

CSX CORP  
Form 10-Q  
July 15, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 26, 2009

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 1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation or organization)

62-1051971

(I.R.S. Employer Identification No.)

500 Water Street, 15th Floor,  
Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip Code)

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one)

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ( ) No (X)

There were 392,190,182 shares of common stock outstanding on June 26, 2009 (the latest practicable date that is closest to the filing date).

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CSX CORPORATION  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 26, 2009  
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CSX CORPORATION  
ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in Millions, Except Per Share Amounts)

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|  | Second Quarters |         | Six Months |         |
|--|-----------------|---------|------------|---------|
|  | 2009            | 2008    | 2009       | 2008    |
| Revenue  | \$2,185         | \$2,907 | \$4,432    | \$5,620 |
| Expense  |                 |         |            |         |
| Labor and Fringe   | 654             | 733     | 1,316      | 1,478   |
| Materials, Supplies and Other                                | 368             | 513     | 845        | 1,018   |
| Fuel   | 185             | 537     | 376        | 978     |
| Depreciation   | 229             | 227     | 453        | 449     |
| Equipment and Other Rents                                    | 98              | 112     | 211        | 223     |
| Inland Transportation  | 69              | 68      | 127        | 131     |
| Total Expense  | 1,603           | 2,190   | 3,328      | 4,277   |
| Operating Income   | 582             | 717     | 1,104      | 1,343   |
| Interest Expense   | (139)           | (133)   | (280)      | (252)   |
| Other Income - Net (Note 8)                                  | 10              | 17      | 13         | 89      |
| Earnings From Continuing Operations                          |                 |         |            |         |
| Before Income Taxes  | 453             | 601     | 837        | 1,180   |
| Income Tax Expense (Note 9)                                  | (168)           | (209)   | (298)      | (426)   |
| Earnings From Continuing Operations                          | 285             | 392     | 539        | 754     |
| Discontinued Operations (Note 11)                            | 23              | (7)     | 15         | (18)    |
| Net Earnings   | \$308           | \$385   | \$554      | \$736   |
| Per Common Share (Note 2)                                    |                 |         |            |         |
| Net Earnings Per Share, Basic                                |                 |         |            |         |
| Continuing Operations  | \$0.73          | \$0.97  | \$1.37     | \$1.86  |
| Discontinued Operations                                      | 0.06            | (0.02)  | 0.04       | (0.04)  |
| Net Earnings   | \$0.79          | \$0.95  | \$1.41     | \$1.82  |
| Net Earnings Per Share, Assuming Dilution                    |                 |         |            |         |
| Continuing Operations  | \$0.72          | \$0.95  | \$1.36     | \$1.82  |
| Discontinued Operations                                      | 0.06            | (0.02)  | 0.04       | (0.04)  |
| Net Earnings   | \$0.78          | \$0.93  | \$1.40     | \$1.78  |
| Average Shares Outstanding (Thousands)                       | 392,027         | 406,205 | 391,594    | 405,278 |
| Average Shares Outstanding,<br>Assuming Dilution (Thousands) | 395,370         | 415,112 | 394,735    | 415,161 |
| Cash Dividends Paid Per Common Share                         | \$0.22          | \$0.18  | \$0.44     | \$0.33  |

See accompanying notes to consolidated financial statements.



CSX CORPORATION  
ITEM 1. FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEETS  
(Dollars in Millions)

|   | (Unaudited)<br>June 26,<br>2009 | December 26,<br>2008 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>                                       |                                 |                      |
| <b>Current Assets</b>                               |                                 |                      |
| Cash and Cash Equivalents                           | \$1,108                         | \$669                |
| Short-term Investments                              | 70                              | 76                   |
| Accounts Receivable - Net (Note 1)                  | 885                             | 1,107                |
| Materials and Supplies                              | 254                             | 217                  |
| Deferred Income Taxes                               | 159                             | 203                  |
| Other Current Assets                                | 160                             | 119                  |
| Total Current Assets                                | 2,636                           | 2,391                |
| Properties  | 30,584                          | 30,208               |
| Accumulated Depreciation                            | (7,697)                         | (7,520)              |
| Properties - Net                                    | 22,887                          | 22,688               |
| Investment in Conrail (Note 10)                     | 622                             | 609                  |
| Affiliates and Other Companies                      | 405                             | 406                  |
| Other Long-term Assets                              | 185                             | 194                  |
| Total Assets  | \$26,735                        | \$26,288             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                                 |                      |
| <b>Current Liabilities</b>                          |                                 |                      |
| Accounts Payable                                    | \$904                           | \$973                |
| Labor and Fringe Benefits Payable                   | 349                             | 465                  |
| Casualty, Environmental and Other Reserves (Note 4) | 181                             | 236                  |
| Current Maturities of Long-term Debt (Note 7)       | 318                             | 319                  |
| Income and Other Taxes Payable                      | 110                             | 125                  |
| Other Current Liabilities                           | 99                              | 286                  |
| Total Current Liabilities                           | 1,961                           | 2,404                |
| Casualty, Environmental and Other Reserves (Note 4) | 579                             | 643                  |
| Long-term Debt (Note 7)                             | 7,933                           | 7,512                |
| Deferred Income Taxes                               | 6,417                           | 6,235                |
| Other Long-term Liabilities                         | 1,389                           | 1,426                |
| Total Liabilities                                   | 18,279                          | 18,220               |
| Common Stock \$1 Par Value                          | 392                             | 391                  |



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|   |          |          |
|---|----------|----------|
| Other Capital                                 | 29       | -        |
| Retained Earnings                             | 8,757    | 8,398    |
| Accumulated Other Comprehensive Loss (Note 1) | (735)    | (741)    |
| Noncontrolling Minority Interest              | 13       | 20       |
| Total Shareholders' Equity                    | 8,456    | 8,068    |
| Total Liabilities and Shareholders' Equity    | \$26,735 | \$26,288 |

See accompanying notes to consolidated financial statements.

