


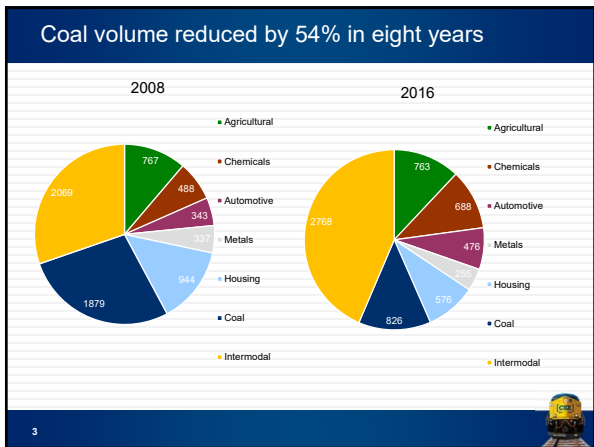


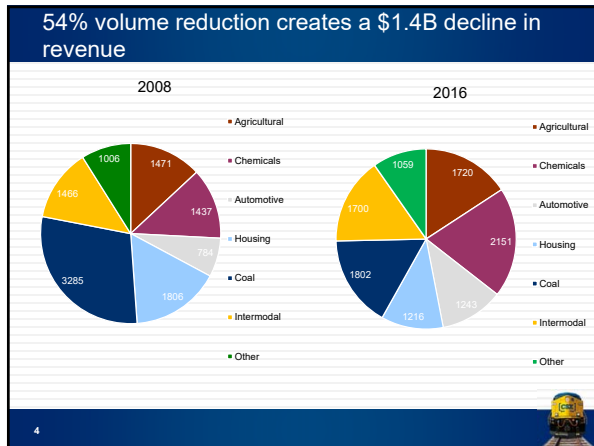
Overview

- Impact of coal to railroad industry
- Asset background and its impact from coal
- Accounting impact on assets
- Future spending impacted by coal

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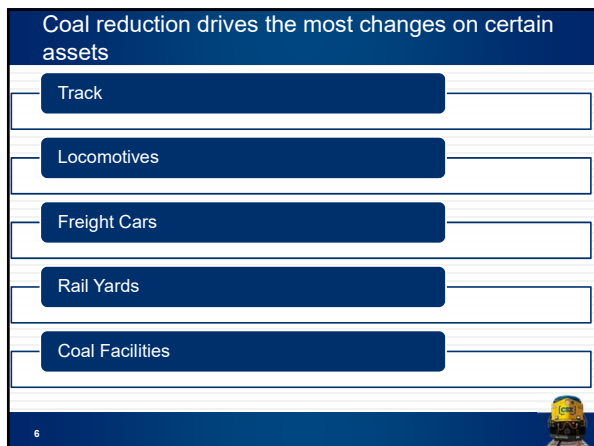


