

# Norfolk Southern: Run the railroad, prepare for a merger-or both?

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## A decision under regulatory uncertainty

On August 4, Norfolk Southern Corporation (NS) was operating its eastern U.S. freight railroad while a proposed acquisition by Union Pacific (UP) remained before the Surface Transportation Board (STB). The STB had accepted the revised application for consideration in May but paused the proceeding and its environmental review while requiring supplemental information. Applicants had filed materials on July 27, according to the docket; the available public index in this case confirms the filings' titles and dates, not their contents.

That left NS with two clocks. The company still had to run a safe, reliable railroad every day. At the same time, a future combination could require extensive planning across networks, terminals, systems, employees and customers. The timing and conditions of any approval-and whether the transaction would close-were unknown.

The choice in this case is **hypothetical**. No public evidence reviewed establishes an internal NS budget fight, a board assignment to rebalance resources, or a planned integration workstream. Assume, for discussion, that senior leaders want advice on how to sequence discretionary leadership attention and reversible preparation while the application remains in abeyance. NS must continue required regulatory cooperation and ordinary operations. Safety and customer service are guardrails, not resources students may trade away.

## The railroad NS had to operate

NS is a capital-intensive freight carrier whose integrated rail network links customers across the eastern United States. In 2025 it reported \$2.204 billion in property additions. The company reports one operating segment-railway operations-because management evaluates the integrated network as a whole. Revenue by commodity is available, but it is not a measure of each commodity's stand-alone profit.

NS reported a strong revenue quarter in April through June 2026. Revenue reached \$3.465 billion, up 11% year over year, as volume increased 4%. The company said higher fuel surcharges accounted for six percentage points of revenue growth. Reported railway operating income was \$1.124 billion, and the reported operating ratio (OR) was 67.6%.

The comparable adjusted picture was different. Excluding defined items, Q2 adjusted railway operating income was \$1.196 billion, up 5% from adjusted Q2 2025; adjusted OR was 65.5%, compared with 63.4% a year earlier. Higher fuel expense and related surcharge revenue together created a 110-basis-point headwind to the adjusted OR comparison. The adjustments

remove \$51 million of Q2 2026 merger-related expense, \$6 million of restructuring and other charges, and \$15 million of Eastern Ohio incident costs. The Q2 2025 adjusted comparison also removes restructuring and removes the \$47 million incident-related recovery.

The data suggested that demand and revenues had improved, but they did not resolve the operating question. The adjusted OR had worsened even as adjusted operating income rose. Fuel, volume, pricing, mix, prior-year insurance recoveries and merger costs all affected the comparison. No public corridor-level service dashboard or internal resource plan showed whether merger preparation competed with operating execution.

**An application on hold**

UP and NS signed a merger agreement in July 2025. The transaction had not closed by the case date and remained subject to regulatory and other conditions, including STB approval. The companies’ statements about a transcontinental network and potential customer benefits were proponents’ claims, not realized results.

The regulatory process had been procedural and unfinished:

| Date              | Public record available by the case date                                                                                                                                            |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| December 19, 2025 | UP and NS submitted an initial major-merger application.                                                                                                                            |
| January 16, 2026  | STB found the application incomplete and rejected it without prejudice. The Board said the completeness decision did not indicate how it would assess a future revised application. |
| April 30, 2026    | Applicants filed a revised application.                                                                                                                                             |
| May 28, 2026      | STB accepted the revised application for consideration as complete enough to review, but held the proceeding and environmental review in abeyance pending supplemental information. |
| July 27, 2026     | The docket lists an applicant supplemental response and redesignated employee-impact exhibits. Their substantive contents are not reproduced or inferred here.                      |

The May order identified items the Board wanted to examine more fully: enhanced competition; access for shippers facing fewer competing carriers; diversion analysis; the service-assurance plan; gateways and car supply; market-share projections; downstream impacts; passenger rail; and supporting workpapers. The order set no merits outcome in the material available for this case.

The merger also had present costs and constraints. NS recorded \$51 million of merger-related expenses in Q2 and \$103 million in the first six months of 2026, including employee-retention agreements, external advisory fees and legal services. Its filing warned that a pending transaction could disrupt business, require management time and affect customers or employees. The agreement limited share repurchases without UP consent, subject to exceptions, and restricted some additional borrowing. These disclosures did not show how much leadership time was being used or whether operations had suffered as a result.

## What could a combined network improve?

An integrated railroad could potentially eliminate handoffs where freight currently moves between carriers, simplify coordination, and allow routing and resources to be managed across a larger network. That possibility did not prove that every route would benefit, or that savings would arrive quickly.

Chen's 2026 study of U.S. Class I railroad mergers (1985-2005) found that shipment prices fell more on routes that shifted from multiple carriers to a single carrier after a merger than on routes that already had single-carrier service. The author's route analysis estimated reductions of roughly 12% on these "scope" routes and about 6% on routes already served by one railroad. In a structural model, average shipment costs fell 12.9%, prices fell 8.8%, and markups rose 7.2% across the historical merger counterfactuals. The same study found that outcomes varied with network overlap and complementarity. These historical estimates are not forecasts for UP-NS; the sample ends in 2005 and the model depends on assumptions about demand, competition and maintenance allocation.