CSX CORPORATION  
ITEM 1. FINANCIAL STATEMENTS

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CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)  
(Dollars in Millions)

|  | Six Months |         |
|--|------------|---------|
|  | 2009       | 2008    |
| <b>OPERATING ACTIVITIES</b>  |            |         |
| Net Earnings   | \$554      | \$736   |
| Adjustments to Reconcile Net Earnings to Net Cash Provided<br>by Operating Activities: |            |         |
| Depreciation   | 454        | 456     |
| Deferred Income Taxes  | 212        | 201     |
| Other Operating Activities   | (172)      | (30)    |
| Changes in Operating Assets and Liabilities:   |            |         |
| Accounts Receivable  | 202        | (44)    |
| Other Current Assets   | (83)       | (16)    |
| Accounts Payable   | (56)       | 35      |
| Income and Other Taxes Payable   | (13)       | 9       |
| Other Current Liabilities  | (117)      | (4)     |
| Net Cash Provided by Operating Activities  | 981        | 1,343   |
| <b>INVESTING ACTIVITIES</b>  |            |         |
| Property Additions   | (667)      | (912)   |
| Purchases of Short-term Investments  | -          | (25)    |
| Proceeds from Sales of Short-term Investments  | -          | 280     |
| Other Investing Activities   | 49         | (1)     |
| Net Cash Used in Investing Activities  | (618)      | (658)   |
| <b>FINANCING ACTIVITIES</b>  |            |         |
| Long-term Debt Issued (Note 7)   | 500        | 1,000   |
| Long-term Debt Repaid (Note 7)   | (83)       | (176)   |
| Dividends Paid   | (176)      | (134)   |
| Stock Options Exercised (Note 3)   | 12         | 65      |
| Shares Repurchased   | -          | (453)   |
| Other Financing Activities   | (177)      | 43      |
| Net Cash Provided by Financing Activities  | 76         | 345     |
| Net Increase in Cash and Cash Equivalents  | 439        | 1,030   |
| <b>CASH AND CASH EQUIVALENTS</b>   |            |         |
| Cash and Cash Equivalents at Beginning of Period                                       | 669        | 368     |
| Cash and Cash Equivalents at End of Period   | \$1,108    | \$1,398 |

See accompanying notes to consolidated financial statements.

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

CSX Corporation (“CSX”) together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation suppliers. The Company’s rail and intermodal businesses provide rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

CSX’s principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. CSX Intermodal, Inc. (“Intermodal”), one of the nation’s largest coast-to-coast intermodal transportation providers, is a stand-alone, integrated intermodal company linking customers to railroads via trucks and terminals.

Other entities

In addition to CSXT, the rail segment includes non-railroad subsidiaries Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. Technology and other support services are provided by CSX Technology and other subsidiaries.

CSX’s other holdings include CSX Real Property, Inc., a subsidiary responsible for the Company’s real estate sales, leasing, acquisition and management and development activities. In May 2009, CSX sold the stock of The Greenbrier Hotel Corporation, owner of The Greenbrier resort. For more information, see Note 11, Discontinued Operations.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the following:

- Consolidated income statements for the quarters and six months ended June 26, 2009 and June 27, 2008;
- Consolidated balance sheets at June 26, 2009 and December 26, 2008; and
- Consolidated cash flow statements for the six months ended June 26, 2009 and June 27, 2008.

In addition, management has evaluated and disclosed all material events occurring subsequent to the date of the financial statements up to the date this quarterly report is filed on Form 10-Q.

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies, continued

Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent Annual Report on Form 10-K, its subsequent Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Fiscal Year

CSX follows a 52/53 week fiscal reporting calendar with the last day of each reporting period ending on a Friday:

- The second fiscal quarter of 2009 and 2008 consisted of 13 weeks ending on June 26, 2009 and June 27, 2008, respectively.
- The six month periods of 2009 and 2008 consisted of 26 weeks ending on June 26, 2009 and June 27, 2008, respectively.
  - Fiscal year 2008 consisted of 52 weeks ending on December 26, 2008.
  - Fiscal year 2009 will consist of 52 weeks ending on December 25, 2009.

Except as otherwise specified, references to “second quarter(s)” or “six months” indicate CSX’s fiscal periods ending June 26, 2009 or June 27, 2008, and references to year-end indicate the fiscal year ended December 26, 2008.

