


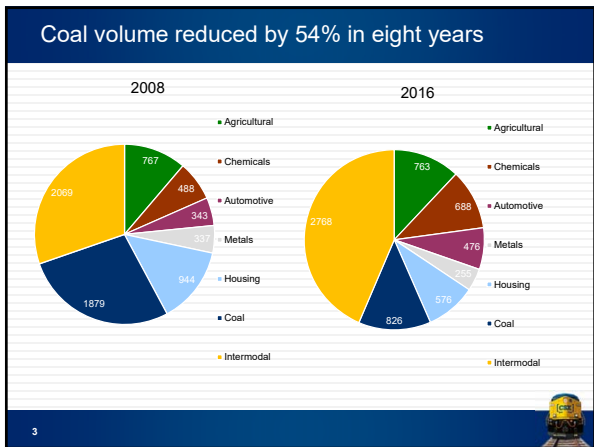


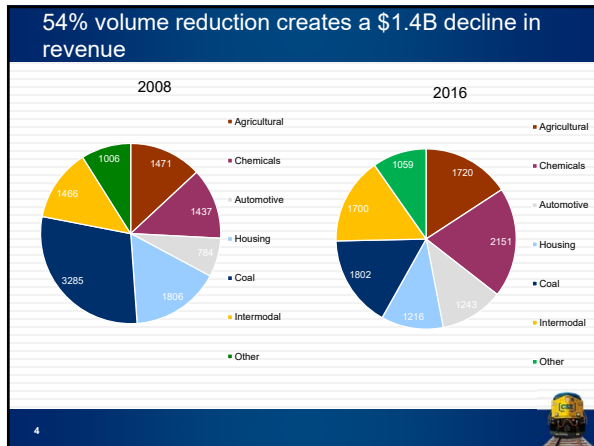
Overview

- 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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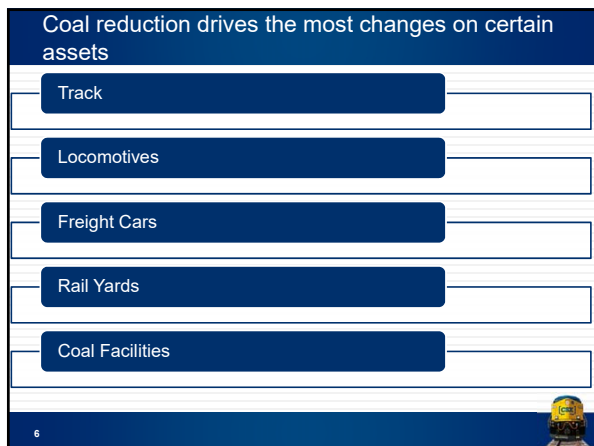


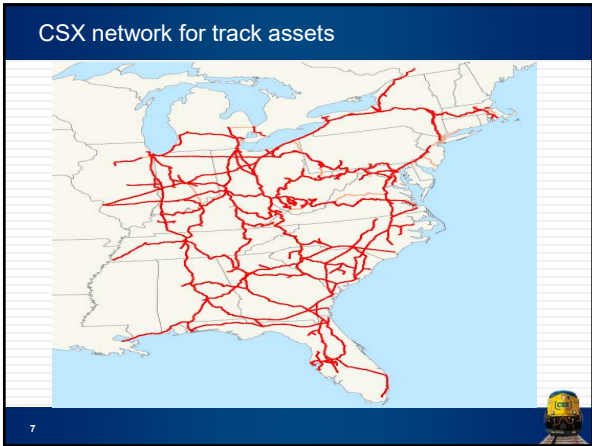


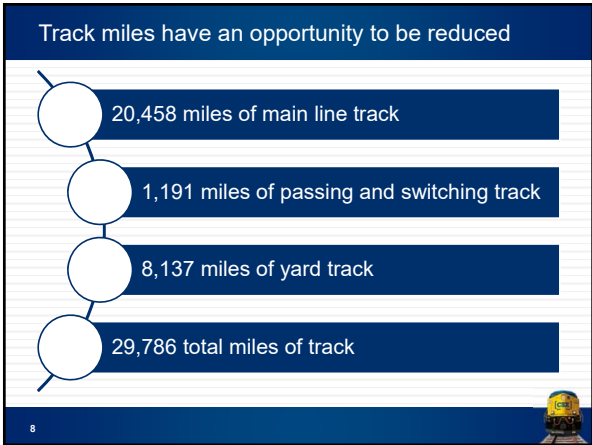
6 of the Top 10 private owned companies in San Diego would close

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

5 www.bizjournals.com 








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



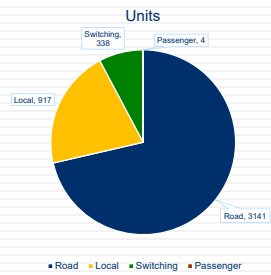
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CSX network that has the most impact from coal




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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



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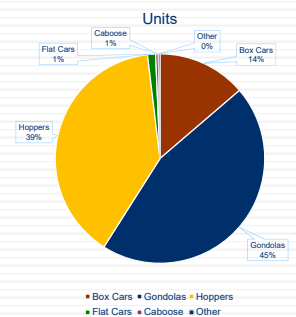
Train reduction contributes to surplus of locomotives

- 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

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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

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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


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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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