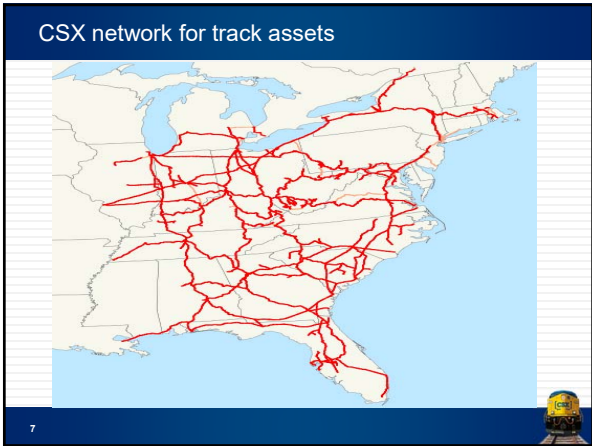


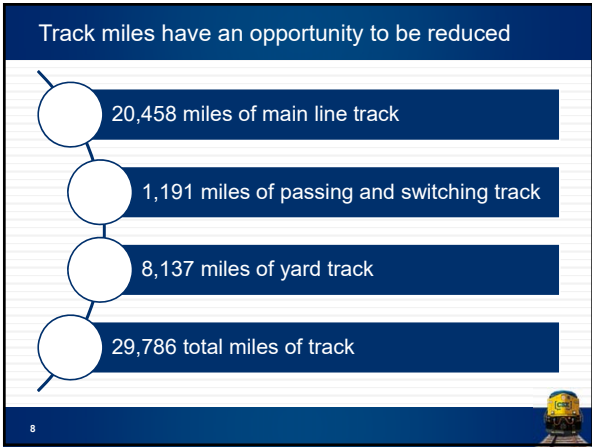


6 of the Top 10 private owned companies in San Diego would close

Company	Revenue	Employees	Industry
General Atomics Aeronautical Systems	\$634.6M	7,314	Energy
Mitchell International	267	819	Technology
Rubio's Restaurants	188.9	646	Restaurants
American Specialty Health, Inc	155.7	816	Health Care
La Costa Resort & Spa	55.1	783	Real Estate
Premier Food Service	28	607	Restaurants
Totals	\$1,329.3M	10,985	N/A








Continuous network of track is divided into segments

- Track assets include
 - Ties
 - Rail
 - Ballast
- Asset groups
 - Density 1 = greater than 20 GTM's
 - Density 2 = less than 20 GTM's
 - Density 4 = Yards and sidings

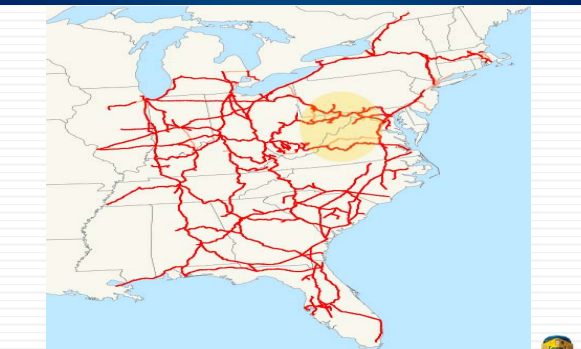

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Coal has impacted central network traffic patterns

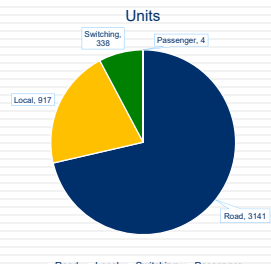
- Lower tonnage on network
 - Coal is a heavier material than merchandise
 - Units of Production vs Whole Life
- Re-route impacts network
 - Traffic converts density 1 to density 2
- More valuable to sale or impair the asset
- Maintenance expense could be reduced
 - Trains would run at lower speeds



CSX network that has the most impact from coal





Road locomotives have the biggest opportunity for reduction due to their number




Category	Count
Road	3141
Local	917
Switching	338
Passenger	4

- Two providers for locomotives
 - GE
 - EMD
- Multiple classes under each axle
 - 27 classes of 6 axle
 - 22 classes of 4 axle
- Positive Train Control devices are on each unit
- Depreciate locomotives in four different groups



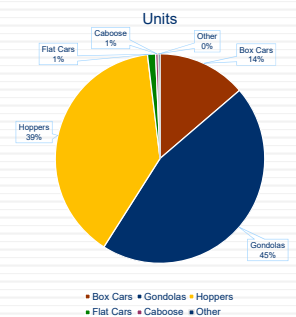
Train reduction contributes to surplus of locomotives

- Train size changes traffic
 - Unit trains are reduced
 - Length of train increases
- Count of locomotives are reduced
 - Road locomotives can be removed
 - Local and switching units potentially increase
- Cost are lower
 - Capital cost
 - Maintenance cost
 - PTC cost



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Freight Cars follow locomotive destiny




- Different car types are no longer needed
 - 1,126 car types
 - 23 depreciable groups
- Purchased new cars and used cars
- Some cars have mixed materials
 - Aluminum
 - Steel

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Purging of cars resemble locomotive process



- Reduce unnecessary cars
 - Gondolas
 - Hoppers
- Reduction in car count will reduce depreciation expense
- Cars have 50 year life to move between different railroads
- Carry different product than coal
- Cost are lower
 - Capital cost
 - Maintenance cost



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Some rail yards are impacted by business change


- Close rail yards built for coal
 - Erwin
 - Corbin
- Coal Facilities scale back
 - Capital Investment decreases
 - Maintenance cost decrease
- Use facilities for other purpose



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Once it's decided to no longer use the asset for operational purposes there are options for disposal

- Impairment
- Sale
- LKE
- Keep
- Relocate
- Repurpose




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How do I know if an asset can be impaired?

