Glass Lewis Proxy Talk

CSX Corp. Proxy Contest Call with Dissident Shareholder TCI

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OPERATOR: Good day, ladies and gentlemen, and welcome to the Glass, Lewis Proxy Talk conference call. All lines have been placed on a listen-only mode for this call. Institutional investors that would like to ask questions of the participants may do so by e-mailing them to proxytalk@glasslewis.com.

Before we get started, I'd like to remind everyone that our conference call series, and this call in particular, should not be considered a solicitation of proxies by Glass Lewis and Company. Glass Lewis has not sought permission to do so from Securities and Exchange Commission, nor will it.

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As a reminder, this conference call is being recorded. At this time, it is my pleasure to turn the call over to our host, Warren Chen, Managing Director Mergers and Acquisitions Research at Glass Lewis and Company.

WARREN CHEN: Thank you very much. Hello, everyone, welcome to Proxy Talk. On this call today, we'll be discussing the proxy contest at CSX.

Joining me on the call today is Mr. Snehal Amin, one of the founding partners at TCI. And here is a little background before we hear from Snehal – excuse me.

Visidon Holders, TCI and 3G Capital owns about 12.3 percent of CSX outstanding shares, and the group is seeking to convince fellow shareholder to elect five of its director nominees in place of in common directors. The TCI group believes there are substantial opportunities for improvement at CSX, and that its slate of directors will best help identify and realize CSX potential.

And CSX's annual meeting is scheduled for June 25th. Bear in mind, if you have any questions today, if you would like to ask, please e-mail us at proxytalk@glasslewis.com, again that's proxytalk@glasslewis.com, and we will work them in during the question-and-answer session.

At this point, I'd like to offer an opportunity for Snehal to provide some background on the contest, and his point of view in terms of why shareholders should vote for the Dissident slate. Snehal?

SNEHAL AMIN: Fantastic, Warren, thank you very much for the introduction, and thank you everyone that's participating on the call for giving us a chance to make our case.

I'd start with just a little bit of background on who we are at the Children's Investment Fund. I was one of the founding partners of the fund, and we started the fund in 2004 with the objective of bringing a long-term fundamental type of value investing to the public markets. I started my career in private equity, Chris Hohn started his career in private equity, and that's really the way we wanted to invest.

And what that means to us is investing with an indefinite time period, investing in businesses that we can understand and like and would live with for a long, long time, and investing as owners of the businesses. And so if we saw opportunities to try to create value from the outside as investors, that we would explore those opportunities with management.

And the reason it's called the Children's Investment Fund is the vast majority of our profits, well over 70 percent of all the money that we make from all of the fees we generate managing the fund are donated to a foundation that funds children's causes in the the developing world. And so that's the background on us.

I think what the most important thing for us to make clear here is what is our objectives in running a proxy contest at CSX? Our objective together with that of our partner, which is 3G Capital, another very large shareholder in CSX, they own four percent of CSX, is really to make CSX the best railroad in America, and work hard to take the company in that direction. And the question we ask ourselves is, are we on our way right now?

And we don't believe we are, and the reason we say that is when you look back historically at the performance of CSX, almost all the improvement and profitability at this company has come as a result of pricing, which is an industry wide phenomenon. But what really sets Canadian National apart from CSX isn't the pricing, but the productivity. So Canadian National has an EBIT margin today that's nearly 40 percent, and you compare that to CSX's EBIT margin of about 22 or 23 percent, it's a huge gap, and the different is productivity.

And so we don't feel like we're on our way to getting to Canadian National, and we're a little disheartened when management continues to claim that Canadian National should not be the benchmark. We from the outside have spent a lot of time, we've spoken with every railroad management team, including spending a fair amount of time with the Canadian National management team, and we have 50 years of railroad experience amongst our nominees.

And all of that tells us that what Canadian National has accomplished can be replicated at CSX, and I think probably the most credible person in the world to make that judgment is the CEO of Canadian National, it's one of the best CEOs we've ever come across, a guy by the name of Hunter Harrison, who grew up in the U.S. railroad system. And so he knows U.S. railroading, and he knows Canadian National, and he said unequivocally that it can be replicated.

And so when someone of that stature tells us again together with the 50 years of railroad experience we have amongst the nominees that we're presenting for the board, that it could be done, that seems to us to point to the fact that the opportunity certainly exists.

The second question we ask ourselves then is, is the current board the right board to get us there? And again, we don't feel that it is, and for that reason, we propose replacing five of the existing nominees with five highly qualified directors, and I'll just spend a second and highlight to you who they are. And this is also on page 11 of our presentation, or white paper presentation entitled the case for change, which is available at our Web site, www.strongercsx.com.