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies, continued

Comprehensive Earnings

Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (i.e., issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of related tax effects and were \$314 million and \$387 million for second quarters 2009 and 2008, respectively, and \$560 million and \$740 million for six months 2009 and 2008, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is specifically the cumulative balance related to the pension and other post-retirement adjustments and reduced overall equity by \$735 million and \$741 million as of June 2009 and December 2008, respectively.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible accounts related to freight receivables, public projects (work done by CSX on behalf of a government agency), claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$60 million and \$70 million is included in the Consolidated Balance Sheets as of June 2009 and December 2008.

New Accounting Pronouncements and Changes in Accounting Policy

In 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 160, Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51 ("SFAS 160"). This statement requires that noncontrolling minority interests should be reported as equity instead of a liability on the balance sheet. Additionally, it requires disclosure of consolidated net income attributable to the parent and to the noncontrolling interest on the face of the income statement. CSX has noncontrolling minority interests primarily in its investments in Four Rivers Transportation Inc. and The Indiana Rail Road Company. For CSX, SFAS 160 is effective beginning fiscal year 2009 and resulted in a \$20 million reclassification of noncontrolling minority interests from other long-term liabilities to shareholders' equity on the December 2008 consolidated balance sheet. Noncontrolling minority interest expense is included in other income in the consolidated income statements and is not material to CSX. Therefore, the Company did not present income attributable to non-controlling interests separately in the consolidated income statements.

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 1. Nature of Operations and Significant Accounting Policies, continued

FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments and APB Opinion No. 28, Interim Financial Reporting, to require disclosures about fair value of financial instruments in quarterly reports as well as in annual reports, as previously required. For CSX, this statement applies to certain investments and long-term debt and is effective beginning second quarter 2009. (See Note 12, Fair Value Measurements.)

## NOTE 2. Earnings Per Share

The following table sets forth the computation of basic earnings per share and earnings per share, assuming dilution:

|  | Second Quarters |         | Six Months |         |
|--|-----------------|---------|------------|---------|
|  | 2009            | 2008    | 2009       | 2008    |
| <b>Numerator (Dollars in millions):</b>              |                 |         |            |         |
| Earnings from Continuing Operations                  | \$285           | \$392   | \$539      | \$754   |
| Interest Expense on Convertible Debt - Net of Tax    | -               | -       | -          | 1       |
| Earnings from Continuing Operations, If Converted    | 285             | 392     | 539        | 755     |
| Discontinued Operations - Net of Tax (a)             | 23              | (7)     | 15         | (18)    |
| Net Earnings, If Converted                           | 308             | 385     | 554        | 737     |
| Interest Expense on Convertible Debt - Net of Tax    | -               | -       | -          | (1)     |
| Net Earnings   | \$308           | \$385   | \$554      | \$736   |
| <b>Denominator (Units in thousands):</b>             |                 |         |            |         |
| Average Common Shares Outstanding                    | 392,027         | 406,205 | 391,594    | 405,278 |
| Convertible Debt                                     | 1,118           | 3,729   | 1,118      | 4,723   |
| Stock Option Common Stock Equivalents (b)            | 1,989           | 4,170   | 1,906      | 4,266   |
| Other Potentially Dilutive Common Shares             | 236             | 1,008   | 117        | 894     |
| Average Common Shares Outstanding, Assuming Dilution | 395,370         | 415,112 | 394,735    | 415,161 |
| <b>Net Earnings Per Share, Basic:</b>                |                 |         |            |         |
| Continuing Operations                                | \$0.73          | \$0.97  | \$1.37     | \$1.86  |
| Discontinued Operations                              | 0.06            | (0.02)  | 0.04       | (0.04)  |
| Net Earnings   | \$0.79          | \$0.95  | \$1.41     | \$1.82  |
| <b>Net Earnings Per Share, Assuming Dilution:</b>    |                 |         |            |         |
| Continuing Operations                                | \$0.72          | \$0.95  | \$1.36     | \$1.82  |
| Discontinued Operations                              | 0.06            | (0.02)  | 0.04       | (0.04)  |
| Net Earnings   | \$0.78          | \$0.93  | \$1.40     | \$1.78  |

- (a) For additional information regarding discontinued operations, see Note 11, Discontinued Operations.
- (b) In calculating diluted earnings per share, SFAS 128, Earnings Per Share requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. This number is different from outstanding stock options, which is included in Note 3, Share-Based Compensation. All stock options were dilutive for the periods presented; therefore no stock options were excluded from the diluted earnings per share calculation.



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CSX CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

NOTE 2. Earnings Per Share, continued

Basic earnings per share is based on the weighted-average number of shares of common stock outstanding. Earnings per share, assuming dilution, is based on the weighted-average number of shares of common stock outstanding adjusted for the effects of common stock that may be issued as a result of the following types of potentially dilutive instruments:

- convertible debt,
- employee stock options, and
- other equity awards, which include long-term incentive awards.

EITF 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings Per Share, requires CSX to include additional shares in the computation of earnings per share, assuming dilution. The amount, included in diluted earnings per share, represents the number of shares that would be issued if all of CSX's outstanding convertible debentures were converted into CSX common stock.

