk. Each NEO's total compensation is heavily weighted towards performance-based awards with long-term incentive compensation comprising the majority of the target compensation.

**Long-Term Incentive Compensation.** A significant portion of our senior management's compensation is provided under performance-based long-term incentives (LTI). The 2014-2016, 2015-2017 and 2016-2018 long-term incentive plan (LTIP) cycles use Operating Ratio and Return on Assets (ROA) on an equally weighted basis to measure the Company's performance. Operating Ratio and ROA have demonstrated a high correlation to shareholder value over time. For the 2014-2016 cycle, CSX achieved a cumulative Operating Ratio of 69.7% and average ROA of 7.56%, which resulted in a payout of 34% of target. Additionally, since 2009, a portion of the LTI has been provided in the form of restricted stock units (RSUs) and, in 2016, CSX added non-qualified stock options to its long-term incentive portfolio to align with the incentive compensation practices of our peers as well as further support alignment with shareholders.

**Short-Term Incentive Compensation.** The Company utilizes Operating Income as the financial performance measure to determine annual incentive compensation. The annual incentive compensation program also incorporates various strategic measures. Based on 2016 Operating Income of \$3.389 billion and the Company's performance against strategic goals, the short-term incentive payout for 2016 was 143% of target.

**CEO's Total Compensation in 2016.** The Summary Compensation Table contains elements of compensation that were earned for the year, such as base salary and annual incentive compensation, as well as target long-term incentive compensation granted in 2016. It does not reflect the CEO's total actual or realized pay (Realized Pay) for the most recently completed fiscal year. The CEO's Realized Pay could be worth more or less than what is shown in the Summary Compensation Table depending on the Company's overall financial performance, the CEO's individual performance and share price.

## **Table of Contents**

For 2015 and 2016, the primary difference between the CEO's Realized Pay and compensation as reflected in the *Summary Compensation Table* for each year is the amount of the long-term incentive compensation. In 2015, the CEO earned a payout of 64% for the performance units portion of his LTI, and for 2016, the payout was 34% of target. In addition, an RSU award that was granted to Mr. Ward in 2013 for retention purposes vested in May 2016 with a value of \$1,655,641. For both 2015 and 2016, the *Summary Compensation Table* includes the fair market value of the target LTIP grants made each year, portions of which may or may not pay out, depending on Company performance. The chart below shows the CEO's Realized Pay for fiscal years 2015 and 2016.

Realized Pay for 2016 includes the following:

base salary of \$1.2 million paid during 2016;

RSUs that vested during 2016 in the amount of \$3.61 million (based on the Company's stock price on the vesting date);

performance units awarded pursuant to the 2014-2016 LTIP cycle in the amount of \$2.34 million (based on the Company's stock price on the vesting date); and

annual bonus of \$2.06 million earned for 2016.

The CEO's Realized Pay for 2016 was \$9.21 million compared to \$7.76 million in 2015. The change was driven primarily by the vesting of the special 2013 retention RSU grant and a higher short-term incentive payment in 2016, both of which were only slightly offset by the lower long-term incentive payout.

## **Executive Compensation Practices**

### **What is CSX's executive compensation philosophy?**

The Committee believes that a strong, dedicated and engaged executive leadership team is essential to driving performance and delivering shareholder value. Accordingly, the Committee has designed the executive compensation program to motivate and reward the executive leadership team and align their compensation with the short- and long-term performance of the Company. In designing the Company's compensation program, the Committee considers shareholder input through the annual say-on-pay vote, and believes that the positive 2016 vote (95.8% of votes cast voted for our say-on-pay proposal) validates the Company's compensation philosophy.

## **Table of Contents**

The compensation program at CSX is premised on the following two key principles:

balanced, performance-based compensation is essential to enhancing shareholder value; and

the total executive compensation opportunity, including benefits, should be competitive with reasonable market practices.

These key principles help ensure that the Company's executives are properly compensated and focused on specific performance factors that measure progress against the Company's strategic business goals. The compensation principles discussed in the CD&A are applied in all but extraordinary circumstances.

## What are the specific objectives of the Company's executive compensation program?

The executive compensation program is structured to achieve the following objectives:

**Attract and retain high-performing talent.** Utilize competitive compensation and benefits programs to attract and retain talented, motivated, high-performing executives with specific skill sets and relevant experience.

**Drive business and financial performance.** Inspire leaders to achieve or exceed annual business goals.

**Focus on long-term success.** Mitigate risk and hold leaders accountable for long-term results that provide strong returns for shareholders over time.

**Align ownership interests with shareholders.** Require that a significant portion of overall compensation be performance-based equity to align the long-term interests of executives with those of CSX's shareholders.

## What is the role of the Compensation Committee?

The Committee oversees the development and approval of the Company's compensation philosophy, strategy and design. The Committee strives to incent and reward performance through compensation plans that appropriately balance risks and incentives while taking into account independent data and changing market practices. In assessing performance of the NEOs in connection with incentive compensation payouts, the Committee conducts a detailed review of strategic goals that considers enterprise-wide risk assessments.

In establishing individual executive compensation opportunities and approving payouts, the Committee considers analyses and recommendations from its independent compensation consultant, competitive practices and the CEO's recommendations (for senior executives other than himself). The Committee does not rely solely on guidelines, formulas or short-term changes in business performance. Key factors affecting the Committee's determinations include:

the nature, scope and level of the executive's responsibilities internally relative to other executives, and externally based on market comparisons;

performance compared to the specific goals and objectives determined for CSX and for the individual executive at the beginning of the year;

the executive's contribution to CSX's financial results and safety performance;

the executive's effectiveness in leading CSX's initiatives to improve customer service, productivity, and employee development and engagement; and

the executive's contribution to CSX's corporate responsibility efforts, including the executive's success in creating a culture of unyielding integrity and compliance with applicable laws and CSX's code of ethics.

## What is the role of the independent compensation consultant?



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Pursuant to its charter, the Committee has sole authority to select, retain and terminate any consultant used to assist the Committee in fulfilling its duties, including the authority to approve or ratify payments and other retention terms to any consultant.

## **Table of Contents**

The Committee has retained an independent compensation consultant, Meridian Compensation Partners, LLC (the Consultant), to provide objective analysis and to assist in the development and evaluation of the Company's compensation programs. The Consultant reports directly to the Chairperson of the Committee and performs no other work for the Company. The Consultant generally attends all meetings where the Committee evaluates the overall effectiveness of the executive compensation programs or where the Committee analyzes or approves executive compensation. The Consultant is paid on an hourly fee basis, with such hourly rates approved by the Committee annually.

