

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-28** | Period of Report: **1995-06-30**
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FILER

CSX TRANSPORTATION INC

CIK: **88128** | IRS No.: **546000720** | State of Incorpor.: **VA** | Fiscal Year End: **1231**
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Business Address
*100 N CHARLES ST
BALTIMORE MD 21201
3012372000*

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarter ended June 30, 1995

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 1-3359

CSX TRANSPORTATION, INC.

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-6000720
(I.R.S. Employer
Identification No.)

500 Water Street, Jacksonville, Florida
(Address of principal executive offices)

32202
(Zip Code)

(904) 359-3100
(Registrant's 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 the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 1995: 9,061,038 shares

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H (1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

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CSX TRANSPORTATION, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1995

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
 Consolidated Statement of Earnings
 (Millions of Dollars)

	Quarter Ended		Six Months Ended	
	June 30, 1995	July 1, 1994	June 30, 1995	July 1, 1994
OPERATING REVENUE				
Merchandise	\$ 797	\$ 786	\$ 1,596	\$ 1,544
Coal	379	363	745	702
Other	35	26	64	49
	-----	-----	-----	-----
Transportation	1,211	1,175	2,405	2,295
Non-Transportation	13	15	21	22
	-----	-----	-----	-----
Total	1,224	1,190	2,426	2,317
	-----	-----	-----	-----
OPERATING EXPENSE				
Labor and Fringe Benefits	463	453	934	918
Materials, Supplies and Other	272	248	534	515
Equipment Rent	98	100	202	198
Depreciation	97	93	193	186
Fuel	64	61	129	124

Restructuring Charge	196	---	196	---
	-----	-----	-----	-----
Transportation	1,190	955	2,188	1,941
Non-Transportation	6	5	12	11
	-----	-----	-----	-----
Total	1,196	960	2,200	1,952
	-----	-----	-----	-----
OPERATING INCOME	28	230	226	365
Other Expense	4	1	10	9
Interest Expense	12	13	22	25
	-----	-----	-----	-----
EARNINGS BEFORE INCOME TAXES	12	216	194	331
Income Tax Expense	3	79	71	122
	-----	-----	-----	-----
NET EARNINGS	\$ 9	\$ 137	\$ 123	\$ 209
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(Millions of Dollars)

	Six Months Ended	
	June 30,	July 1,
	1995	1994
	-----	-----
OPERATING ACTIVITIES		
Net Earnings	\$ 123	\$ 209
Adjustments to Reconcile Earnings to Cash Provided		
Depreciation	193	186
Deferred Income Taxes	(10)	73
Restructuring Charge	196	---

Productivity/Restructuring Charge Payments	(31)	(56)
Other Operating Activities	(16)	18
Changes in Operating Assets and Liabilities		
Accounts Receivable	35	(11)
Materials and Supplies	(24)	(16)
Other Current Assets	(18)	9
Accounts Payable and Other Current Liabilities	5	(92)
	-----	-----
Cash Provided by Operating Activities	453	320
	-----	-----
INVESTING ACTIVITIES		
Property Additions	(414)	(231)
Other Investing Activities	54	32
	-----	-----
Cash Used by Investing Activities	(360)	(199)
	-----	-----
FINANCING ACTIVITIES		
Long-Term Debt Issued	115	53
Long-Term Debt Repaid	(56)	(62)
Long-Term Debt Repaid to Parent	---	(86)
Dividends Paid	(28)	(29)
Other Financing Activities	1	(41)
	-----	-----
Cash Provided (Used) by Financing Activities	32	(165)
	-----	-----
CASH AND CASH EQUIVALENTS		
Increase (Decrease) in Cash and Cash Equivalents	125	(44)
Cash and Cash Equivalents at Beginning of Period	452	272
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 577	\$ 228
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
Consolidated Statement of Financial Position
(Millions of Dollars)

June 30,
1995

December 30,
1994

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 577	\$ 452
Accounts Receivable	58	93
Materials and Supplies	141	117
Deferred Income Taxes	187	241
Other Current Assets	76	57

Total Current Assets	1,039	960
----------------------	-------	-----

Properties and Other Assets

Properties - Net	8,936	8,897
Affiliates and Other Companies	189	189
Other Assets	178	195