As a result, diluted shares outstanding are not impacted when debentures are converted into CSX common stock because those shares were already included in the diluted shares calculation. Shares outstanding for basic earnings per share, however, are impacted on a weighted average basis when conversions occur. During second quarter 2008, \$102 million of face value of convertible debentures were converted into 4 million shares of CSX common stock. There were no conversions of convertible debentures during 2009. As of June 2009, approximately \$32 million of convertible debentures at face value remained outstanding, which are convertible into approximately 1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

CSX share-based compensation plans primarily include performance grants, restricted stock awards, stock options and stock plans for directors. CSX has not granted stock options since 2003. Awards granted under the various plans are determined and approved by the Compensation Committee of the Board of Directors or, in certain circumstances, by the Chief Executive Officer for awards to management employees other than senior executives. The Board of Directors approves awards granted to the Company's non-management Directors upon recommendation of the Governance Committee.

Total pre-tax expense associated with share-based compensation and its related income tax benefit is as follows:

| (Dollars in millions)                | Second Quarters |      | Six Months |      |
|--------------------------------------|-----------------|------|------------|------|
|                                      | 2009            | 2008 | 2009       | 2008 |
| Share-Based Compensation Expense (a) | \$11            | \$10 | \$3        | \$24 |
| Income Tax Benefit                   | (4)             | (4)  | (1)        | (9)  |

(a) Share-based compensation expense may fluctuate with estimates of the number of performance-based awards that are expected to be awarded in future periods.

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 3. Share-Based Compensation, continued

The following table provides information about stock options exercised.

| (In thousands)                    | Second Quarters |       | Six Months |       |
|-----------------------------------|-----------------|-------|------------|-------|
|                                   | 2009            | 2008  | 2009       | 2008  |
| Number of Stock Options Exercised | 492             | 1,562 | 566        | 3,420 |

As of December 2008, all outstanding options are vested, and therefore, there will be no future expense related to these options. As of June 2009, CSX had approximately 7 million stock options outstanding. However, the impact of options to diluted earnings per share is much smaller (see footnote b in Note 2, Earnings Per Share for more information).

## NOTE 4. Casualty, Environmental and Other Reserves

Casualty, environmental and other reserves were determined to be critical accounting estimates due to the need for significant management judgments. They are provided for in the consolidated balance sheets as follows:

| (Dollars in millions) | June 2009 |           |       | December 2008 |           |       |
|-----------------------|-----------|-----------|-------|---------------|-----------|-------|
|                       | Current   | Long-term | Total | Current       | Long-term | Total |
| <b>Casualty:</b>      |           |           |       |               |           |       |
| Personal Injury       | \$79      | \$223     | \$302 | \$104         | \$258     | \$362 |
| Occupational          | 22        | 165       | 187   | 32            | 172       | 204   |
| Total Casualty        | 101       | 388       | 489   | 136           | 430       | 566   |
| Separation            | 15        | 64        | 79    | 16            | 71        | 87    |
| Environmental         | 37        | 56        | 93    | 42            | 58        | 100   |
| Other                 | 28        | 71        | 99    | 42            | 84        | 126   |
| Total                 | \$181     | \$579     | \$760 | \$236         | \$643     | \$879 |

Details with respect to each type of reserve are described below. Actual settlements and claims received could differ. The final outcome of these matters cannot be predicted with certainty. Considering the legal defenses asserted, the liabilities that have been recorded, and other factors, it is the opinion of management that none of these items, when finally resolved, will have a material effect on the Company's financial condition, results of operations or liquidity. However, should a number of these items occur in the same period, they could have a material effect on the Company's financial condition, results of operations or liquidity in that particular period.

During the second quarter of 2009, the Company reduced casualty reserves by a net \$85 million. The majority of this reduction is related to personal injury and asbestos and is described below. Also included in the net reduction is a write-off of \$11 million of reinsurance receivables (expected receivables from outside insurance companies). This receivable write-off is not included in the reserve amounts disclosed above.



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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves represent accruals for personal injury and occupational injury claims. Currently, no individual claim is expected to exceed the Company's self-insured retention amount. To the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. Personal injury and occupational claims are presented on a gross basis and in accordance with SFAS No. 5, Accounting for Contingencies ("SFAS 5"). These reserves fluctuate based upon the timing of payments as well as changes in independent third party estimates, which are reviewed by management. Most of the claims were related to CSXT unless otherwise noted.

Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities. The Company is presently self-insured up to \$25 million per injury for personal injury and occupational-related claims.

Personal Injury

Personal injury reserves represent liabilities for employee work-related and third-party injuries. Work-related injuries for CSXT employees are primarily subject to the Federal Employers' Liability Act ("FELA"). In addition to FELA liabilities, employees of other former and current CSX subsidiaries are covered by various state workers' compensation laws, the Federal Longshore and Harbor Workers' Compensation Program or the Maritime Jones Act.

CSXT retains an independent actuarial firm to assist management in assessing the value of personal injury claims and cases. An analysis is performed by the independent actuarial firm semi-annually and is reviewed by management. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims. It is based largely on CSXT's historical claims and settlement experience. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation.

During second quarter 2009, the Company reduced personal injury reserves by \$78 million based on management's review of the actuarial analysis performed by an independent actuarial firm. This reduction is a direct result of the Company's improvement in safety. Claims have shown a continued downward trend in the number of injuries, resulting in a continual reduction of the Company's FRA personal injury rate. Additionally, the trend in the severity of injuries has significantly declined.