On page 11 of the presentation, you see who the nominees are that we've put forth, the first is Chris Hohn, who's the founding partner and managing partner of the Children's Investment Fund. I think everyone should know that CSX is the single largest investment at the Children's Investment Fund, it's 20 percent of our total fund that's invested in CSX.

The second is the managing director of 3G Capital, CSX is also the largest investment for 3G Capital. But the other benefit of Alex Behring is prior to running 3G Capital, he ran the Brazilian Railroad for nearly a decade. And the Brazilian Railroad right now is significantly more profitable than CSX, despite having many, many – having a less efficient business mix and much less traffic density, more profitable than CSX. And he basically implemented the CN model down in Brazil.

Our third nominee is Gil Lamphere, who's probably been the most successful railroad investor over the past few decades, he led the buyout of Illinois Central, they made 30 times their money at Illinois Central. They merged Illinois Central into Canadian National, taking the management team and Hunter Harrison with them to Canadian National, and they made 10 times their money there.

Gil has been on the board of our different railroads that have revolutionized to being precision scheduled railroads, and that's the path that we think CSX should take.

The fourth nominee is Tim O'Toole, who is intimately familiar with CSX, roughly 40 percent of what is CSX today used to be Conrail, which is the business that Tim O'Toole was the CEO of. And so he knows that incredibly well, as well as the rest of the CSX network.

And the last nominee is Gary Wilson, and the reason we wanted Gary Wilson, who is the former chairman of Northwest Airlines, former CFO of Disney and Marriott, is because in a lot of ways airlines are very similar to railroads, they're both pub and spoke network related systems, with one big difference, which is airlines live on the brink of bankruptcy, and so there's a sense of urgency and a sense to drive productivity that exists in the airlines – in the airline management teams that we frankly haven't found as much of in the U.S. railroad management teams, and certainly not at CSX.

To contrast that, the five nominees that we've looked to replace have no railroad experience whatsoever, have never run a railroad, they're a business school professor, a contractor, the ex-vice chairman of Sendant, a philanthropist and a doctor, many of which have been on the board for 15 years or longer. And so we look at them and say – and we've never met them, so we have no personal grievance with them. But we just look at them and say whatever value they could have added to the CSX board, it's likely that they've already added it given their tenure. And their experience certainly doesn't indicate that there is a lot of incremental value that they can add, certainly vis-à-vis the slate that we're putting forth, again with the 50 years of railroad experience.

The other very important difference I think between the two board slates is our board slate has – and I'll correct you here, Warren, we have a nine percent ownership of CSX in shares. We have an incremental economic exposure in the form of swaps of 12.3 percent, and so a total economic exposure between our group of roughly 20 percent of CSX. That contrasts to the entire CSX board – right now excluding Michael Ward who is the Chairman and CEO – having an ownership of only 14 basis points. And so not only does our slate bring with it much more railroad experience, but it brings with it a huge economic incentive to ask the right questions and to really push for what's going to create the most value for shareholders because we really are a couple of the company's largest shareholders.

The other point I would just raise in introduction is there's a lot of noise in the proxy compound. You know along the way here we've been dragged to Washington DC in a hearing that looked like it was effectively bought by a $1 million personal donation by Michael Ward. We've been sued, and wrongly so, and we're certainly appealing that decision. Because of that, you know we've been deemed a national security threat despite the fact that the majority of TCI's capital comes from the U.S.. I'm responsible for this position and responsible for our U.S. investing business. I'm an American born and raised. So there's a lot of noise you know – and the shareholder meeting was delayed. The record date was reset.

You know but all of this is really just noise meant to distract from the real issue. Right? And the real issue is how profitable can CSX be long-term and how are we going to get there? And which board nominees are going to put us in the best position to get there?

And so you know we hope that all the shareholders can look through the noise and the mudslinging and just focus on the real opportunity that is going to create value for all of us, all of the CSX shareholders long-term.

And the last point I would make is the shareholder pressure has created real value here. You know, before we started in this process, CSX had a $500 million buyback plan. It's not a $3 billion buyback plan. Before we started this process, CSX said, "We don't need anyone with railroad experience on our board because no railroad in the U.S. has anyone with railroad experience on their board." And they've now nominated John McPherson who has real railroad experience to the board and someone that we respect greatly and we're excited to vote for and see on the board.

You know they've raised guidance 20 percent. They finally have put out a real productivity target of $400 million. We think the productivity potential is $2.2 billion, but at least now it's no longer a debate of whether the opportunity exists. It's not just a debate of you know how big is the opportunity, how quickly can we realize it and which board nominees are going to put us in the best position to get there.

And so the pressure really has served shareholders well, and we think is indicative of what can be done in the future if we can have some of this expertise directly on the board at CSX.

So I'll close there, Warren, and happy to take any questions that your audience or that you have.