Total Properties and Other Assets	9,303	9,281
-----------------------------------	-------	-------

Total Assets	\$10,342	\$10,241
--------------	----------	----------

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

Accounts Payable and Other Current Liabilities	\$ 1,177	\$ 1,159
Current Maturities of Long-Term Debt	85	89
Due to Parent Company	23	23

Total Current Liabilities	1,285	1,271
---------------------------	-------	-------

Long-Term Debt	654	591
----------------	-----	-----

Deferred Income Taxes	2,182	2,246
-----------------------	-------	-------

Long-Term Liabilities	1,460	1,481
-----------------------	-------	-------

Shareholder's Equity

Common Stock	181	181
Other Capital	1,061	1,047
Retained Earnings	3,519	3,424

Total Shareholder's Equity	4,761	4,652
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Total Liabilities and Shareholder's Equity	\$10,342	\$10,241
--	----------	----------

See accompanying Notes to Consolidated Financial Statements.

CSX TRANSPORTATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All Tables in Millions of Dollars)

NOTE 1. BASIS OF PRESENTATION.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position of CSX Transportation, Inc. ("CSXT") and its majority-owned subsidiaries as of June 30, 1995 and December 30, 1994, the results of its operations for the quarters and six months ended June 30, 1995, and July 1, 1994, and its cash flows for the six months ended June 30, 1995 and July 1, 1994, such adjustments being of a normal recurring nature. CSXT is a wholly-owned subsidiary of CSX Corporation ("CSX").

While management believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the financial statements and the notes included in CSXT's latest Form 10-K.

Certain prior-year data has been reclassified to conform to the 1995 presentation.

NOTE 2. RESTRUCTURING CHARGE.

In the second quarter, the company recorded a \$196 million pretax restructuring charge to recognize the costs associated with a contractual agreement with a third party to replace and technologically enhance its existing private telecommunications network. This initiative will result in a \$163 million write-down of technologically obsolete telecommunications assets and separation and labor protection payments totaling \$33 million to approximately 275 employees.

NOTE 3. ACCOUNTS RECEIVABLE.

CSXT has an ongoing agreement to sell without recourse on a monthly basis, an undivided percentage ownership interest in all freight accounts receivable to CSX Trade Receivables Corporation ("CTRC"), a wholly-owned subsidiary of CSX. At June 30, 1995 and December 30, 1994, accounts receivable sold under this agreement totaled \$590 million and \$579 million, respectively. In addition, CSXT has an agreement to sell with recourse on a monthly basis, an undivided ownership interest in all miscellaneous accounts receivable to a financial institution. Accounts receivable sold under this agreement totaled \$46 million at June 30, 1995 and December 30, 1994. CSXT has retained the collection and servicing responsibility with respect to all accounts receivable sold.

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
 (All Tables in Millions of Dollars)

NOTE 4. OTHER INCOME (EXPENSE).

	Quarter Ended		Six Months Ended	
	June 30, 1995	July, 1, 1994	June 30, 1995	July 1, 1994
	-----	-----	-----	-----
Interest Income	\$ 11	\$ 8	\$ 21	\$ 15
Gain on South Florida Track Sale Transaction	---	22	---	22
Loss on Investment Transaction	---	(14)	---	(14)
Fees Related to Accounts Receivable Sold	(13)	(11)	(27)	(22)
Miscellaneous	(2)	(6)	(4)	(10)
	-----	-----	-----	-----
Total	\$ (4)	\$ (1)	\$ (10)	\$ (9)
	=====	=====	=====	=====

NOTE 5. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES.

	June 30, 1995	December 30, 1994
	-----	-----
Trade Accounts Payable	\$ 529	\$ 511
Labor and Fringe Benefits	382	374
Interest, Taxes and Other	135	141
Casualty Reserves	131	133
	-----	-----
Total	\$1,177	\$1,159
	=====	=====

NOTE 6. CONTINGENCIES.

As part of its restructuring initiative, CSXT entered a contractual agreement with a third party to replace and technologically enhance its

existing private telecommunications network. The agreement was executed during the second quarter of 1995, and requires minimum payments totaling approximately \$330 million over its ten-year term.