The Committee reviews the performance and independence of the Consultant on an annual basis, at which time it makes a determination as to the renewal of the Consultant's annual engagement. Each year, the Committee considers all appropriate information relating to the independence of the Consultant and its professionals involved in the work performed for, and advice provided to, the Committee. In 2016, the Committee determined that: (i) the relationships and work of the Consultant and its professionals did not present any conflict of interest; and (ii) the Consultant and its professionals are independent for the purpose of providing advice to the Committee with respect to matters relating to the compensation of the executives and directors of the Company.

In 2016, the Consultant's duties and responsibilities included:

assisting in the development of a peer group of companies for comparison purposes;

analyzing competitive practices, financial information, stock price and other performance data;

assessing compensation plan design in the context of the Company's strategic business needs and shareholder impact;

reviewing performance targets for the Company's short-term and long-term incentive plans;

providing regular updates to the Committee with respect to current trends and developments in legislative and regulatory activity, compensation program design and governance;

consulting with the Committee Chair to plan and prioritize Committee agenda items; and

providing the Committee with an independence letter each year in a form approved by the Committee Chair.

## **What is the role of the CEO in compensation decisions?**

The CEO reviews compensation benchmark data for members of his senior executive team, which in 2016 included President; Executive Vice President and CFO; Executive Vice President and COO; Executive Vice President and Chief Sales and Marketing Officer; Executive Vice President, General Counsel and Corporate Secretary; Senior Vice President and Chief Administrative Officer; and Senior Vice President and Chief Information Officer of CSX Technology, Inc. (together with the CEO, the Executive Team). Using this data, the CEO considers information on executive performance and scope of responsibility and makes individual compensation recommendations to the Committee for each Executive Team member (other than himself). These recommendations include: (i) possible salary adjustments; (ii) payout recommendations for annual incentive compensation for Executive Team members based on individual performance during the previous year; and (iii) short and long-term incentive awards.

The CEO also provides input on targets for performance-based compensation plans but does not participate in the formal determination of such targets. The CEO does not make recommendations with respect to his own compensation, nor is he present when the Committee discusses his individual compensation.

## **What is the Company's process for evaluating risk in connection with its compensation programs?**

The Committee believes appropriately structured compensation plans should take into consideration enterprise risks and discourage behavior that leads to inappropriate increases in the Company's overall risk profile. Accordingly, management, the Committee and the Consultant routinely review the Company's enterprise risks and compensation plan design to consider whether the plans motivate the appropriate levels of risk and mitigate unnecessary or excessive risk-taking.

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On an annual basis, management prepares a risk assessment that focuses primarily on the structure, key features and risk mitigating factors included in the Company's cash and stock incentive compensation programs. This risk assessment: (i) describes the process for establishing the Company's compensation programs; (ii) reviews the risks and mitigating factors present in the Company's compensation programs; (iii) analyzes the relationship between the compensation programs and the Company's enterprise risks identified through the Company's business risk mitigation process; and (iv) when appropriate, provides recommendations for potential enhancements to further mitigate compensation risks.

## **Table of Contents**

The risk assessment helps the Committee evaluate: (i) the nature of the risks inherent in the Company's compensation programs; and (ii) whether the Company has designed and implemented appropriate risk management processes that foster a culture of risk-awareness.

### How does the executive compensation program mitigate excessive risk-taking?

The Committee believes the following elements of the Company's executive compensation program serve to mitigate risk:

executive compensation appropriately balances between (i) fixed and variable compensation and (ii) short- and long-term compensation;

significant weighting towards long-term incentive compensation discourages short-term risk-taking;

multiple long-term incentive compensation vehicles used, including performance units, RSUs and stock options;

rolling multi-year performance periods for the performance units portion of the long-term incentive compensation program discourages short-term risk-taking;

performance measures for short- and long-term incentive awards apply to all eligible executives and employees alike, regardless of business unit;

performance measures for short- and long-term incentive awards align with the Company's strategic operating plan and focus on Operating Income, Operating Ratio, ROA, safety, customer service, operating efficiency, share price appreciation and other strategic goals;

clawback provisions in short- and long-term incentive compensation require repayment of awards in certain circumstances;

financial performance measures have a high correlation to long-term shareholder value creation;

multiple financial performance measures in the long-term incentive plan provide a balanced approach associated with reduced risk;

short- and long-term incentive awards include maximum payout caps;

the Committee may apply downward discretion to reduce incentive compensation payouts for Executive Team members;

internal controls over the measurement and calculation of performance measures protect against manipulation by employees; and

minimum three-year vesting periods and share ownership guidelines reinforce alignment of executive and shareholder interests.

The Company's executive compensation program is designed to reward consistent performance by heavily weighting the NEO's compensation to long-term incentives that reward sustainable financial and operating performance. Moreover, the Committee believes that the Company's approach to goal setting, establishment of targets with payouts at differing levels of performance and evaluation of performance results serve to mitigate excessive risk-taking that could negatively impact shareholder value or reward poor judgment or execution by executives.

### How does CSX benchmark its competitive pay practices?

The Committee regularly evaluates competitive compensation data including information from peer railroad companies and general industry companies. Data sources include third-party surveys of primarily North American companies and proxy disclosures of other major U.S. railroads.

The Company benchmarks target compensation data for the NEOs, including base salary and short- and long-term incentives with that of similar positions at peer railroads and general industry companies. For purposes of reviewing targeted compensation amounts for the NEOs, the Committee reviews market data at the 25th, 50th and 75th percentiles of comparator group compensation. When making compensation decisions, the Committee considers this market data, the scope of the individual's

responsibilities and performance, as well as other factors previously discussed in this CD&A.

