CSX CORP
Form 10-Q
April 20, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-8022

CSX CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	62-1051971 (I.R.S. Employer Identification No.)

500 Water Street, 15th Floor, Jacksonville, FL (Address of principal executive offices)	32202 (Zip Code)	(904) 359-3200 (Telephone number, including area code)

No Change
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (X) No ( )
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes (X) No ( )
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer", "accelerated filer” and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)
Large Accelerated Filer (X) Accelerated Filer ( )
Non-accelerated Filer ( ) Smaller Reporting Company ( )
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ( ) No (X)
There were 922,687,144 shares of common stock outstanding on March 31, 2017 (the latest practicable date that is closest to the filing date).

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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2017
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PART I - FINANCIAL INFORMATION

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

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

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

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

See accompanying notes to consolidated financial statements.

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background
CSX Corporation (“CSX”), together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

CSX's principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Company's intermodal business links customers to railroads via trucks and terminals.

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

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

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the following:

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	First Quarters	
(Dollars in millions)	2017	2016
Severance and Pension	$ 131	$ —
Other Post-retirement Benefits Curtailment	13	—
Employee Equity Awards Proration and Other	11	—
Subtotal Management Workforce Reduction	$ 155	—
Executive Equity Awards Proration	8	—

Advisory Fees Related to Shareholder Matters	10	—
Total Restructuring Charge	$ 173	—

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(Unaudited)

NOTE 2. Earnings Per Share

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

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

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

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

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

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

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

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NOTE 2. Earnings Per Share, continued

Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Shares are retired immediately upon repurchase. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

NOTE 3. Share-Based Compensation

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

Share-based compensation expense is measured using the fair value of the award on the grant date and is recognized on a straight-line basis over the service period of the respective award. Total pre-tax expense associated with share-based compensation and its related income tax benefit is shown in the table below. The year over year increase in expense related to performance units and stock options is primarily due to modifications to the terms of awards (see Equity Award Modifications below) and higher expected award payouts.

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

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

Grants were made in performance units, with each unit representing the right to receive one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals. Payouts for certain

executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups.

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NOTE 3. Share-Based Compensation, continued

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

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

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

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

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

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NOTE 3. Share-Based Compensation, continued

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

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

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

NOTE 4. Casualty, Environmental and Other Reserves
Casualty, environmental and other reserves are considered critical accounting estimates due to the need for significant management judgment. They are provided for in the consolidated balance sheets as shown in the table below:

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

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

These liabilities are accrued when reasonably estimable and probable in accordance with the Contingencies Topic in the ASC. Actual settlements and claims received could differ, and final outcomes of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material adverse effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, their combined effect could be material in that particular period.

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NOTE 4. Casualty, Environmental and Other Reserves, continued

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

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

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

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

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

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

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

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NOTE 4. Casualty, Environmental and Other Reserves, continued

Environmental
Environmental reserves were $93 million and $95 million as of March 31, 2017 and December 30, 2016, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 222 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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

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

Based on the review process, the Company has recorded amounts to cover contingent anticipated future environmental remediation costs with respect to each site to the extent such costs are reasonably estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. Payments related to these liabilities are expected to be made over the next several years. Environmental remediation costs are included in materials, supplies and other on the consolidated income statement.

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

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NOTE 4. Casualty, Environmental and Other Reserves, continued

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

NOTE 5. Commitments and Contingencies

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

Legal
The Company is involved in litigation incidental to its business and is a party to a number of legal actions and claims, various governmental proceedings and private civil lawsuits, including, but not limited to, those related to fuel surcharge practices, tax matters, environmental and hazardous material exposure matters, FELA and labor claims by current or former employees, other personal injury or property claims and disputes and complaints involving certain transportation rates and charges. Some of the legal proceedings include claims for compensatory as well as punitive damages and others are, or are purported to be, class actions. While the final outcome of these matters cannot be reasonably determined, considering, among other things, the legal defenses available and liabilities that have been recorded along with applicable insurance, it is currently the opinion of management that none of these pending items is likely to have a material adverse effect on the Company's financial condition, results of operations or liquidity. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.
The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be $6 million to $129 million in aggregate at March 31, 2017. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

Fuel Surcharge Antitrust Litigation
In May 2007, class action lawsuits were filed against CSXT and three other U.S.-based Class I railroads alleging that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. In November 2007, the class action lawsuits were consolidated in federal court in the District of Columbia, where they are now pending. The suit seeks treble damages allegedly sustained by purported class members as well as attorneys' fees and other relief. Plaintiffs are expected to allege damages at least equal to the fuel surcharges at issue.

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NOTE 5. Commitments and Contingencies, continued

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, but rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. The District Court remand proceedings are underway and the class certification hearing was held in September 2016. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification remand proceedings. The court has given no indication of timing on its ruling regarding class certification.