The trigger to see if an impairment exist:


Test the asset for recoverability whenever events and circumstances change that indicate the carrying amount may not be recoverable
(ASC 360-10-35)



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Factors must be met before impairment can exist


- A significant decrease in market value
- A significant change how the asset is used or its physical condition
- A significant change in legal or business factors that could change the value of asset
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition of asset
- A current period operating or cash flow loss
- A current expectation that the asset will be sold or disposed of before the end of useful life

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Accounting once an asset has qualified for an Impairment

- Any of the six criteria items must exist to qualify
- Need to evaluate the assets value
 - Fair value versus net book value
 - Fair value must be lower

Accounting	
Debit	Credit
Operating Expense	Accumulated Depreciation

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Six criteria must be met for assets to be held for sale

- Commit to a plan to sell the asset
- Asset is available for immediate sale in its present condition
- Actively looking for a buyer
- The sale is probable within 1 year
- Actively marketing the asset at a reasonable price
- Unlikely the plan to sell will change

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Accounting treatment for held for sale assets


- Cease depreciation
- Measure at lower of Book Value or fair value
 - Less sell cost
- For material dispositions, gain/losses accounted for in accumulated depreciation
- Break out separately on balance sheet
- Classify in other assets on balance sheet



Sale of an asset results in no gain or loss recorded

- Other Railroads
 - Class I
 - Shortline
- Customers
- Scrap
- Government


Accounting	
Debit	Credit
Cash	Salvage
Accumulated Depreciation	PP&E



Like Kind Exchange on assets

- Exchange for asset
 - Same assets
 - Different assets
- Tax savings
- Cash received handled by third party
- LKE parties
 - Other RR
 - Cities

Accounting	
Debit	Credit
PP&E	Salvage
Accumulated Depreciation	PP&E




Assets that would potentially be used for LKE

- Track
 - CSX traded 26 miles of track to CN for 2 miles of track
 - Both transactions benefitted from the transaction

- Locomotives
 - For Locomotives
 - For Freight cars

- Freight Cars
 - For Locomotives
 - For Freight cars



Keep assets in place and continue depreciation


- Asset continues to depreciate
 - No changes to asset

- Possible to reduce the rate

- Hope for business to return

- Assets placed into storage
 - Locomotives
 - Freight cars

Accounting	
Debit	Credit
Depreciation Expense	Accumulated Depreciation




Relocate the asset to use in another location

- Capital vs Expense
 - Extend future benefit is capital
 - No benefit is expensed

- Property Tax is impacted
 - County
 - State

- No impact to Depreciation Expense


Accounting	
Debit	Credit
No Impact	No Impact



Repurpose the asset for a different usage

- No cost impact
 - Freight cars moving different product
- Possible change in depreciation impact
 - Containers used as buildings
 - Storage sheds


Accounting	
Debit	Credit
No Impact	No Impact

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Assets included in each transaction


Impairment	Sale	LKE
<input type="checkbox"/> Track	<input type="checkbox"/> Track	<input type="checkbox"/> Track
<input type="checkbox"/> Locomotive	<input type="checkbox"/> Locomotives	<input type="checkbox"/> Locomotives
<input type="checkbox"/> Freight Cars	<input type="checkbox"/> Freight Cars	<input type="checkbox"/> Freight Cars
<input type="checkbox"/> Rail Yards	<input type="checkbox"/> Rail Yards	
<input type="checkbox"/> Coal Facilities	<input type="checkbox"/> Coal Facilities	

Keep	Relocate	Repurpose
<input type="checkbox"/> Track	<input type="checkbox"/> Track	<input type="checkbox"/> Locomotives
<input type="checkbox"/> Locomotive	<input type="checkbox"/> Buildings	<input type="checkbox"/> Freight Cars
<input type="checkbox"/> Freight Cars	<input type="checkbox"/> Conveyor Belts	<input type="checkbox"/> Rail Yards
<input type="checkbox"/> Rail Yards	<input type="checkbox"/> Signals	<input type="checkbox"/> Coal Facilities
<input type="checkbox"/> Coal Facilities	<input type="checkbox"/> Communication	

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Long term impacts are focused around capital investments

- Reduce capital spending on coal facilities
- Available spending is moved to other assets
 - Reduce track spending
 - Increase vehicles
 - Increase technology investment
- Overall spending could be reduced



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