CHEN: OK, thank you. Let me ask this, and you mentioned a little bit about this in your opening remarks. You know there has been much contention on the subject of you using slops to build up your position in CSX. And associated with that you know the potential voting situation of those underlying shares. Now looking back, do you think that whole thing distracted from the message you're trying to get out there? And I guess the question is, why not just buy common shares?

AMIN: Yes, it has been a distraction, Warren. And to make one thing very clear, we have no voting ability on that 12.3 percent economic exposure, none. We don't have any agreements. If there's any soft underlying, the swaps, we don't have the ability to direct the vote. We have no wink and nod arrangements. There's nothing. And so you know the facts are very clear on this matter, but unfortunately it has been a distraction. You know what we will vote at this shareholder meeting is the 8.7 percent that we have as a group between TCI and 3G Capital.

CHEN: And, as an investor, do you hold other positions in other rail companies?

AMIN: We do, and I'm glad you raised that. We're a very large shareholder of Union Pacific. In fact, we own roughly four percent of Union Pacific as well, similar to our ownership at CSX.

But the one very big difference we find there is the opportunity – the opportunity we think is similar, the potential is similar. But in our interaction with the Union Pacific management team it's very clear to us that they are very hungry and determined to realize that productivity opportunity. Right? So you know I'd point – you know for anyone that was at both the CSX investor day and the Union Pacific investor day, there was a very stark contract. There's a stark contrast between the information that's provided to shareholders, how shareholders are treated, the transparency that's provided to shareholders – and the targets, the productivity targets that the management teams lay out.

Like Jim Young says publicly he is targeting zero percent cost inflation. That's a real productivity target. AT CSX, there wasn't a productivity target up until very recently. In fact, we hadn't seen one although the company claims that they put it out, but it's not in any presentation that we can find. Up until May of this year, we hadn't seen a productivity target at all. And now you know they say, "We have a $400 million productivity target." The difference is you can't hold management accountable for that because you don't know whether it's being realized. Right? Where Jim Young's productivity target, every quarter, all the shareholders can judge whether they're getting productivity or not. Right? So you can look at how their costs are inflating versus inflation.

And so you know the difference to us isn't how big is the opportunity at Union Pacific versus CSX. It's is it going to be achieved without shareholder pressure And we think at Union Pacific it largely will be. And at CSX, unfortunately, it won't.

CHEN: I think at least two labor unions came out to support CSX. And what role do you think they have and play in this contest?

AMIN: Yes, the labor unions are very important. And you know we've said publicly and we wrote it in our first public letter we're disappointed at the way that CSX has handled labor relations. And the UT, which is actually the largest labor union, had come out and supported us originally. Their support got traded away in the context of a collective bargaining agreement so that they have to go neutral.

And we're obviously disappointed that the other labor unions didn't support us. Right? The one thing I can say is what we're trying to push for here is something that's good for all the stakeholders. By providing better service to your customer and better reliability is better value for the shipper. Right? You know trying to work with labor to make the railroad safer is better for everyone that's working – all the 30,000 people that are working at CSX. Right?

There's real – I mean Alex Baring, for example, who you know used to run the Brazilian railroad, within a couple of years of him taking over that railroad, the employees at ALL, which is the name of the railroad, voted ALL one of the best companies to work for in Latin America. Right? And one of the ways they got there is Alex used to drive trains one week a year. When he became the CEO he went and got an engineering license so he could actually drive the trains. He slept in every sleeping quarter in the entire network, which spans 80 percent of the economic area of South America. And so he got a real feel for what the issues were. You know how to improve workers' lives, how to improve safety. They reduced the accident rate by 86 percent over his tenure there at ALL.

And so we all acknowledged that we can only get to where we want to get if you know the workers and the shippers, the customers, are supportive. And so they're incredibly important to this process.

CHEN: OK. Now I guess part of your message is improved operations through safety, it's to benefit the employees, and results in a financial benefit for the shareholders. And yet the union –at least two of them – came out against you. And you mentioned that one of them traded – I guess the third one traded support to a collective bargaining agreement. Is that – now how do you think shareholders should look at that?

AMIN: Well I – in terms of a recommendation to vote, I think it's very hard to take anything away from that. And we –the BLET who recommended voting against us you know we've tried to meet with the leadership of the BLET, and we weren't able to do so. Right? So I think there's some element – you know management has an inbred advantage in access to these unions that we from the outside don't have. You know so, to me, their recommendation on how to vote is much less important than what are we trying to accomplish here for the benefit of their constituency. Right? It's the actual workers that are on the CSX network. I think that's more important. And we get tons of letters and e-mails onto our Web site from people that are actually working in the network that are tremendously supportive of us. You know, the recommendation that the union leadership gives out –when they weren't willing to meet with us I'm not sure that there's anything that shareholders should really take away from that.