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

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

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

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

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NOTE 6. Employee Benefit Plans

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

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

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

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

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

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

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

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NOTE 6. Employee Benefit Plans, continued

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

NOTE 7. Debt and Credit Agreements

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

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

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

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

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

NOTE 8. Income Taxes

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

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NOTE 9. Fair Value Measurements

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

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

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

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

Investments
The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds and government securities and are carried at fair value on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. There are several valuation methodologies used for those assets as described below.

- Certificates of Deposit and Commercial Paper (Level 2): Valued at amortized cost, which approximates fair value; and
- Corporate Bonds and Government Securities (Level 2): Valued using broker quotes that utilize observable market inputs.

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. All of the inputs used to determine the fair value of the Company's investments are Level 2 inputs. The amortized cost basis of these investments was $369 million and $500 million as of March 31, 2017 and December 30, 2016, respectively.

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NOTE 9. Fair Value Measurements, continued

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

These investments have the following maturities:

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

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

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

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

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

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NOTE 10. Other Comprehensive Income (Loss)

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

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

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

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

NOTE 11. Summarized Consolidating Financial Data

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

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NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Income Statements
(Dollars in millions)

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

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

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

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NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Balance Sheet
(Dollars in millions)

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

Retained Earnings	11,197	16,232	(16,232)	11,197
Accumulated Other Comprehensive Loss	(634)	(21)	21	(634)
Noncontrolling Interest	—	13	—	13
Total Shareholders' Equity	$ 11,656	$ 21,500	$ (21,487)	$ 11,669
Total Liabilities and Shareholders' Equity	$ 26,454	$ 34,613	$ (25,355)	$ 35,712

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NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Balance Sheet
(Dollars in millions)

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

Accumulated Other Comprehensive Loss	(640)	(19)	19	(640)
Noncontrolling Minority Interest	—	15	—	15
Total Shareholders' Equity	$ 11,679	$ 21,266	$ (21,251)	$ 11,694
Total Liabilities and Shareholders' Equity	$ 26,021	$ 34,494	$ (25,101)	$ 35,414

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

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

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NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Cash Flow Statements
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Three Months 2016	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$ 36	$ 834	$ (116)	$ 754
Investing Activities				
Property Additions	—	(391)	(34)	(425)
Purchases of Short-term Investments	(235)	—	—	(235)
Proceeds from Sales of Short-term Investments	670	—	—	670
Other Investing Activities	(1)	26	6	31
Net Cash Provided by (Used in) Investing Activities	434	(365)	(28)	41
Financing Activities				
Dividends Paid	(173)	(150)	150	(173)
Shares Repurchased	(249)	—	—	(249)
Other Financing Activities	1	(271)	—	(270)
Net Cash Provided by (Used in) Financing Activities	(421)	(421)	150	(692)
Net Increase (Decrease) in Cash and Cash Equivalents	49	48	6	103
Cash and Cash Equivalents at Beginning of Period	444	175	9	628
Cash and Cash Equivalents at End of Period	$ 493	$ 223	$ 15	$ 731

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

FIRST QUARTER 2017 HIGHLIGHTS

- The Company named E. Hunter Harrison CEO and began implementing Precision Scheduled Railroading.

- The Company reduced the management workforce and completed other restructuring activities that resulted in a restructuring charge of $173 million.

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

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

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CSX CORPORATION

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

RESULTS OF OPERATIONS

Volume and Revenue (Unaudited)

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

First Quarters

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

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

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

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First Quarter 2017
Revenue
Revenue increased $251 million to $2.9 billion from the prior year's first quarter due to volume growth, pricing gains and increased fuel surcharge.

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

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

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

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

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

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

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

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

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

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

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

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

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

Labor and Fringe expense decreased $7 million due to the following:
- Inflation of $36 million was driven primarily by increased health and welfare costs.
- Incentive compensation was $30 million higher reflecting the expected award payouts on existing plans.
- Volume-related costs were $21 million higher.
- Efficiency savings of $74 million were driven by lower T&E and operating support costs.
- Other costs decreased by $20 million primarily due to a $14 million decrease in pension expense.

Materials, Supplies and Other expense increased $17 million due to the following:
- Inflation resulted in $9 million of additional cost.
- Volume-related costs were $15 million higher.
- Efficiency savings of $41 million were primarily related to lower operating support costs.
- Other costs increased $34 million due to $14 million in prior year favorable adjustments that did not repeat in the current quarter and several other items.

Fuel expense increased $68 million due to the following:
- A 45 percent price increase drove $67 million in additional fuel expense.
- Volume-related costs were $6 million higher due to a five percent year-over-year increase in gross ton miles.
- Efficiency savings of $5 million were related to process improvement and locomotive fuel reduction initiatives.