CSXT is a party to various proceedings brought both by private parties and regulatory agencies related to environmental issues. CSXT has been identified as a potentially responsible party in a number of governmental investigations and actions relating to environmentally impaired sites that are or may be subject to remedial action under the Federal Superfund Statute ("Superfund") or corresponding state statutes. The majority of these proceedings are based on allegations that CSXT, or its railroad predecessors, sent hazardous substances to the facilities in question for disposal. Such proceedings arising under Superfund typically involve numerous other waste generators and disposal companies and seek to allocate or recover costs associated with site investigation and cleanup, which could be substantial.

The assessment of the required response and remedial costs associated with these sites is extremely complex. Cost estimates are based on information available for each site, financial viability of other potentially responsible parties, and existing technology, laws and regulations.

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(All Tables in Millions of Dollars)

NOTE 6. CONTINGENCIES, Continued

CSXT frequently reviews its role, if any, with respect to each such location, giving consideration to the nature of CSXT's alleged connection to the location (e.g., generator, owner or operator), the extent of CSXT's alleged connection (e.g., volume of waste sent to the location and other relevant factors), the accuracy and strength of evidence connecting CSXT to the location, and the number, connection and financial position of other named and unnamed potentially responsible parties at the location. Further, CSXT periodically reviews its exposure in all non-Superfund environmental proceedings with which it is involved.

Based upon such reviews and updates of the sites with which it is involved, CSXT has recorded, and periodically reviews for adequacy, reserves to cover estimated contingent future environmental costs with respect to such sites. The recorded liabilities for estimated future environmental costs at June 30, 1995 and December 30, 1994 were \$139 million and \$140 million, respectively. The liability has been accrued for future costs for all sites where the company's obligation is probable and where such costs can be reasonably estimated. The liability includes future costs for remediation and restoration of sites as well as for ongoing monitoring costs, but excludes any anticipated insurance recoveries. The majority of the June 30, 1995

environmental liability is expected to be paid out over the next five years, funded by cash generated from operations.

The company does not currently possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. Based upon information currently available, however, the company believes that its environmental reserves are adequate to accomplish remedial actions to comply with present laws and regulations. The company believes that the ultimate liability for these matters will not materially affect its overall results of operations and financial condition.

A number of legal actions, other than environmental, are pending against CSXT in which claims are made in substantial amounts. While the ultimate results of environmental investigations, lawsuits and claims involving CSXT cannot be predicted with certainty, management does not currently expect that these matters will have a material adverse effect on the consolidated financial position, results of operations and cash flows of the company.

NOTE 7. RELATED PARTIES.

Cash and cash equivalents at June 30, 1995 and December 30, 1994, includes \$624 million and \$510 million, respectively, representing amounts due from CSX for CSXT's participation in the CSX cash management plan. Under this plan, excess cash is advanced to CSX for investment and CSX makes cash funds available to its subsidiaries as needed for use in their operations. CSX is committed to repay all amounts due on demand should circumstances require. The companies are charged for borrowings or compensated for investments based on returns earned by the plan portfolio.

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CSX TRANSPORTATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
(All Tables in Millions of Dollars)

NOTE 7. RELATED PARTIES, Continued

In 1994, CSXT entered into a loan agreement with Customized Transportation, Inc. ("CTI"), a wholly-owned subsidiary of CSX, whereby CTI borrowed \$40 million from CSXT. Interest on the loan is payable semi-annually, with the entire principal amount due on January 1, 2001. Interest income was \$1 million for the quarters ending June 30, 1995 and July 1, 1994.

Included in Materials, Supplies and Other expense are amounts related to a management service fee charged by CSX, data processing related charges from CSX Technology, Inc. ("Technology"), and the reimbursement, under an

operating agreement, from CSX Intermodal, Inc. ("CSXI") for costs incurred by CSXT related to intermodal operations. Technology and CSXI are wholly-owned subsidiaries of CSX. Materials, Supplies and Other expense includes net expense of \$72 million for the second quarter of 1995 and \$49 million for the second quarter of 1994 relating to the above arrangements.