**Table of Contents**

For 2016, the Company used a customized comparison group comprised of 15 primarily U.S.-based companies (the Comparator Group ) to help determine compensation levels and mix. The Committee annually assesses and approves the Comparator Group to ensure that it reflects market characteristics comparable to those of the Company, including revenue, assets, net income, market capitalization, number of employees, industry type and business complexity. The Company believes the use of the Comparator Group over the larger general industry group allows for a more refined analysis of various compensation components. For 2016, the Comparator Group was comprised of the following companies:

**2016 Comparator Group**

<b>Company Name</b>	<b>Revenue<sup>1</sup></b>
Canadian Pacific Railway Limited	\$4,642
Dover Corporation	\$6,794
Air Products & Chemicals, Inc.	\$9,524
Norfolk Southern Corporation	\$9,888
<b>CSX Corporation</b>	<b>\$11,069</b>
Dominion Resources, Inc.	\$11,737
Canadian National Railway Company	\$12,037
Ingersoll-Rand plc	\$13,509
Illinois Tool Works	\$13,599
Waste Management, Inc.	\$13,609
Textron Inc.	\$13,788
PPG Industries, Inc.	\$14,766
The Danaher Corporation	\$16,882
Cummins, Inc.	\$17,509
Union Pacific Corporation	\$19,941
Raytheon Company	\$24,069
<b>25th Percentile</b>	<b>\$9,615</b>
<b>50th Percentile</b>	<b>\$12,773</b>
<b>75th Percentile</b>	<b>\$16,062</b>

<b>Company Name</b>	<b>Market Cap<sup>2</sup></b>
Dover Corporation	\$11,640
Textron Inc.	\$13,121
Ingersoll-Rand plc	\$19,385
Canadian Pacific Railway Limited	\$20,882
Cummins, Inc.	\$22,998
PPG Industries, Inc.	\$25,016
Air Products & Chemicals, Inc.	\$31,271
Waste Management, Inc.	\$31,342
Norfolk Southern Corporation	\$31,550
<b>CSX Corporation</b>	<b>\$33,349</b>
Raytheon Company	\$41,698
Illinois Tool Works Inc.	\$42,984
Dominion Resources, Inc.	\$48,003
The Danaher Corporation	\$53,842
Canadian National Railway Company	\$69,309
Union Pacific Corporation	\$85,444
<b>25th Percentile</b>	<b>\$21,940</b>
<b>50th Percentile</b>	<b>\$31,342</b>
<b>75th Percentile</b>	<b>\$45,493</b>

(1) Revenue as of fiscal year-end 2016.

*(2) Market Cap as of December 31, 2016.*

**Table of Contents**

**What are the elements of the Company's executive compensation program?**

The various components of the Company's compensation program include base salary and short- and long-term incentive compensation ( Total Direct Compensation ). The Company also provides retirement and other employee benefits, non-qualified deferred compensation plans and limited perquisites ( Indirect Compensation ).

The Committee makes its decisions concerning the specific compensation elements and total compensation paid or awarded to the Company's NEOs within the framework described herein and after consultation with the Consultant. The objective is to provide total pay opportunities that are competitive with those provided by companies in the Comparator Group, with actual payment dependent upon Company and individual performance. The Committee bases its specific decisions and judgments on whether each award or payment provides an appropriate incentive and reward for individual performance that is consistent with the Company's compensation objectives. The Committee also periodically reviews the competitiveness of Indirect Compensation.

**Were there any special grants or adjustments to NEO compensation in 2016?**

In connection with the Board's succession planning efforts, Messrs. Eliasson and Lonegro and Ms. Sanborn each received a restricted stock grant in the amount of \$500,000, which vests five years from the date of grant. For purposes of retention and in recognition of his experience, leadership and commitment, the Committee increased Mr. Ward's LTI opportunity from \$7 million to \$9 million.



**Table of Contents**

[What is the target compensation mix for the CEO and other NEOs?](#)

The Company's compensation philosophy requires that a substantial portion of total compensation be at-risk and consist of performance-based incentives that link to CSX's financial and strategic results. In addition, the Committee strives to strike an appropriate balance between short- and long-term compensation. The mix between fixed and variable compensation and short- and long-term compensation is designed to align the NEOs' financial incentives with shareholder interests. In 2016, approximately 52% of the CEO's targeted Total Direct Compensation and an average of 49% of the other NEOs' targeted Total Direct Compensation was at-risk. The at-risk component of executive compensation means that if the Company did not meet or exceed the pre-established threshold financial performance levels, the executive would not receive a payout under the applicable short- or long-term incentive plan.

The chart below illustrates the amount of target Total Direct Compensation, including compensation that is at-risk, for the CEO and the other NEOs. Actual percentages of Realized Pay may vary in a given year depending on the payouts under the incentive compensation programs and the Company's stock price performance.

**2016 CEO Target Compensation Mix    2016 NEO Target Compensation Mix (excluding CEO)**

**Base Salary**

[How is base salary determined?](#)

The Committee determines a salary for each NEO based on its assessment of the individual's experience, responsibilities, performance and contribution to CSX. For purposes of recruiting and retention, base salaries are determined following a review of salary data for similar positions within the Comparator Group. Base salary may represent a larger or smaller percentage of Total Direct Compensation if actual performance under the incentive plans discussed below exceeds or falls short of performance targets.

**Short-Term Incentive Compensation**

[How is short-term incentive compensation determined?](#)

Short-term incentive compensation is designed to reward executives and other members of management for driving performance within a 12-month period. The Senior Executive Incentive Plan (SEIP) is the Company's vehicle for providing annual incentive opportunities for the NEOs covered under Section 162(m). The Company's objective is for payments made pursuant to the SEIP to be covered under Section 162(m) of the Internal Revenue Code (the Code), although there can be no assurance that such payments will be deductible under Section 162(m) of the Code. Under this shareholder-approved plan, the maximum amount payable is equal to the lesser of: (i) 0.3% of Operating Income for the CEO and 0.2% of Operating Income for each other NEO covered under Section 162(m); or (ii) \$3 million. The Committee may adjust this amount downward in its sole discretion.

**Table of Contents**

In 2016, the Committee exercised its downward discretion with respect to the NEOs covered under Section 162(m) by utilizing the same methodology and performance achievement used under the Company's Management Incentive Compensation Plan ( MICP ). The MICP is the Company's annual incentive plan for eligible management employees. The MICP is 100% performance-based and requires attainment of both financial and strategic objectives. No payout is made under the MICP unless a pre-set Operating Income level is achieved, regardless of achievement of strategic goals. Applying the methodology utilized under the MICP, each NEO has an incentive opportunity expressed as a percent of base salary earned during the year ( Target Incentive Opportunity ). In 2016, the Target Incentive Opportunity levels for Messrs. Ward and Gooden were 120% and 100%, respectively. The Target Incentive Opportunity levels for Messrs. Eliasson and Lonegro, and Ms. Sanborn were each 90%. The actual payouts are adjusted to reflect Company and individual performance.

The Committee compares the Company's performance to the preapproved performance goals for the year. The performance goals are divided between: (i) the financial measurement Operating Income which is based upon the Company's business plan and can result in a payment between 0% and 160% of the NEO's Target Incentive Opportunity; and (ii) the strategic measurements that can result in a payment between 0% and 40% of the NEO's Target Incentive Opportunity. Therefore, the actual payout can range between 0% and 200% of the NEO's Target Incentive Opportunity.