CHEN: OK. The improvements that you cited that made up that, the 2.2 billion, I guess a fairly high level – I mean even with the potential actionable opportunities that you listed – you know do your nominees have a detailed plan and are they confident that these productivities, opportunities are really realistically achievable?

AMIN: Yes. I'd make two points to this. Do we have a detailed operating plan? Of course not. You can't have a detailed operating plan until you're on the inside. And you know we've never seen the load map, for example, of CSX or even a detailed network map of CSX or a terminal map for that matter of CSX. And so you can't come up with a detailed operating plan from the outside.

But what you can do and what we have done is use all the publicly available information and combined it with the 50 years of operating experience that our nominees have from running some of the worlds most efficient railroads. And that's what's led us to this conclusion, right, on the productivity opportunity.

Another very simplistic way of looking at it is you know just look at CN. Right? CN used to have a three percent EBIT margin. Right? And when it became public in the mid '90s, everyone said, "Oh you know CN can never be as profitable as the U.S. railroads." Right? Because the winter weather is much worse, their traffic density is so much lower than the U.S. railroads. Their business mix is so much less efficient because they have so many fewer unit trains, which are the most profitable type of business. Right? And CN, at that point, had a 10 percent EBIT margin. And people were saying, "That can never get to 20," which is where the U.S. railroads were and where CSX was. Right?

Well Hunter Harrison said, "That's not true, and I'm going to fix it." And he took the EBIT margin there from 10 percent to 40 percent. Right? And over that same period the U.S. railroad just stayed at 20. And now all the – you know all the excuses are in reverse for why U.S. railroads can't get to Canadian National.

Well, the fact of the matter is, Canadian National is now the world's most profitable railroad. And just look at the margin difference. Right? When you look at a margin difference that's that wide, right, it tells you that there's an opportunity there. Right? When the CEO of that business tells you, "Look, you can replicate exactly what we did here at CSX, and if you did it would be even more valuable than what was done at Canadian National because CSX is a more complex network." That has to tell you something. Right?

And the Canadian National management team and the CSX management team have met several times to try to get CSX to become a scheduled railroad. And so the Canadian National management team knows the issues within CSX and the business mix differences and all those points. You know but they're still convinced that it can be done.

CHEN: OK. You mentioned that there's all the pressure and the company has made some positive steps in the design and productivity targets, a share buyback. So I mean it sounds like they have done a lot of things that you have suggested. And what else is there and how to go about doing those?

AMIN: Yes. Look, I think the company has been responsive on some of the points. You know the differences – you know let's take the buyback for example. Right? When we were pushing the buyback, the stock was in the mid 30s, right, and the company had a $500 million share buyback program. It's great that the buyback program has been increased to three billion and the company is now much more aggressively buying back its stock, but it's buying back its stock at nearly double the price of when we first started trying to engage with management on this point. So shareholders have lost $30 a share of accretion from the buyback all because management's first response was to resist any kind of change without looking at the merits of the case. Right? So yes it's great that it's happening now, but you know we all would have been better off if it had just happened sooner.

You know the other point I would make is this productivity opportunity is enormous. Right? And you need the experience of our nominees to try to extract it. Right? Because there's no one who at the board right now is sitting there and asking the question why don't we have onboard computers on our trains. Right? Alex Baring implemented on board computers. It cost $6,000 a locomotive. They reduced the fuel bill by 25 percent and reduced the accident rate dramatically. Right? But who on the CSX board can sit there and say, "Well, why don't we implement this technology?" Right? They have GPS technology on all the trains in Brazil, which they don't have at CSX. Right? You need people that have the experience to say, "Look, we know this works, right, we've tried it. Here are the results."

But that can only happen if you've run a railroad. I mean this is – you know when someone looks at our white paper presentation you know it's an 80 page presentation. The company put out its own rebuttal to this in another 80 page document. Right? You can tell from the two documents that this business is incredibly technical. Right? Just take for example our analysis that shows that 90 percent of the increase in EBIT as a result of productivity is – as a result of pricing, sorry, and very little as a result of productivity. The company has its own analysis that shows, I think, 40 percent of the increase in EBITDA is as a result of productivity, right, versus our eight.

The difference is our analysis is done on a revenue – or on a car load basis – and their analysis is done on a revenue ton mile basis. Well who on the existing board knows which one is the right metric to use? But it's a deeply technical question to use a car load or do you use a revenue ton mile for this metric? Right? You have to really understand railroading and have been a railroader to understand which is the right metric to use. And so that's why you need this experience on the board.

And also I think shareholders should ask themselves how much is it worth if you're just being responsive versus being proactive and trying to create the value. Right? It's got to be worth more to be proactive than only responsive.

CHEN: So the stock is trading at around oh $63 per share. So do you – at this level, do you still support stock buyback?