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

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

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

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

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

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

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

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

Non-GAAP Measures - Unaudited

CSX reports its financial results in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). CSX also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results. Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, CSX's non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP. Reconciliations of non-GAAP measures to corresponding GAAP measures are below.

Adjusted Operating Results

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

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

Free Cash Flow

Management believes that free cash flow is useful to investors as it is important in evaluating the Company's financial performance. More specifically, free cash flow measures cash generated by the business after reinvestment. This measure represents cash available for both equity and bond investors to be used for dividends, share repurchases or principal reduction on outstanding debt. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities. The following table reconciles cash provided by operating activities (GAAP measure) to adjusted free cash flow after restructuring, before dividends (non-GAAP measure). The restructuring charge impact to free cash flow was tax effected using a tax rate of 37.8%.

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

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Operating Statistics (Estimated)

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

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

Key Performance Measures Definitions
FRA Personal Injury Frequency Index - Number of FRA-reportable injuries per 200,000 man-hours.
FRA Train Accident Rate - Number of FRA-reportable train accidents per million train-miles.
On-Time Originations - Percent of scheduled road trains that depart the origin yard on-time or ahead of schedule.
On-Time Arrivals - Percent of scheduled road trains that arrive at the destination yard on-time to two hours late (30 minutes for intermodal trains).
Train Velocity - Average train speed between terminals in miles per hour (does not include locals, yard jobs, work trains or passenger trains).
Dwell - Average amount of time in hours between car arrival at and departure from the yard. It does not include cars moving through the yard on the same train.
Cars-On-Line - An average count of all cars on the network (does not include locomotives, cabooses, trailers, containers or maintenance equipment).

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

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

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

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LIQUIDITY AND CAPITAL RESOURCES
The following are material changes in the consolidated balance sheets and sources of liquidity and capital, which provide an update to the discussion included in CSX's most recent annual report on Form 10-K.

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

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

- Cash provided by operating activities increased $289 million primarily driven by higher collections of freight accounts receivable and the timing of tax, payroll and interest payments.

- Cash used in investing activities increased $327 million primarily driven by lower net sales of short-term investments.

- Cash used in financing activities decreased $262 million as a repayment of seller-financed assets that occurred in the prior year did not repeat in the current year.

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

The Company has incurred significant capital costs in connection with the implementation of PTC and has substantial work ahead. CSX estimates that the total multi-year cost of PTC implementation will be approximately $2.4 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending through March 2017 was $1.8 billion.

Liquidity and Working Capital

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

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

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

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

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

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

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

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

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

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

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

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

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, which are accessible on the SEC's website at www.sec.gov and the Company's website at www.csx.com. The information on the CSX website is not part of this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
There have been no material changes in market risk from the information provided under Part II, Item 7A (Quantitative and Qualitative Disclosures about Market Risk) of CSX's most recent annual report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES
As of March 31, 2017, under the supervision and with the participation of CSX's Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of March 31, 2017, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the first quarter of 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION
Item 1. Legal Proceedings
For further details, please refer to Note 5. Commitments and Contingencies of this quarterly report on Form 10-Q. Also refer to Part I, Item 3. Legal Proceedings in CSX's most recent annual report on Form 10-K.

Item 1A. Risk Factors
For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed under Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of CSX's most recent annual report on Form 10-K. See also Part I, Item 2 (Forward-Looking Statements) of this quarterly report on Form 10-Q.

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PART II

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

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

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

Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Shares are retired immediately upon repurchase. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

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

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

(a) First quarter 2017 consisted of the following fiscal periods: January (December 31, 2016 - January 27, 2017), February (January 28, 2017 - February 24, 2017), March (February 25, 2017 - March 31, 2017).
(b) The difference of 106,115 shares between the "Total Number of Shares Purchased" and the "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" for the quarter represents shares purchased to fund the Company's contribution to a 401(k) plan that covers certain union employees.

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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CSX CORPORATION
PART II

Item 6. Exhibits

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

	Inducement Non-Qualified Stock Option Agreement Under the CSX Special Executive Equity Award Program between CSX Corporation and E. Hunter Harrison
Officer certifications:	
31*	Rule13a-14(a) Certifications
32*	Section 1350 Certifications
Interactive data files:	
101*	The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on April 19, 2017, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended March 31, 2017 and March 25, 2016, (ii) consolidated comprehensive income statements for the fiscal periods ended March 31, 2017 and March 25, 2016 (iii) consolidated balance sheets at March 31, 2017 and December 30, 2016, (iv) consolidated cash flow statements for the fiscal periods ended March 31, 2017 and March 25, 2016, and (v) the notes to consolidated financial statements.

* Filed herewith

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CSX CORPORATION
PART II

SIGNATURE
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CSX CORPORATION
(Registrant)

By: /s/ Carolyn T. Sizemore
Carolyn T. Sizemore
Vice President and Controller
(Principal Accounting Officer)

Dated: April 20, 2017