The MICP Operating Income target for 2016 was set at \$3.264 billion based on the Company's business plan. Achievement of this Operating Income target would have produced a payout of 80% under the financial component. Depending on the level of achievement on the strategic component, which has a maximum payout of 40%, the total payout at the target performance range could have ranged from 80% to 120% of the Target Incentive Opportunity.

**2016 MICP Achievement (Payout) Percentages**

<b>Operating Income</b>	<b>Financial Component</b>	<b>Strategic Component</b>	<b>Total Payout Range</b>
Threshold - \$2.764 billion	30%	0 - 40%	30 - 70%
Target - 2016 Business Plan - \$3.264 billion	80%	0 - 40%	80 - 120%
Maximum - \$3.564 billion	160%	0 - 40%	160 - 200%

**Table of Contents**

The 2016 MICP included strategic goals in the following categories: (i) safety; (ii) service excellence; (iii) reliability; (iv) value pricing; (v) productivity; (vi) risk management; (vii) technology optimization; and (viii) network transformation. These categories were selected to ensure that senior executives balance financial goals with key operating and business initiatives that impact employees, customers, communities and shareholders. There is no formal or informal weighting assigned to the individual goals or categories, and the Committee considers strategic results based on a subjective evaluation.

2016 MICP Strategic Performance Goals

<p><b>Safety</b> Reduce severe injuries as measured by Injury Severity Index</p> <p><b>Achieved</b></p> 		<p>Maintain FRA Personal Injury Frequency Index</p> <p><b>Partially Achieved</b></p> 		<p>Reduce FRA Train Accident Frequency Index</p> <p><b>Not Achieved</b></p> 		<p><b>Service Excellence</b> Improve Customer Satisfaction Score</p> <p><b>Partially Achieved</b></p> 	
<p><b>Reliability</b> Domestic Intermodal Availability</p> <p><b>Achieved</b></p> 		<p>Committed Time of Arrival: Merchandise</p> <p><b>Partially Achieved</b></p> 		<p>Service Rail Car Availability Automotive</p> <p><b>Achieved</b></p> 		<p>Local Service Measurement Carload</p> <p><b>Achieved</b></p> 	
<p><b>Value Pricing</b> Achieve Same Store Sales price goals</p>		<p><b>Productivity</b> Achieve all-in productivity</p>		<p><b>Risk Management</b> <u>Strategy for Changing Business:</u> Through advocacy, compliance and strategic engagement, help drive work to: (i) increase intermodal and merchandise opportunities; (ii) reduce and monetize coal and non-coal properties; (iii) respond effectively to expectations of</p>			

shareholders;  
and (iv) assure  
leading  
governance  
practices.

**Not  
Achieved**

**Achieved**

**Achieved**



**Table of Contents**

**Technology Optimization**

Deploy Technology to drive reliability, foster growth and reduce costs. Define opportunities to enable service, reduce asset intensity and enable further productivity. Recommend approach including investment, sequencing and benefits.

Submit revised Positive Train Control ( PTC ) Implementation Plan to FRA. Extend PTC Revenue Service Demonstration to 15-22 additional subdivisions (subject to software reliability and operational impacts) and complete 700 mission capable locomotives. Progress strategy for short lines, industry interoperability, and long-term PTC operations, maintenance and value.

**Achieved**

**Achieved**

**N e t w o r k Transformation**

**Coal Rationalization:**

Begin implementation of coal network rationalization plan by reducing approximately 150 - 200 miles of coal associated rail including yards, sidings and surplus track and explore collaboration with other railroads to reduce export coal port duplication and enable export market density.

**Siding and Network Capacity:**

Develop and execute plan to add siding capacity where appropriate to enable longer trains to drive productivity, service and growth. Determine and recommend optimal

**Intermodal Growth:**

Improve Intermodal alignment within CSX and complete cross functional service integration. Develop and execute Intermodal Go-To-Market strategy and finalize decision on Central

	investments and sequence.	Carolina Connector.
<b>Achieved</b>	<b>Achieved</b>	<b>Achieved</b>

**Table of Contents**

**What was the payout under the 2016 MICP?**

The Company achieved a 2016 Operating Income of \$3.389 billion. This Operating Income performance resulted in a 108% payout for the financial component of the 2016 MICP. Based on performance against the strategic goals, the Committee approved a payout of 35% on the strategic component. Thus, the payout levels for the financial and strategic components, when combined, resulted in a total overall payout of 143% of target incentive opportunities. In accordance with the Company's performance management program, actual MICP award payouts were adjusted upward or downward from the 143% based on individual performance.

**What was the 2016 short-term incentive compensation payout for the NEOs?**

Similar to how management assesses the performance of all eligible employees, the Committee annually assesses the individual performance of each NEO and determines payout amounts, which are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. As in prior years, the payouts for the NEOs were calculated pursuant to the methodology applied to the MICP and, therefore, were substantially less than the maximum available to each individual under the SEIP. Consistent with MICP practices, awards for the NEOs may vary based on individual performance. In light of extraordinary efforts that helped generate \$427 million of productivity in 2016, the Committee approved a payout of 163% for Ms. Sanborn. For each of the other NEOs, the Committee approved an annual incentive compensation payout at 143% of target.

**Table of Contents**

## How does the 2016 payout compare to prior year payouts?

The chart below illustrates the Company's historical Operating Income and the percentage payout under the MICP since 2012.

Year	2012	2013	2014	2015	2016
Operating Income (Target) (amounts in billions)	\$3.650	\$3.300	\$3.550	\$3.850	\$3.264
Operating Income (Actual) <sup>(1)</sup> (amounts in billions)	\$3.457	\$3.473	\$3.613	\$3.584	(2) \$3.389
Overall Payout (as a percentage of target incentive opportunity)	60%	130%	116%	60%	143%

*Actual results reflect Operating Income at time of payout approval and do not reflect the revenue-related accounting adjustments disclosed in the (1) Company's Form 10-K in 2013. The Operating Income for 2012, as disclosed in the Company's Form 10-K for 2013, was \$3.464 billion. MICP payouts were not impacted by the adjustments.*

*(2) For 2015, the overall payment was based on 2015 adjusted Operating Income of \$3.631 billion, which excludes \$47 million of non-recurring expenses pursuant to the terms of the 2015 short-term incentive plan.*

## Has the short-term incentive plan been effective in driving Company performance?

The Committee believes that the short-term incentive opportunities provided to the NEOs help drive the Company's annual performance. This improvement has been driven by initiatives focusing on asset utilization, productivity and yield management. The Committee believes that sustained improvements in Operating Income will continue to play a critical role in the creation of shareholder value.