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NOTE 4. Casualty, Environmental and Other Reserves, continued

Occupational

Occupational claims arise from allegations of exposure to certain materials in the workplace, such as asbestos, solvents (which include soaps and chemicals) and diesel fuels or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries, carpal tunnel syndrome and hearing loss.

An analysis is performed semi-annually by an independent third party and reviewed by management. The methodology used includes an estimate of future anticipated claims based on the Company's trends in average historical claim filing rates, future anticipated dismissal rates and settlement rates. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation.

During second quarter 2009, the Company reduced its asbestos reserves by \$18 million. This reserve reduction is related to approximately 1,500 claims that were deemed to have no medical merit and therefore have been determined to have no value.

Separation

Separation liabilities include the estimated benefits provided to certain union employees as a result of implementing workforce reductions, improvements in productivity and certain other cost reductions at the Company's major transportation units since 1991. These liabilities are expected to be paid out over the next 10 to 15 years from general corporate funds and may fluctuate depending on the timing of payments and associated taxes.

Environmental

The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings, involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 257 environmentally impaired sites. Many of those are, or may be, subject to remedial action under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. However, a number of these proceedings are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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NOTE 4. Casualty, Environmental and Other Reserves, continued

In any such proceedings, the Company is subject to environmental clean-up and enforcement actions under the Superfund Law, as well as similar state laws that may impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. These costs could be substantial.

In accordance with Statement of Position 96-1, Environmental Remediation Liabilities, the Company reviews its role with respect to each site identified at least once a quarter. Based on the review process, the Company has recorded amounts to cover anticipated contingent future environmental remediation costs with respect to each site to the extent such costs are estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted and include amounts representing the Company's estimate of unasserted claims, which the Company believes to be immaterial. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. Payments related to these liabilities are expected to be made over the next several years.

Currently, the Company does not possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, changes in conditions, conditions that are currently unknown could, at any given location, result in exposure, the amount and materiality of which cannot presently be reliably estimated. Based upon information currently available, however, the Company believes its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall financial condition, results of operations or liquidity.

Other

Other reserves include liabilities for various claims, such as longshoremen disability claims primarily associated with former subsidiaries' activities, freight claims and claims for property, automobile and general liability. These liabilities are accrued at the estimable and probable amount in accordance with SFAS 5.

NOTE 5. Commitments and Contingencies

Insurance

The Company maintains numerous insurance programs, most notably for third-party casualty liability and for Company property damage and business interruption, with substantial limits. A certain amount of risk is retained by the Company on each of the casualty and property programs. For the first event in any given year, the Company has a \$25 million deductible for each of the casualty and non-catastrophic property programs and a \$50 million deductible for the catastrophic property program.

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NOTE 5. Commitments and Contingencies, continued

Guarantees

CSX and certain of its subsidiaries are contingently liable, individually and jointly with others, as guarantors of approximately \$41 million in obligations principally relating to leased equipment, vessels and joint facilities used by the Company in its current and former business operations. Utilizing the Company's guarantee for these obligations allows the obligor to take advantage of lower interest rates and obtain other favorable terms. Guarantees are contingent commitments issued by the Company that could require CSX or one of its affiliates to make payment to, or to perform certain actions for, the beneficiary of the guarantee based on another entity's failure to perform. These guarantees do not include CSX's guarantee of applicable CSXT's secured notes because these notes are included on CSX's consolidated balance sheet.

As of second quarter 2009, the Company's guarantees primarily related to the following:

- Guarantee of approximately \$37 million of obligations of a former subsidiary, CSX Energy, in connection with a sale-leaseback transaction. CSX is, in turn, indemnified by several subsequent owners of the entity against payments made with respect to this guarantee. Management does not expect that CSX will be required to make any payments under this guarantee for which CSX will not be reimbursed. CSX's obligation under this guarantee will be completed in 2012.
- Guarantee of approximately \$4 million of lease commitments assumed by A.P. Moller-Maersk ("Maersk") for which CSX is contingently liable. CSX believes Maersk will fulfill its contractual commitments with respect to such lease commitments, and CSX will have no further liabilities for those obligations. CSX's obligation under this guarantee will be completed in 2011.

As of second quarter 2009, the Company has not recognized any liabilities in its financial statements in connection with any guarantee arrangements described above. The maximum amount of future payments the Company could be required to make under these guarantees is the sum of the guaranteed amounts.



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NOTE 5. Commitments and Contingencies, continued

Fuel Surcharge Antitrust Litigation

Since 2007, at least 31 putative class action suits have been filed in various federal district courts against CSXT and three other U.S.-based Class I railroads. The lawsuits contain substantially similar allegations to the effect that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. The suits seek unquantified treble damages (three times the amount of actual damages) allegedly sustained by purported class members, attorneys' fees and other relief. All but three of the lawsuits purport to be filed on behalf of a class of shippers that allegedly purchased rail freight transportation services from the defendants through the use of contracts or through other means exempt from rate regulation during defined periods commencing as early as June 2003 and that were assessed fuel surcharges. Three of the lawsuits purport to be on behalf of indirect purchasers of rail services. The district court has dismissed all of the indirect purchasers' causes of action seeking damages but has not dismissed their request for injunctive relief. The indirect purchasers have appealed that decision and the district court case has been stayed pending the appeal.