AMIN: We do, Warren, so we do in the context of what we think can be accomplished here. Right? If we're right in this white paper presentation, we think the earnings power of this business is quadruple what it is today. Right? Within five years' time. Right? If CSX really can earn four times as much in five years time as it does today, then buying the stock at $63 is a bargain. Right? You know, obviously if it can't achieve that, then you've come to a different conclusion. So it's really a question of can you get – can you get this accomplished, right? Can you extract the $2.2 billion of productivity or not? You know and that will determine how aggressive you should be on the buyback.

CHEN: I guess here's a question in my mind and perhaps in shareholders' minds. Listening to what we have talked about so far –although we didn't – you haven't gotten into any details of operations or finance it – so you said that you know you guys don't have access to detailed information that management has. And you're looking at it from outside.

And yet there's – you know you've projected the potential of 2.2 billion dollar opportunities. How should shareholders look at it and say, "OK, well that's definitely there or …" What happens if you guys go in and the opportunity is not there and you have the additional information?

AMIN: Yes. If we go and the opportunity isn't there, then we'll work hard just to realize whatever opportunity is. Right? Let's take the extreme example. Let's say we go in and we realize everything that we thought was wrong, right, once we get the inside information, and the productivity opportunity really is only $400 million, then we'll work hard to just to get that $400. But what have shareholders lost in that case? Nothing, right?

The last – you know the people that will lose the most by there being gridlock on the board or by trying to push for something that isn't achievable is TCI and 3G because these are the single largest investments in our fund, but it's 20 percent of TCI's fund and an even larger percentage of 3G's fund. We have the most to lose if we do something that's bad for this company. Right? So everyone, I think, should be able to rest assured that we're not going to push for something that isn't achievable. Right? So you know this is based on everything we know from the outside. But if the opportunity isn't there, it isn't there. But what you will know, certainly, is the right questions will be asked. Right? Like the questions of, "Can we operate like Canadian National?"

Here's another point. We found that 23 percent of the hours CSX pays for don't get worked. And at Norfolk Southern that number is 12 percent. Right? And we found it from an obscure STB wage bill report. Right? Well, who on the CSX board is going through the STB filings to try to figure out whether this is an opportunity or not. Right? Who is doing that work? Right? Who has the economic incentive to do that work? Really no one, right? You know who, again, who is asking about the onboard computers or the ECP brakes or you know how hard we should push on trying to move the regulation to replacement cost. You know, we've been banging the table on this for over a year and management now is finally talking about replacement cost, but none of the board members are. Right? They're not – you know they're not advocating this. And so you know that that rigorous debate is going to happen. Right?

The right questions are going to be asked by people who have the experience to ask them and to really challenge management. When management says, "Oh look at all this productivity we've created because they're showing it on the revenue ton mile basis, someone needs to say, "Well, look, most of the costs in the business are fixed, and so it's more appropriate to look at it on a car load basis." And revenue ton miles is skewed heavily by mix, right? And we've had a great benefit in more coal traffic, and that revenue ton mile calculation takes that mix impact and calls it productivity, which isn't right. And so maybe we shouldn't do that. Right?

And so maybe we're not getting the productivity that we think we're getting, but who is going to ask that question right now?

CHEN: OK. So the growth that you're talking about, it's– I guess for any company in any industry it seems very aggressive. Again, looking from outside how confident you are that the growth that you're talking about is possible?

AMIN: It's the increase in the EBIT margin you mean?

CHEN: Yes.

AMIN: That, well, look. Look at what Canadian National did. Right? When Canadian National was at three percent EBIT margin business, who would have said that a decade later they would have been a 40 percent EBIT margin business. Right? That's more than 10 times the level of profitability, and they did it inside a decade. So we're not talking about that. We're talking about potentially quadrupling over a five year period. Keep in mind, by the way, that when Canadian National did that, the pricing environment was nowhere near as favorable as it is now. Right? The entire industry only found pricing power in 2003, 2004. Canadian National was already very close to its 40 percent EBIT margin before that. Right? So they did it only as a result of productivity.

You know the beauty of the CSX business, and the reason we like railroads is earnings will grow here as they have in the past. And they'll grow as a result of pricing. Right? If you look out at management's forward guidance, it's almost all pricing. And so that's a big boost that we're going to get irrespective, right, whether they tackle the productivity opportunity or not. But Canadian National tells you that even if you don't have pricing, if you run the railroad property and you provide value to your shippers you can massively increase the profitability of your business and in a very short time.

CHEN: So in making your case, you're putting a lot of weight on Canadian National and its performance. But so if we look at the safety records of Canadian National, and I think that – I mean Canadian National railroads has one of the worst safety track records, right? CSX, in fact, actually is – was second lowest in personal injury, third lowest in train accidents. Should shareholders draw a linkage there between CN's style of operation and performance with the safety records?