## **Table of Contents**

### **Long-Term Incentive Compensation**

Long-term incentive compensation is intended to incent employee behavior that supports strategic initiatives to drive shareholder value over a multi-year period. This is accomplished by providing incentives based on performance measures that: (i) have had a historically high correlation to shareholder returns; (ii) are within management's direct control; and (iii) encourage long-term commitment and perspective. LTI are granted under the shareholder-approved 2010 CSX Stock and Incentive Award Plan (the "Stock Plan"). Each year, a market competitive long-term incentive grant value (in dollars) is identified for each position level and converted into the appropriate number of grants based on the average closing value of CSX common stock for the full three-month period prior to the grant.

### **What forms of long-term incentive compensation are granted to NEOs?**

The Stock Plan allows multiple and varying types of awards and provides flexibility in compensation design. Types of awards can include restricted stock, RSUs, performance units, stock options and stock appreciation rights. The Committee determines the mix of equity vehicles on an annual basis. The mix has historically included performance units and RSUs. Stock options were added in 2016 to encourage absolute stock price appreciation.

Performance units are granted at the beginning of the period known as the performance cycle in accordance with the Company's LTIP, as described below. Awards are paid in the form of CSX common stock at the end of the period based on attainment of pre-established performance goals. Dividend equivalents are not paid on performance units for the outstanding LTIP cycles. Performance units are subject to forfeiture if employment terminates before the end of the performance cycle for any reason other than death, disability or retirement. If employment terminates due to death, disability or retirement, participants receive a pro-rata portion of the award based on the number of months completed in the LTIP cycle.

RSUs represent a promise to issue shares of common stock if a participant remains employed by the Company for a defined period of time referred to as the restriction period. RSUs granted in 2016 vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. Unlike performance units, RSUs are not subject to any performance requirements. RSUs are subject to forfeiture if employment terminates before the end of the restriction period for any reason other than death, disability or retirement. If employment terminates due to death or disability, the award fully vests and the shares are distributed to the participant or the participant's estate. Upon retirement, the participant receives a pro-rata award based on the number of months completed in the restriction period.

Stock options require stock price growth in order to deliver any value; therefore, they reinforce leadership focus on the importance of returns to shareholders. Stock options provide participants with the right, but not the obligation, to buy CSX stock at an agreed-upon price within a certain period of time. Grants were made in February 2016 and vest three years from that date. Participants have ten years from the date of grant in which to exercise their options. The exercise price of the options is established as the closing stock price on the date of grant. The Stock Plan prohibits the repricing of outstanding stock options without the approval of shareholders. Stock options are subject to forfeiture if employment terminates before the end of the vesting period for any reason other than death, disability or retirement. If employment terminates due to death, disability or retirement, participants receive a pro-rata portion of the award based on the number of months completed in the vesting period. The prorated options vest according to the normal vesting schedule and the participant has seven years following vesting in which to exercise the vested options.

New LTIP cycles are approved each year when the Committee grants performance units to participants. These grants are made following annual Board review of the Company's business plan for the applicable upcoming three-year period, upon which the performance targets are set. Each LTIP cycle is designed to emphasize performance while aligning executives' interests with those of shareholders by linking the payout's value to share price. The three-year performance cycles run concurrently, so the Company may have up to three active cycles during a given year. The 2014-2016 cycle closed on December 30, 2016. The 2015-2017, 2016-2018 and 2017-2019 cycles remain in progress.

Actual payouts for each LTIP cycle, if any, do not occur until January of the year following the last year in the three-year cycle. These payouts can vary significantly from the target grants in terms of both the number of shares paid out and the market value of CSX common stock at the time of payout. The payout is made in shares with the value of the payout derived by multiplying the number of performance units earned by the share price of CSX common stock at the time of payout. Based on actual performance, as discussed below, the payouts for the NEOs at the end of the performance cycle can range from 0% to 200% of the target grants. The NEOs' awards can be reduced by as much as 30% based upon the Committee's assessment of total shareholder return relative

to three different indices during the cycle.

What were the performance measures for the 2014-2016 LTIP cycle?

Operating Ratio and ROA served as the performance measures for the 2014-2016 LTIP cycle. The Committee chose Operating Ratio due to its historically high correlation to CSX's stock price, alignment with shareholder value and the ability of employees to understand the impact of their actions in relation to Company performance. The Committee chose ROA because it serves as an indicator of how efficiently Company assets are being utilized.

## Table of Contents

Operating Ratio is defined as operating expense divided by operating revenue adjusted by excluding non-recurring items that are disclosed in the Company's financial statements. ROA is calculated using tax-adjusted Operating Income, excluding non-recurring items as disclosed in the Company's financial statements, divided by net property. The tax-adjusted Operating Income uses a flat 38% tax rate to eliminate volatility of one-time tax issues. Net property is calculated by subtracting accumulated depreciation from gross property. Operating Ratio and ROA each comprised 50% of the total payout opportunity for participants, and each was measured independently of the other.

The threshold, target and maximum payouts for each measure are 10%, 50% and 100%, respectively, generating a target payout of 100% and a maximum possible payout of 200% for the 2014-2016 LTIP cycle. The 2014-2016 LTIP cycle measured cumulative Operating Ratio and average ROA over an 11-quarter period from April 2014 to December 2016. The first quarter of 2014 was not included in the performance period due to timing of approval of the LTIP cycle.

In addition to Operating Ratio and ROA, the Committee maintains downward discretion on the payouts for the NEOs based on relative total shareholder return ( Relative TSR ). If CSX's 2014-2016 Relative TSR is in the bottom quartile of any of the comparison groups for the 11-quarter period, the Committee may exercise up to 30% downward discretion on the payout to Executive Team members.

Operating Ratio =	Operating Expenses Operating Revenues	50%
Return on Assets (ROA) =	Tax-Adjusted Operating Income Net Property	50%

### What were the financial goals for the 2014-2016 LTIP cycle?

The LTIP targets for the 2014-2016 LTIP cycle were set to provide an incentive to continue growing shareholder value. Under the 2014-2016 LTIP cycle: (i) a cumulative Operating Ratio of 72.0% was needed to achieve a threshold payout; (ii) a cumulative Operating Ratio of 70.0% was needed to achieve a target payout; and (iii) a cumulative Operating Ratio of 69.0% was needed to achieve a maximum payout. These performance levels were subject to adjustment based on the price per gallon of highway diesel fuel, as discussed below. For ROA, the threshold, target and maximum payout goals were set at 7.61%, 8.29% and 8.67%, respectively.