An earlier cost-function study also found that an average industry result could conceal company-specific differences. Wilson and Bitzan's 2003 report estimated lower industry costs after railroad consolidation under its counterfactual, yet its model predicted first-year UP-Southern Pacific company cost increases of 3.89% or 7.25%, depending on the post-merger variables used. These were simulations, not observed service outcomes or a forecast for NS.

Past operating problems make implementation risk a reasonable question, but not a prediction. A National Academies review describes severe Houston/Gulf Coast congestion during UP-Southern Pacific integration in 1997 and discusses capacity, demand and legacy asset condition. That bounded historical account does not show that UP-NS would repeat the disruption or that the merger alone caused it. A 1998 UP-SP shipper-survey article's accessible abstract reports service deterioration and reduced competition; the full paper was not available for this case, so its sample, methods and causal claims cannot be evaluated.

## The assignment

Assume you are advising an NS senior leadership team. Recommend how it should sequence discretionary attention and preparation while the merger review remains unresolved. You may choose one of three broad paths or define another:

1. **Standalone-first:** prioritize current safety, service reliability, customer relationships and productivity; keep merger preparation to required regulatory and low-cost work.
2. **Merger-readiness-first:** prioritize cross-network mapping, systems and process planning, terminal/corridor readiness, and employee/customer transition design in anticipation of a future approval.

3. **Gated hybrid:** sustain the standalone operating plan and undertake reversible, decision-useful preparation; delay disruptive or difficult-to-reverse choices until specified regulatory, service, safety and customer conditions are met.

The third option is a hypothesis for analysis, not an academically established optimum or a known NS plan. Explain what evidence would make you change course. Do not assume approval, denial, a closing date, realized synergies, or any post-cutoff operating result.

## Questions for discussion

1. Which performance measures in Q2 tell you about underlying demand, operating productivity and customer service? What can't the public data establish?
2. Where could integration create value, and what evidence would you need to distinguish scope benefits from scale, pricing, fuel and mix effects?
3. Which implementation risks are material enough to shape today's choices? How should the 1997 UP-SP experience inform the discussion without becoming a forecast?
4. What should NS do now, what should it defer, and what observable gates would justify moving to the next stage? How would your recommendation preserve safety and reliable customer service?

## Sources and conventions

All sources below were available by August 4, 2026. "Reported" identifies company or regulator records; management interpretations, applicant claims and estimates are attributed. The case contains no event after the cutoff.

- Norfolk Southern, Form 10-Q for the quarter ended June 30, 2026, filed July 23, 2026, SEC accession 0001628280-26-049326: [filing](#), Note 1 "Merger Agreement" (pp. 9-10); Note 2 segment reporting (p. 10); Q2 results and reconciliations (pp. 24-26); commodity and intermodal results (pp. 27-29); liquidity (pp. 31-32); merger risks (pp. 34-35).
- Norfolk Southern, [Q2 2026 results release](#), July 23, 2026, "Second Quarter Summary" and non-GAAP reconciliation.
- Norfolk Southern, 2025 Form 10-K, filed February 9, 2026, SEC accession 0001628280-26-006268: [filing](#), Item 1, Item 1A and Item 7, including capital expenditures and network description.
- Norfolk Southern, [2025 Safety Report](#), pp. 4-6. Safety rates and programs are company-reported; the comparisons are preliminary.
- STB, [May 28, 2026 decision and release](#), Docket FD 36873, particularly pp. 1-3 and 19-32. See also the [STB merger docket resource page](#) for January 16, April 30, July 22 and July 27 dated records. The docket index is live; later actions are outside the case cutoff. July 27 PDFs are not used for content because their contents were not available for review.
- Chen, Yanyou (2026), "Network Structure and the Efficiency Gains from Mergers: Evidence from U.S. Freight Railroads," *RAND Journal of Economics*, first published March 17, 2026, DOI [10.1111/1756-2171.70043](#). See §§3-6 and Tables 3, 7-8. Historical estimates are not NS forecasts.

- Wilson, Wesley W. and John D. Bitzan (2003), *Industry Costs and Consolidation: Efficiency Gains and Mergers in the Railroad Industry*, Mountain-Plains Consortium Report 03-145, [full report](#), pp. 12-22, Tables 7 and 10 (pp. 24, 32-33). Model-based costs, not observed NS results.
- Larson, Paul D. and H. Barry Spraggins (1998), "Union Pacific/Southern Pacific merger: impact on shippers," *Journal of Transportation Management* 10(1), 45-52, [DOI 10.22237/jotm/891389160](#). Abstract only; provisional and not a causal estimate.
- National Academies, Transportation Research Board (2003), *Freight Capacity for the 21st Century*, [Chapter 3](#), pp. 55-72. Historical capacity/service evidence, bounded and not predictive.