AMIN: Yes. It's actually not – that's not right, Warren, what you just said. What CSX does is they only take a part of CN's network when they give you that number instead of the entire Canadian National network, which is what you have to take. When you look at the entire Canadian National business and compare it to the entire CSX business, which is the only way to do the analysis properly, Canadian National has a better accident rate than CSX.

CSX prefers to look at the injury rate, but what I'd caution you on there is there is a very good chance that that injury rate is artificially low because there is a culture of intimidation at CSX that causes people not to report injuries. And one of the things we learned from the largest labor union, for all the railroads, is half of all of the intimidation cases that get reported to them get reported to them from people working at CSX despite CSX being less than a quarter of their total membership base. Right? So you know there's a real intimidation problem, and it was so bad that the FRA, who is the regulator responsible for railroad safety, did a multiyear investigation at CSX and they confirmed, in fact, that there was an intimidation problem.

And so you know if you have an intimidation problem that leads people to under report injuries, then, sure, your statistic on injuries is going to look better. But even after that you know it's still, at best, average. And the accident rate, which, frankly, is more important because accidents are what affect your network, right? You can have an accident that will shut down part of your track, but no one can be injured. Right? So you know that's an important thing to monitor. And when you look at accident rate, CSX ranks average, or it ranks third out of six. And CN ranks above it.

Right? So I'd just highlight, for those that aren't familiar, we filed a couple of days ago about a 20 page document. It's filed with the SEC. It's also available on our Web site. That highlights, that goes through the company's analysis and makes a lot of these points that clarify their analysis, right, and highlights you know where the company is using just the wrong information or the company – you know where the company's analysis is flawed. So I'd certainly encourage people, if they're interested in digging into the analysis and looking at the discrepancies between our analysis and theirs, this 20-page document will help shed light on what the differences are.

CHEN: Turn to a couple of questions that got e-mailed in here. Question says that, looking at CSX stock performance, their total return seems fairly reasonable. Why do you believe that CSX management has not been ambitious enough?

AMIN: Because we look at the stock performance and we dissect it a number of different ways. Right? We – the first question we ask is how much of the stock performance is as a result of management action. And if 90 percent of the earnings growth is as the result of pricing and pricing is an industry-wide phenomenon, then we don't give management much credit for that. And so when you look at – we actually have a slide in our presentation – I'll just see if I can find it here quickly. It's slide 42. When you look at what's happened over the tenure of this management team, 2004 to 2007, the stock basically performed in line with all the railroads. Right? All the railroads did well because of pricing. And CSX performed right in line with all those other railroads. Where it's really outperformed is the period since we announced our proxy context, which was last December. From that period 'till today, CSX has outperformed the same group of railroads by 30 percent. And so that's where the real out performance is.

And then the other thing that I would ask shareholders to look at is a longtime history for the stock performance, which we show on page 43 of our presentation, goes back 15 years. And the reason we go back 15 years is because that's the median tenure of the board directors we're looking to replace. So this is their tenure on the board. And over that entire 15-year period, even including the 30 percent out performance since our proxy context was announced, CSX is average. The number one performing railroad over that period is Canadian National followed by Burlington Northern. But CSX's average over that 15-year period. And so you know yes the stock has done well, but it could certainly do better.

And the last point I would make is, for all of us that are shareholders today, what's been realized in the past is already realized. What's going to make us money in the future is where do you go from here. And what gets us excited is you know we look forward and say, "Look, earnings can quadruple from here, versus only doubling, which is what management wants to do over that same five-year period if you extrapolate their guidance." You know that's a huge difference in terms of the value creation going forward. Right. And that's – you know that's really what we should be focused on.

CHEN: Another question here says that – this is about capital structure of CSX. Says that believing you – you think company can take on additional debt, however, they are already highly leveraged. And one of the most highly levered company among the peers. Is that realistic?

AMIN: Yes, that's a good question, and there are a lot of accusations that have been hurled our way. Yes, because it's easy, frankly, right? You know I think it's very easy to go out and say hedge funds are short-term and all they want to do is over lever the company and TCI is a hedge fund and try to paint this you know with this – with a widely held perception like that.

Do we think there's incremental debt capacity at this business? We do think there is. And we think you can raise that debt while maintaining investment grades. And the reason we think this – and this is on slide 73 of our presentation – is that the way the company is levered now, which is two times net debt to EBITDA, EBITDA can fall nearly 50 percent before you have any sort of problem making a fixed payment, whether that's interest or any of your fixed cost or your maintenance cap ex to maintain the network. So we then looked back over history and said, "OK, what's the worst that's happened?" And the worst that happened was when they acquired Conrail and that was a disaster I think by everyone's accounts.