### How are the performance levels adjusted for the price of fuel?

At the time of adoption of the 2014-2016 LTIP cycle, a provision was made for the adjustment of the Operating Ratio performance goals by a pre-determined amount if the cost of highway diesel fuel was outside the range of \$3.53 - \$4.03 per gallon. This adjustment is included in the plan design for each LTIP cycle due to the significant impact volatile fuel prices have on expenses and Operating Ratio. Based on the price per gallon of highway diesel fuel during the 2014-2016 cycle, the adjusted threshold, target and maximum payout targets were 70.9%, 68.9% and 67.9%, respectively.

### What was the actual payout for the 2014-2016 LTIP cycle?

Based on the cumulative Operating Ratio of 69.7% and an average ROA of 7.56% for the cycle, the payout for the 2014-2016 LTIP cycle was 34%. The Committee evaluated Relative TSR performance against the S&P 500, S&P 500 Transportation Industry and peer railroads, and the Company's Relative TSR was not in the bottom quartile of any of the comparison groups for the cycle. Accordingly, no downward discretion was applied.

### What types of long-term incentive compensation were granted to the NEOs in 2016?

In 2016, the Company added nonqualified stock options to its existing mix of LTI vehicles, which include RSUs and performance units. Stock options were added in an effort to better align our long-term incentive practices with shareholder value and those of general industry and rail peers, the majority of which utilize stock options as part of their long-term incentive compensation.



**Table of Contents**

The LTI mix was achieved by determining a market competitive LTI grant value and allocating 50% of such value to performance units, 25% to time-based RSUs and 25% to stock options. This approach partially offsets market volatility and other external factors by sustaining a level of value while simultaneously preserving an incentive to meet performance goals. Additionally, this mix provides a stable and balanced LTI portfolio and maintains a strong link to shareholder value. In determining the number of units to be granted under each LTI vehicle, the target award value is divided by the average of CSX's stock price during the three full months prior to the grant date, rather than the stock price on the date of grant. Using the three-month average reduces the impact of daily fluctuations in stock price.

### How many performance units, RSUs and stock options were granted to the NEOs in 2016?

After establishing the market-competitive, annual long-term incentive award value (in dollars) for each NEO, the dollar value was then converted into a number of performance units, RSUs and stock options based on the average closing price of CSX stock for November 2015, December 2015 and January 2016, which was \$25.78.

The table below indicates the number of performance units, RSUs and stock options granted to each NEO on February 10, 2016.

<b>NEO</b>	<b>2016 Long-Term Incentive Value</b>	<b>2016-2018 Performance Units (50% of Value)</b>	<b>2016 RSUs (25% of Value)</b>	<b>2016 Stock Options (25% of Value)</b>	<b>Total Performance Units, RSUs and Options</b>
Michael J. Ward	\$9,000,000	174,554	87,277	495,595	757,426
Clarence W. Gooden	\$2,500,000	48,487	24,244	137,665	210,396
Frank A. Lonergo	\$1,500,000	29,092	14,546	82,599	126,237
Fredrik J. Eliasson	\$2,000,000	38,790	19,395	110,132	168,317
Cynthia M. Sanborn	\$2,000,000	38,790	19,395	110,132	168,317

### Does the Company have non-compete agreements and clawback provisions?

Yes. The Company utilizes non-compete agreements and clawback provisions in connection with its compensation plans, which are described further below.

#### Non-Compete Agreements:

Vice Presidents and above ( Senior Management ) are required to enter into formal non-compete agreements with the Company as a condition for participation in each LTIP cycle. The non-compete agreements preclude an employee from working for a competitor. The non-compete conditions extend for a period of 18 months following separation from employment.

## Table of Contents

### Clawbacks:

**Short-term Incentive Plan.** The short-term incentive plan contains provisions requiring NEOs to repay to the Company portions of any payment received if: (i) within the two-year period following the receipt of the payment, the Company is required to restate its financial statements due to accounting irregularities; and (ii) the payment amount received exceeded the otherwise proper payment based on the restated financials.

**Long-term Incentive Plan.** In the event the Company is required to restate its financial statements due to accounting irregularities, the clawback provision in each LTIP requires that amounts in excess of the otherwise proper award be repaid to the Company. Each LTIP also contains provisions for Senior Management that require the repayment to the Company of portions of any award received if, within the two-year period following the receipt of the award, the employee violates certain conditions, including: (i) separation from the Company and working for a competitor in a similar capacity as the participant has functioned during the past five years at the Company; or (ii) engaging in conduct that puts the Company at a competitive disadvantage.

### Benefits

#### What types of Retirement and Health and Welfare Benefits are provided to the NEOs?

#### Retirement Compensation:

CSX's retirement programs consist of two components: a defined benefit pension plan and a 401(k) plan. The retirement programs described below are provided to the NEOs under the following plans:

CSX Pension Plan (the Pension Plan );

Special Retirement Plan for CSX Corporation and Affiliated Corporations (the Special Retirement Plan ); and

The CSX Corporation 401(k) Plan ( CSXtra Plan ).

#### Pension Plan

The Pension Plan is qualified under the Code and covers CSX's non-union employees. In general, pension benefits accrue in two different ways: (i) for employees hired before January 1, 2003, benefits accrue based on a final average pay formula; and (ii) for employees hired on or after January 1, 2003, benefits accrue based on a cash balance formula. All NEOs were hired before January 1, 2003, and as such, are eligible for benefits under the final average pay formula. Further information on the Pension Plan can be found in the discussion following the *Pension Benefits Table*.

#### Special Retirement Plan

The Special Retirement Plan is a nonqualified plan and primarily provides benefits that are otherwise limited under the Pension Plan due to the qualified plan Code provisions. Further information on the Special Retirement Plan can be found in the discussion following the *Pension Benefits Table*.

#### CSXtra Plan

All CSX non-union employees may contribute to the CSXtra Plan, which is a traditional qualified 401(k) plan. Participants may contribute on a pre-tax and after-tax basis and receive Company matching contributions. The Company's matching contribution is equal to 100% on the employee's first 1% contribution, and 50% on the employee's additional contributions up to 6% of base salary. Participants may invest contributions in various funds, including the CSX stock fund.

#### Executive Deferred Compensation Plan:

## Edgar Filing: CSX CORP - Form PRE 14A

CSX maintains an elective nonqualified executive deferred compensation plan ( EDCP ) for the benefit of its eligible executives and certain other employees. The purpose of the EDCP is to provide executives with the opportunity to:

defer compensation in excess of qualified plan limits until retirement or another specified date or event; and

defer compensation to allow them to receive the full Company matching contribution of 3.5% of base salary not otherwise available to them under the 401(k) plan.