The class action suits have been consolidated in federal court in the District of Columbia. The court denied the railroads' request to first proceed with discovery relating to the appropriateness of class certification, and then permit merits discovery only if a class is certified. The court, however, agreed with the railroads that class certification should be decided as early as possible, rejecting plaintiffs' proposal that certification be determined after the close of all discovery and close to trial.

CSXT believes that its fuel surcharge practices are lawful. Accordingly, CSXT intends to vigorously defend itself against the purported class actions, which it believes are without merit. CSXT cannot predict the outcome of the private lawsuits, which are in their preliminary stages, or of any government investigations, charges or additional litigation that may be filed in the future. Penalties for violating antitrust laws can be severe, involving both potential criminal and civil liability. CSXT is unable to assess at this time the possible financial impact of this litigation. CSXT has not accrued any liability for an adverse outcome in the litigation. If a material adverse outcome were to occur and be sustained, it could have a material adverse impact on the Company's financial condition, results of operations or liquidity. For more information, please refer to CSX's most recent Annual Report on Form 10-K.

STB Rate Cases

During 2008, Seminole Electric Cooperative, Inc. ("Seminole") filed a complaint before the U.S. Surface Transportation Board ("STB") against CSXT. CSXT and Seminole were parties to a railroad transportation contract that expired on December 31, 2008. Seminole is contesting tariff rates that went into effect on January 1, 2009 for movements of coal to its existing and planned facilities. Because of the preliminary nature of this case, CSXT is not able to assess at this time the possible financial impact of the STB proceeding. However, the Company will continue to consider and pursue all available legal defenses in this matter.

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NOTE 5. Commitments and Contingencies, continued

Also, during 2008, E.I. du Pont de Nemours and Company filed a complaint before the STB against CSXT, contesting tariff rates that went into effect on December 1, 2008 for movements of various commodities from and/or to certain of its existing facilities. CSXT and DuPont engaged in mediation sponsored by the STB and reached a confidential settlement. The complaint has been voluntarily dismissed.

Other Legal Proceedings

In addition to the matters described above, the Company is involved in litigation incidental to its business and is a party to a number of legal actions and claims, various governmental proceedings and private civil lawsuits, including, but not limited to, those related to environmental matters, FELA claims by employees, other personal injury and property damage claims and disputes and complaints involving certain transportation rates and charges. Some of the legal proceedings include claims for compensatory as well as punitive damages and others are, or purport to be, class actions. While the final outcome of these matters cannot be predicted with certainty, considering, among other things, the legal defenses available and liabilities that have been recorded along with applicable insurance, it is currently the opinion of CSX management that none of these items will have a material adverse effect on the Company's financial condition, results of operations or liquidity. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the Company's financial condition, results of operations or liquidity in a particular quarter or fiscal year.

NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. The plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired after December 31, 2002, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pays credits based upon age, service and compensation.

In addition to these plans, CSX sponsors a post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees hired on or before December 31, 2002 upon their retirement if certain eligibility requirements are met. The post-retirement medical plan is contributory (partially funded by retirees), with retiree contributions adjusted annually. The life insurance plan is non-contributory.

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## NOTE 6. Employee Benefit Plans, continued

The following table describes the components of expense/(income) related to net periodic benefit cost:

| (Dollars in millions)              | Pension Benefits |      |            |      |
|------------------------------------|------------------|------|------------|------|
|                                    | Second Quarters  |      | Six Months |      |
|                                    | 2009             | 2008 | 2009       | 2008 |
| Service Cost                       | \$8              | \$9  | \$16       | \$17 |
| Interest Cost                      | 32               | 30   | 62         | 60   |
| Expected Return on Plan Assets     | (36)             | (36) | (71)       | (72) |
| Amortization of Prior Service Cost | -                | -    | 1          | 1    |
| Amortization of Net Loss           | 7                | 6    | 13         | 11   |
| Net Periodic Benefit Cost          | \$11             | \$9  | \$21       | \$17 |

| (Dollars in millions)              | Other Post-retirement Benefits |      |            |      |
|------------------------------------|--------------------------------|------|------------|------|
|                                    | Second Quarters                |      | Six Months |      |
|                                    | 2009                           | 2008 | 2009       | 2008 |
| Service Cost                       | \$1                            | \$1  | \$2        | \$3  |
| Interest Cost                      | 6                              | 5    | 12         | 10   |
| Amortization of Prior Service Cost | -                              | -    | -          | (1)  |
| Amortization of Net Loss           | 1                              | 1    | 2          | 2    |
| Net Periodic Benefit Cost          | \$8                            | \$7  | \$16       | \$14 |

In accordance with the Pension Protection Act of 2006, companies are required to be 94% funded for their outstanding qualified pension obligations as of January 1, 2009 in order to avoid a scheduled series of required annual contributions. Due to recent market volatility and overall investment losses of pension assets for 2008, the Company will be required to make additional contributions to maintain at least a 94% funding target. While required minimum contributions in 2009 are estimated to be approximately \$5 million, the Company intends to pre-fund future contributions up to \$250 million, or \$160 million after-tax, to its pension plans in 2009. For further details, see Note 7, Employee Benefit Plans, in CSX's most recent Annual Report on Form 10-K.