And, by the way, Mike Ward, who is the CEO right now, was responsible for the integration of Conrail. They then hit a recession, and the business didn't have pricing power. In fact, the entire industry didn't have pricing power. And from peak to trough, EBITDA fell about 25 percent in that period. So we look forward and say, "At least two of those factors are no longer in play. Only the recession factor is still in play." And so do you need a 50 percent cushion? Why can't that 50 percent cushion be 45, right, given the worst that's happened to you in the past is 25? Right, but that's – you know, frankly, this is a debate that should happen at the board with real analytics. Right? People should really evaluate how much cushion you need, right, go back over history and say, "You know how much cushion did we need?" You know the board should have this debate. You know it shouldn't be just mudslinging publicly.

CHEN: OK. So let's focus on corporate governance a little bit. Again, I had mentioned this before, in looking at your presentation materials in all the press – all the filings you know you put a lot of weight on CN's accomplishments and Hunter Harrison's accomplishments or what he has done over there. And you also cited Gill Anfear's experience. And I guess the question is you know what level of exposure has Gill had to you know the data operations at CN?

AMIN: Yes, that's a very good question. Is – you know there again is a lot of back and forth. CSX is saying, "Well our board directors have been on the board at CSX and so we should credit them with that." You know the difference is Gill has been very, very hands on at the board level. And you know he lead the buyout of Illinois Central, worked deeply and very closely with that management team to turn Illinois Central around. He was the person on the board of Canadian National that was driving the board together with Hunter Harrison who has been the CEO of Canadian National to take the leap and try to make Canadian National a precision scheduled railroad. Right?

Gill was also on the board of Florida east coast. He was on the board of MidSouth Rail. Basically all of what Gill has done over the past few decades has been at railroads. Right? So it's not just sitting on the board and going to four board meetings a year and collecting $350,000. I mean Gill is – has invested his own money in Illinois Central and Canadian National in CSX. You know he's invested over $1 million out of his own pocket at CSX. Right? And we went back and looked you know when is the last time any director or any, frankly, any member of the senior management team bought any stock at CSX? In the past few years, not a single example of anyone buying stock in CSX. In fact, we went back five years, the only one example was when Oscar Munos joined as CFO in 2003, he bought $200,000 of stock out of his own pocket. With that exception, no one at CSX in the senior management team or board have bought any stock out of their own pocket. Right?

So you know it's one thing to sit on the board and collect you know management fee or you know board fees and go to four board meetings. It's another to lead buyouts of railroads, have done it for decades, and do it with your own capital. Right?

So you know we've known Gill now you know since December of this past year, and I've been road showing with him for the past several weeks. I think you'd be hard pressed to find any board director at any U.S. railroad that knows more about railroading than Gill Anfear.

CHEN: And so do you think – what do you think would be an appropriate level for board's ownership in company stock? Is there a target you think is more appropriate?

AMIN: You know I don't think there's a target because it depends. Right? I mean the board, if you're the board of GE you know versus the board of CSX versus the board of a micro-cap, right? To us, the more important point isn't the ownership, it's you know have you bought stock? Right? If you really have conviction in CSX, right, and really are as excited about the potential as we are, right, and can really see it, then why haven't you bought stock out of your own pocket. Right? And the same goes for management. Right? Management likes to say, "Oh we knew all of this was coming." Right? "We knew the next few years were going to be great. We know there's this productivity opportunity. We knew it all well before TCI knew it." OK, well if that's true, why didn't you buy a single share of CSX stock? Right?

In fact, not only did they not buy stock, over the past few years, the management of CSX have reduced their exposure, but they got granted $30 million of stock and they sold $40 million of stock. Right? So you know for us it's – you know it doesn't matter. You know some people are wealthier than others. You know I'm not going to sit here and say every board director should own you know $100,000 or $200,000 of stock out of their own pocket. That's not the point. The point is you know if you have conviction in something, you should buy it and you should buy it out of your own pocket. And you know if you don't have conviction then you should reduce your exposure. And when you look at what this management team and this board have done, the management team has significantly reduced its exposure and the board has never bought stock, at least not in the past five years. We didn't go looking deep you know beyond that. You know that just tells us something. It tells us something very important.

CHEN: So you cited many concerns about corporate governance practice at CSX you know be it – I think you cited screen loaded grants. You cited you know performance criteria you know not aligned, what's your alter interest? You cited by laws to call special meetings. And what's your plan to address these concerns?