The types of compensation eligible for deferral include base salary, short-term (annual) incentive compensation and LTIP awards.

## **Table of Contents**

### **Health and Welfare Benefits:**

CSX provides the same health and welfare benefits to the NEOs as those available to eligible management employees. The Company also provides basic life insurance and accidental death and dismemberment ( AD&D ) insurance coverage to all management employees, each of which is equal to two times their respective annual salaries. Both life and AD&D benefits were capped at \$1,000,000 effective January 1, 2006, but employees who already had coverage in excess of \$1,000,000 retained the prior cap of \$3,000,000. The Company also provides to the NEOs, on the same basis as other management employees, salary continuance in the event of short-term or long-term disability, travel accident insurance and vacation based on length of service.

CSX sponsors a post-retirement health and welfare plan for management employees hired before January 1, 2003. The Company stopped providing post-retirement health and welfare benefits for management employees, including executive officers, hired on or after January 1, 2003, as a cost-saving measure.

### **Does the Company provide perquisites to its NEOs?**

The perquisites provided to NEOs in 2016 included: (i) financial planning services up to \$12,000; (ii) excess liability insurance; and (iii) an annual physical examination. These perquisites were valued at approximately \$15,000 for each NEO.

Since Mr. Ward became CEO in 2003, he has been required to travel by Company aircraft at all times for security purposes and to ensure efficient use of his time. In 2016, the aggregate incremental cost to the Company of Mr. Ward's Company-mandated personal aircraft usage was \$63,650. The aggregate incremental cost to the Company for personal aircraft usage for each of the other NEOs did not exceed \$7,500 in 2016.

### **Severance and Change-of-Control Agreements**

#### **Is there any special severance plan provided to the NEOs?**

During 2016, senior management was covered under the Company's policy generally available to all salaried employees whose positions are eliminated, pursuant to the terms of CSX's severance plan, which pays benefits based upon years of service. The benefits ranged from one month of base pay (if one to three years of service has been attained) to one year of base pay (if at least 34 years of service has been attained).

In early 2017, in an effort to retain key members of senior management and ensure their critical focus on the Company's strategic goals in light of changes in leadership, the Company adopted a one-year severance protection program for senior management (the Section 16 Officer Severance Plan). The Section 16 Officer Severance Plan provides eligible employees with severance payments and benefits in the event that such employee's employment with the Company or one of its subsidiaries is terminated on or before February 22, 2018, involuntarily by the Company other than for cause or voluntarily by the eligible employee for good reason.

The severance payments that could be received by an eligible employee are as follows;

a lump sum cash payment equal to two times the employee's then base salary;

a lump sum cash payment of one times the employee's target bonus for the year of separation;

credit for an additional three years of age and two years of service for purposes of calculating the employee's pension benefit; and

pro-rata vesting of the employee's unvested equity awards with any performance-based awards remaining subject to satisfaction of pre-established performance goals.

#### **Does the Company provide Change-of-Control Agreements to its NEOs?**



## Edgar Filing: CSX CORP - Form PRE 14A

Yes. At the end of 2016, each of the NEOs had a Change-of-Control Agreement that was designed to ensure management objectivity in the face of a potential transaction and further promote recruitment and retention of top executives. Since payment is double-trigger (*i.e.*, payments are conditioned upon a change-of-control as well as separation from employment), executives are financially protected and thereby properly positioned to negotiate in the best interests of shareholders.

A detailed description of the Change-of-Control Agreements is set forth under the section entitled Post-Termination and Change-of-Control Payments.

**Table of Contents**

**Are there limits on severance amounts paid to the NEOs pursuant to Change-of-Control Agreements?**

Yes. The Company's policy for severance benefits (the Policy): (i) requires a double-trigger to receive severance; (ii) prohibits Company reimbursement for the payment of excise taxes; (iii) defines bonus as the current target amount; and (iv) requires a contract term not to exceed three years. The Policy also provides that the payment of severance benefits, without shareholder approval, is limited to 2.99 times base salary plus bonus. The Policy is available on the Company's website at <http://investors.csx.com> under the heading Corporate Governance. All of the NEOs' Change-of-Control Agreements are in compliance with the Policy.

**Does the Company have stock ownership guidelines for the NEOs?**

Yes. CSX believes that, in order to align the interests of management with those of its shareholders, it is important that NEOs and other senior managers hold a meaningful ownership position in CSX common stock relative to their base salary. To achieve this linkage, CSX has established the following formal stock ownership guidelines.

<b>Position</b>	<b>Minimum Value</b>
Chief Executive Officer	6 times base salary
President	6 times base salary
Executive Vice Presidents	4 times base salary
Senior Vice Presidents	3 times base salary
Vice Presidents and Equivalent	1 times base salary

Each of the individuals covered by these guidelines must retain 100% of their net shares issued until the guidelines are achieved and have five years in which to do so. As of December 30, 2016, all NEOs held amounts of CSX common stock in excess of these ownership guideline requirements.

In addition, as part of its stock ownership guidelines, the Company has adopted a one-year holding period for Senior Vice Presidents and above for the after-tax portion of restricted stock and RSUs following vesting. Accordingly, NEOs must wait one year after the completion of the restriction period before entering into any transaction involving such stock.

**What are the accounting, tax and dilution considerations of CSX's compensation programs?**

As discussed above, a significant portion of each NEO's Total Direct Compensation is performance-based. Section 162(m) of the Code imposes a \$1 million limit on the amount that CSX may deduct for compensation paid to the NEOs. However, performance-based compensation paid under a plan that has been approved by shareholders is excluded from the \$1 million limit if, among other requirements, the compensation is payable only if pre-established, objective performance goals are achieved and the Committee that establishes and certifies attainment of the goals consists only of outside directors.

While the tax effect of any compensation arrangement is a factor to be considered, the effect is evaluated by the Committee in light of CSX's overall compensation philosophy and objectives. CSX's compensation program for NEOs has both objective and discretionary elements. Generally, the Committee wishes to maximize CSX's federal income tax deductions for compensation expense. Therefore, the Company has endeavored to structure the short-term and long-term performance-based incentive elements of executive compensation to meet the requirements for deductibility under Section 162(m) while retaining the ability to apply permissible negative discretion in determining the ultimate award payouts. Nonetheless, the Committee does not believe that compensation decisions should be unduly constrained by how much compensation is deductible for federal tax purposes. Accordingly, the Committee is not limited to paying compensation under plans that are qualified under Section 162(m) and the Committee's ability to retain flexibility in this regard may, in certain circumstances, outweigh the advantages of qualifying all compensation as deductible under Section 162(m).