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## NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of June 2009 was as follows:

| (Dollars in millions)                 | Current<br>Portion | Long-term<br>Portion | Total<br>Long-term<br>Debt<br>Activity |
|---------------------------------------|--------------------|----------------------|--|
| Total long-term debt at December 2008 | \$319              | \$7,512              | \$7,831                                |
| 2009 activity:                        |                    |                      |  |
| Issued                                | -                  | 500                  | 500                                    |
| Repaid                                | (83)               | -                    | (83)                                   |
| Reclassifications                     | 82                 | (82)                 | -                                      |
| Other                                 | -                  | 3                    | 3                                      |
| Total long-term debt at June 2009     | \$318              | \$7,933              | \$8,251                                |

For fair value information related to the Company's long-term debt, see Note 12, Fair Value Measurements.

## Revolving Credit Facility

CSX has a \$1.25 billion unsecured revolving credit facility with a syndicate of banks. The facility allows borrowings at floating rates based on the London interbank offered rate ("LIBOR"), plus a spread depending upon ratings assigned by Moody's Investors Service and Standard & Poor's Ratings Group to CSX's senior, unsecured, long-term indebtedness for borrowed money. The facility requires CSX to maintain a ratio of total debt to total capitalization below a prescribed limit. The facility contains no provisions that would require CSX to post collateral. As of June 2009, this facility was not drawn on, and CSX was in compliance with all covenant requirements under the facility. This facility expires in 2012.

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## NOTE 8. Other Income - Net

The Company derives income from items that are not considered operating activities. Income from these items is reported net of related expense in other income – net on the consolidated income statements. Other income – net consists of interest income, income from real estate and miscellaneous income (expense). Interest income fluctuates as a result of interest rates and balances that earn interest based on CSX’s cash, cash equivalents and short-term investments. Income from real estate includes the results of operations of the Company’s non-operating real estate sales, leasing, acquisition and management and development activities. Income from real estate may fluctuate as a function of timing of real estate sales. Miscellaneous income includes a number of items which can be income or expense. Examples of these items are equity earnings and/or losses, noncontrolling minority interest expense, investment gains and losses and other non-operating activities. Other income – net consists of the following:

| (Dollars in millions)             | Second Quarters |      | Six Months |      |
|-----------------------------------|-----------------|------|------------|------|
|                                   | 2009            | 2008 | 2009       | 2008 |
| Interest Income                   | \$3             | \$13 | \$7        | \$21 |
| Income from Real Estate           | 6               | 3    | 7          | 33   |
| Miscellaneous Income (Expense)(a) | 1               | 1    | (1)        | 35   |
| Total Other Income - Net          | \$10            | \$17 | \$13       | \$89 |

(a) In first quarter 2008, CSX recorded additional income of \$30 million for an adjustment to correct equity earnings from a non-consolidated subsidiary.

Previously, the results of operations from the Greenbrier resort were included in other income – net. In May 2009, CSX sold the stock of The Greenbrier Hotel Corporation, owner of The Greenbrier resort. The results of The Greenbrier’s operations are now presented in discontinued operations on the consolidated income statements and all prior periods have been reclassified. For more information, see Note 11, Discontinued Operations.

## NOTE 9. Income Taxes

As of June 2009 and December 2008, the Company had approximately \$49 million and \$57 million of total unrecognized tax benefits, respectively. For the same periods, after consideration of the impact of federal tax benefits, \$42 million and \$50 million, respectively, of net unrecognized tax benefits could favorably affect the effective income tax rate. As of June 2009, the Company estimates that approximately \$13 million of the net unrecognized tax benefits for various state and federal income tax matters will be resolved over the next 12 months. Approximately \$4 million of this total will be recognizable upon the expiration of various statutes of limitation. The final outcome of the remaining uncertain tax positions, however, is not yet determinable.

During second quarter 2008, the Internal Revenue Service (“IRS”) completed its examination of tax years 2004 through 2006. As a result of this and the resolution of other income tax matters, the Company recorded an income tax benefit of \$18 million.

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NOTE 9. Income Taxes, continued

The Company files a consolidated federal income tax return, which includes its principal domestic subsidiaries. CSX and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. During 2008, the Internal Revenue Service (“IRS”) completed examinations of tax years 2004 through 2006 as well as for 2007. The Company has appealed a tax adjustment proposed by the IRS with respect to the 2004 through 2006 period and a related amount is included in the uncertain tax positions above. This appeals process is expected to last more than one year. Federal examinations of original federal income tax returns for all years through 2007 are otherwise resolved.

CSX’s continuing practice is to recognize interest and penalties (net of related federal or state tax benefits or expense) associated with income tax matters in income tax expense. As of June 2009 and December 2008, the Company had a \$5 million gross receivable and a \$2 million gross payable before the consideration of state tax impacts, respectively, accrued for interest and penalties. The payable changed to a receivable due to the expiration of statutes of limitation noted above.

NOTE 10. Related Party Transactions

Through a limited liability company, CSX and Norfolk Southern Corporation (“NS”) jointly own Conrail, Inc. (“Conrail”). CSX has a 42% economic interest and 50% voting interest in the jointly-owned entity, and NS has the remainder of the economic and voting interests. Pursuant to APB Opinion 18, The Equity Method of Accounting for Investments in Common Stock, CSX applies the equity method of accounting to its investment in Conrail. At June 2009 and December 2008, CSX’s investment in Conrail was \$622 million and \$609 million, respectively.