AMIN: Well, again, the board you know will have to add these. I think a lot of these are you know actions that are just not indicative of a board that puts its fiduciary obligations to shareholders first. You know we would never support, for example, granting millions of dollars in grants a week before making a public announcement of increasing the buyback by 50 percent and increasing guidance. We just wouldn't support that. It's not – it's simply not ethical to do that. And we wouldn't support it. Right? We wouldn't support you know a Washington strategy that you know drives all of us to Washington DC you know at the very time that Washington DC is considering re-regulating the industry. Right? We don't support that. But if shareholders ask for something like that – you know shareholders voted overwhelming more than two to one for the board to allow large shareholders to call a special meeting, without all the reservations and limitations that CSX has imposed. Right, well, shareholders own the company, right, and if two thirds of them vote in favor of something then you should listen. Right? And at the end of the day, the board is there as a trustee for shareholders. The shareholders are the owners. And so all of these things are indicative to us of just the board's – you know I'm not saying they're acting in bad faith you know but it's – they're just – they're not acting in the best interest of the shareholders right now.

CHEN: But would your nominees be in favor of putting a call back vis-à-vis grants or you know change the criterias or amend bylaws to allow the special meetings to be called to elect directors? Would they be in favor of these?

AMIN: Look, I would put in two categories, right, what's been done has been done, right, on the grants and all that stuff. You know we're not looking to call back compensation from management or anything like that. What's been done has been done.

You know what we would be in favor of is making sure that going forward management compensation and board compensation is aligned with what's in shareholders' interest. Right? Today, CSX is the only management team where management is not compensated on return on invested capital, and that leaves the ability for the management team to not have to be disciplined on investing capital. Right? That's the reason all the other major railroads have moved to return on invested capital and CSX is the only one that hasn't. And there's a dis-alignment there. Right?

So you know what I think – and I – you know hopefully – I think all of our nominees would agree with this, you have to align the interest with what shareholders want. Right? On the special meeting you know we've put it on as a resolution on our proxy card. You know if the shareholders support it then the board will do it. Right? And it's on our proxy card this year not as a voluntary but as a mandatory proposal. You know so you know I think our board or our nominees will certainly be much more receptive to feedback from shareholders and much more cognizant of what actions are required to align the interests of shareholders with those of the board and management.

CHEN: So we're about a week away from the meeting. You know why – what – I guess what is the TCI group going to do with their position in CSX if you do – don't win the full five seats or perhaps you know if you don't win any board seats?

AMIN: Look, we're committed to being a long-term shareholder here. Right? And we initially invested in CSX without any intention of being activists. What attracted us to the industry was we think the long-term fundamentals of railroads are very strong. And that hasn't change. That initial thesis hasn't changed. So you know we anticipate that we'll continue to be a long-term shareholder in the industry. You know so I don't think – you know hopefully shareholders don't have to be concerned about that. I think you know what is more concerning or hopefully shareholders keep in mind is if the pressure is gone you know are we going to be able to maintain the level of performance thus resulted from the pressure? Right? If you know management doesn't feel the need to really perform, right – it can't be coincidence that the company raised its guidance and announced a productivity plan and sued us and delayed the shareholder meeting, which are clearly proxy tactics, all in the same day. Right? I mean these are all – you know they're all with the aim of trying to affect the outcome of the proxy context by management. Right? If that pressure is gone, you know what's going to happen next year? Is the company still going to be able to perform and beat expectations? It's a big question mark.

CHEN: OK, so we're actually running out of time here. So I'd like to offer you the opportunity to take just a few minutes here to sum up your position. And then we'll wrap up the call after that.

AMIN: Sure. I appreciate the opportunity. You know what I would stress in closing – sorry. What I would stress in closing is really for shareholders to look at what our nominees bring to the table and what they can add to the board of CSX vis-à-vis the current board today. Right? I mean they bring 50 years of railroad experience. They bring you know a $2 billion stock ownership and a $5 billion total economic exposure to CSX. And that's all money that's been invested out of their own pocket. And so you know we're deeply committed to doing the best thing for CSX.

We think the opportunity really is to double the earnings over and above what management expects to do. And that's what – that's what we'll drive for if the opportunity is there. But if it isn't, right, if the opportunity isn't there, we're modest enough to know that we can be wrong in our analysis. You know and, as I said, if the opportunity is only what management has outlined, we'll work hard to achieve that. Right? But as we see it, you know there really is no downside to supporting our slate. Right? The worst that happens is a lot of very good questions get asked. There's a lot of rigorous debates at the board level, and the company continues along its path today. Right?

The best that can happen is you know all that happens and the company continues down a path where the earnings growth is double what it is today. Right? Those are all good outcomes that we hope we can achieve by supporting this slate.

CHEN: OK. Great, thank you very much. I want to thank Snehal. Really appreciate the time you took to be on the call, and I want to thank all of you who listened in and participated on the call.

Before I conclude today's call, I want to make just a quick note that we host these proxy talks regularly. If you want anymore information, please e-mail us at proxytalk@glasslewis.com (ph). And if you have any comments or feedback, we're happy to get those as well.

So thank you very much again, and that concludes today's proxy call.

AMIN: Thank you.

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