CSXT has an operating lease agreement with CSXI for 3,400 rebuilt coal gondola cars. The cars were previously owned and rebuilt by CSXT, and were subsequently sold to CSXI at book value. These cars are presently being leased by CSXT through March 2006. In addition, CSXT is leasing 65 locomotives from CSXI pursuant to a pre-existing operating lease agreement acquired by CSXI from a third party. These locomotives are being leased by CSXT through May 2008. In the second quarter of 1995 and 1994, rent expense includes \$5 million associated with the CSXI lease agreements noted above.

ITEM 2. MANAGEMENT'S ANALYSIS AND RESULTS OF OPERATIONS

Second Quarter 1995 Compared With 1994

Net operating income for the 1995 second quarter was \$28 million versus \$230 million for the prior-year quarter. Results for the quarter included the effect of a \$196 million pretax restructuring charge related to a contractual agreement with a third party to replace and technologically enhance the company's existing private telecommunications network.

Exclusive of the restructuring charge, transportation operating income declined \$3 million or 1 percent, to \$217 million for the second quarter of 1995, from \$220 million in the prior-year quarter. A 3 percent increase in revenue for the quarter was offset by a 4 percent increase in total operating expense.

TRANSPORTATION OPERATING INCOME
(Millions of Dollars)

	Quarter Ended			Six Months Ended		
	June 30, 1995	July 1, 1994	Percent Change	June 30, 1995	July 1, 1994	Percent Change
Operating Revenue						
Merchandise	\$ 797	\$ 786	1%	\$ 1,596	\$ 1,544	3%
Coal	379	363	4%	745	702	6%
Other	35	26	35%	64	49	31%
Total	1,211	1,175	3%	2,405	2,295	5%
Operating Expense	1,190	955	25%	2,188	1,941	13%
Operating Income	\$ 21	\$ 220	(90)%	\$ 217	\$ 354	(39)%
Operating Income (a)	\$ 217	\$ 220	(1)%	\$ 413	\$ 354	17%

(a) Pro forma basis, excluding \$196 million restructuring charge.

Transportation revenue, driven by traffic gains in both merchandise and export coal, increased 3 percent over the prior-year quarter to \$1.2 billion. Merchandise traffic rose 3 percent, benefiting from gains in a number of markets, notably agricultural products, phosphates and fertilizer, metals and chemicals.

Overall, coal volume rose 3 percent in the quarter to 39.7 million tons as exports surged 81 percent to 5.8 million tons, more than offsetting a 4 percent drop in domestic tonnage. Domestic volume was 33.9 million tons for the quarter, reflecting lower utility burn rates due to mild winter weather across the eastern United States.

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ITEM 2. MANAGEMENT'S ANALYSIS AND RESULTS OF OPERATIONS, CONTINUED

Second Quarter 1995 Compared With 1994, Continued

Excluding the restructuring charge, transportation operating expense was \$994 million in the quarter compared to \$955 million in the second quarter of 1994. Materials, supplies and other expense increased 10 percent, reflecting heavier traffic volumes. Labor and fringe benefit expense increased approximately 2 percent due to the greater number of train crews required to handle the higher traffic as well as a modest wage increase mandated by the Presidential Emergency Board No. 219.

First Six Months 1995 Compared to 1994

For the first six months ended June 30, 1995, CSXT reported operating income, excluding the restructuring charge, of \$422 million versus \$365 million for the same period in 1994. Continuing cost control efforts held expenses near 1994 levels while continued strength in the domestic economy and improved export coal volume combined to increase revenues 5 percent.

OUTLOOK

Entering the third quarter of 1995, CSXT is experiencing solid demand for export coal shipments as U.S. producers take advantage of increased economic activity abroad and favorable exchange rates. Merchandise traffic is expected to maintain its strength over the second half of the year.

CSXT continues to monitor and be actively involved in ongoing industrywide labor contract negotiations. These negotiations have traditionally taken place over a number of months and have not resulted in any extended work stoppages.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

1. None.

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 TRANSPORTATION, INC.

/s/ GREGORY R. WEBER

Gregory R. Weber
(Principal Accounting Officer)

Dated: July 28, 1995

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