The Committee seeks to balance the tax, earnings and dilutive impact of executive compensation plans with the need to attract, retain and motivate highly-qualified executives.



**Table of Contents****2016 Summary Compensation Table**

The *Summary Compensation Table* presents the amount and type of compensation for the NEOs in 2016.

Name	Year	Salary (\$)	Bonus (\$)	Stock Awards <sup>(1)</sup> (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation <sup>(2)</sup> (\$)	Change in Pension Value and Nonqualified Deferred Compensation <sup>(3)</sup> (\$)	All Other Compensation <sup>(4)</sup> (\$)	Total (\$)
<b>Michael J. Ward</b> <sup>(5)</sup> Chairman and CEO	2016	\$1,200,000		\$6,317,982	\$2,316,907	\$2,059,200	\$1,563,377	\$122,638	\$13,580,1
	2015	\$1,200,000		\$7,064,833		\$864,000		\$80,728	\$9,209,56
	2014	\$1,200,000		\$6,962,613		\$1,843,200		\$62,276	\$10,068,0
<b>Clarence W. Gooden</b> <sup>(5)</sup> President	2016	\$700,000		\$1,754,999	\$643,584	\$1,001,000	\$438,531	\$56,509	\$4,594,62
	2015	\$665,720		\$2,406,455		\$373,432		\$49,362	\$3,494,96
	2014	\$650,000		\$1,989,315		\$678,600	\$205,109	\$52,495	\$3,575,51
<b>Frank A. Lonergo</b> Executive Vice President and CFO	2016	\$500,000		\$1,520,986	\$386,150	\$643,500	\$484,797	\$31,825	\$3,567,25
	2015	\$365,518		\$706,112		\$173,072	\$27,056	\$18,064	\$1,289,82
	2014								
<b>Fredrik J. Eliasson</b> <sup>(5)</sup> Executive Vice President and Chief Sales and Marketing Officer	2016	\$600,000		\$1,872,005	\$514,867	\$772,200	\$901,672	\$35,567	\$4,696,31
	2015	\$565,720		\$2,018,535		\$305,489	\$199,435	\$27,174	\$3,116,35
	2014	\$550,000		\$1,989,315		\$603,900	\$874,385	\$23,394	\$4,040,99
<b>Cynthia M. Sanborn</b> Executive Vice President and COO	2016	\$550,000		\$1,872,005	\$514,867	\$807,850	\$1,113,588	\$35,976	\$4,894,28
	2015	\$497,456		\$2,741,527		\$266,938	\$91,485	\$32,600	\$3,630,00
	2014								

*Stock Awards* Amounts disclosed in this column are related to LTIP performance units, RSUs and restricted stock granted in 2014, 2015 and 2016, and reflect the aggregate grant date fair value of such stock awards computed in accordance with FASB ASC Topic 718. For performance units, the grant date fair value is based on the probable outcome of performance conditions at the time of grant. For more information and assumptions used in valuing these awards, see Note 4, *Stock Plans and Share-Based Compensation in the Notes to Consolidated Financial Statements in the Company's 2016 Annual Report on Form 10-K*, which was filed on February 14, 2017. If the highest level of performance under each LTIP cycle is achieved, the maximum grant date fair value of the performance units (which does not include stock options, RSUs or restricted stock) for each NEO by year of grant would be: 2016: Mr. Ward \$8,423,976, Mr. Gooden \$2,339,982, Mr. Lonergo \$1,403,980, Mr. Eliasson and Ms. Sanborn \$1,872,006; 2015: Mr. Ward \$10,597,268, Mr. Lonergo \$302,758, Messrs. Gooden and Eliasson \$3,027,802, and Ms. Sanborn \$2,270,832; and 2014: Mr. Ward \$10,443,920, Mr. Gooden \$3,609,735, and Mr. Eliasson \$2,983,986.

*Non-Equity Incentive Plan Compensation* The 2016 annual incentive compensation was paid in February 2017 based on a 143% payout of the 2016 MICP. Based upon her 2016 performance, Ms. Sanborn received a 163% payout.

*Change in Pension Value and Nonqualified Deferred Compensation Earnings* The values in this column reflect only changes in the actuarial present value of pension benefits as there were no above-market nonqualified deferred compensation earnings to report. The changes in values result from increases in each individual's years of service, final average compensation calculation and age, revised mortality assumptions, as well as from a decrease in the pension discount rate from 4.30% to 4.08%. CSX measured its pension values as of December 31, 2016.

**Table of Contents**

*All Other Compensation* The values in this column include amounts for personal aircraft usage, financial planning services, physical examination, annual health care savings account contribution, excess liability insurance, and the Company's match under the 401(k) and nonqualified deferred compensation plans. For Mr. Ward, this column includes, along with the items discussed above, costs associated with home security and Company-mandated aircraft usage with an aggregate incremental (4) cost to the Company of \$63,650. The personal aircraft usage amount was calculated using the direct hourly operating cost of \$1,675 per flight hour for 2016 plus taxes. The aggregate incremental cost to the Company for the use of Company aircraft for personal travel is calculated by multiplying the hourly variable cost rate (including fuel, oil, airport and hangar fees, crew expenses, maintenance, catering and taxes) for the aircraft by the hours the executive used the aircraft. For these purposes, hours occupied by any "deadhead" aircraft legs are included in the total hours the aircraft was used by the executive.

On February 14, 2017, Mr. Gooden resigned as President of the Company and assumed the title of Vice Chairman, and Mr. Eliasson was appointed President and Chief Sales and Marketing Officer of the Company, effective February 15, 2017. On (5) March 6, 2017, (i) Mr. Ward resigned as Chairman and CEO, (ii) Mr. Gooden resigned as Vice Chairman and (iii) E. Hunter Harrison was appointed CEO, in each case, effective immediately. Mr. Ward and Mr. Gooden each assumed the title of consultant and will retire from the Company as of May 31, 2017.

**Table of Contents**

**2016 Grants of Plan-Based Awards Table**

The *Grants of Plan-Based Awards Table* is a supporting table to the *Summary Compensation Table*. In 2016, the NEOs received the plan-based awards as shown in the table below.

<b>Name</b>	<b>Grant Date</b>	<b>Estimated Possible Payouts Under Non-Equity Incentive Plan Awards<sup>(1)</sup></b>	<b>Estimated Future Payouts Under Equity Incentive Awards (# units)<sup>(2)</sup></b>	<b>All Other Stock Awards<sup>(3)</sup> (units)</b>
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