CSX’s income statement is impacted in several ways by the joint ownership of Conrail. First, Conrail owns and operates rail infrastructure for the joint benefit of CSX and NS. This is known as the shared asset area. Conrail charges fees for right-of way usage, equipment rentals and transportation, and switching and terminal service charges in the shared asset area. Next, because of CSX’s equity interest in Conrail, CSX also includes a share of Conrail’s income which is recorded as a contra-expense and reduces the total amount of expense recorded for Conrail. Also, purchase price amortization primarily represents the additional after-tax depreciation expense related to the write-up of Conrail’s fixed assets when the original purchase price, from the 1997 acquisition of Conrail, was allocated based on fair value. Lastly, interest expense is recorded on long-term payables to Conrail.

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## NOTE 10. Related Party Transactions, continued

Dollar amounts of these items impacting the consolidated income statements were as follows:

| (Dollars in millions)                 | Second Quarters |             | Six Months  |             |
|---------------------------------------|-----------------|-------------|-------------|-------------|
|                                       | 2009            | 2008        | 2009        | 2008        |
| <b>Income Statement Information:</b>  |                 |             |             |             |
| Rents, Fees and Services              | \$26            | \$27        | \$50        | \$53        |
| Equity in Income of Conrail           | (7)             | (6)         | (14)        | (12)        |
| Purchase Price Amortization and Other | 1               | 1           | 2           | 2           |
| Interest Expense Related to Conrail   | 1               | 1           | 2           | 2           |
| <b>Income Statement Impact</b>        | <b>\$21</b>     | <b>\$23</b> | <b>\$40</b> | <b>\$45</b> |

Additional information about the investment in Conrail is included in CSX's most recent Annual Report on Form 10-K.

## NOTE 11. Discontinued Operations

As previously reported, in March 2009, Greenbrier Hotel Corporation ("GHC"), owner of The Greenbrier resort and then an indirect subsidiary of CSX, filed for Chapter 11 bankruptcy protection in the U.S. Bankruptcy Court for the Eastern District of Virginia, Richmond Division ("Bankruptcy Court"). In conjunction with the bankruptcy, GHC also announced an agreement to sell the resort pursuant to an asset purchase agreement with Marriott Hotel Services, Inc. (the "APA").

On May 6, 2009, CSX sold the stock of a subsidiary that indirectly owned GHC to Justice Family Group, LLC ("JFG") for approximately \$21 million in cash. CSX recognized a gain on the sale of \$25 million after tax in the second quarter of 2009. The gain was calculated using cash proceeds, net book value, deal-related costs incurred and tax benefits. The previously reported bankruptcy financing that CSX made available to The Greenbrier was paid down and no amounts were outstanding thereunder at the time of the sale. On May 21, 2009, the Bankruptcy Court entered an order dismissing GHC's bankruptcy proceeding and terminating the APA. CSX has no continuing obligations to finance post-sale resort operations. CSX has retained responsibility for certain pre-closing Greenbrier pension obligations.

This transaction is reportable as discontinued operations under SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets ("SFAS 144"). Therefore, the gain on sale as well as losses from operations will be reported as discontinued operations. Previously, all amounts associated with the operations of The Greenbrier were included in Other Income. All prior periods have been reclassified to reflect this change.

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## NOTE 11. Discontinued Operations, continued

Income statement information:

| (Dollars in millions)                           | Second Quarters |          | Six Months |          |
|---|-----------------|----------|------------|----------|
|   | 2009            | 2008     | 2009       | 2008     |
| Net Losses From Operations, after tax           | \$(2)           | \$(7)    | \$(10)     | \$(18)   |
| Gain on Sale, after tax                         | 25              | -        | 25         | -        |
| Net Income (Loss) From Discontinued Operations  | \$23            | \$(7)    | \$15       | \$(18)   |
| <b>Earnings per Share</b>                       |                 |          |            |          |
| From Discontinued Operations, Assuming Dilution | \$0.06          | \$(0.02) | \$0.04     | \$(0.04) |

## NOTE 12. Fair Value Measurements

In May 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which requires disclosures about fair value of financial instruments in quarterly reports as well as in annual reports. For CSX, this statement applies to certain investments and long-term debt and is effective beginning second quarter 2009. SFAS No. 157, Fair Value Measurements clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

Various inputs are considered when determining the value of the Company's investments. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. These inputs are summarized in the three broad levels listed below.

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The Company's investment assets are valued by a third-party trustee, consist primarily of corporate bonds and are carried at fair value on the consolidated balance sheet. As of June 2009, these bonds had a fair value of \$115 million. All inputs used to determine fair value are considered level 2 inputs.

Long-term debt is the only financial instrument of CSX with fair values significantly different from their carrying amounts. The fair value of long-term debt has been estimated using discounted cash flow analysis based upon CSX's



current incremental borrowing rates for similar types of financing arrangements which are considered level 2 inputs.

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## NOTE 12. Fair Value Measurements, continued

The fair value of outstanding debt fluctuates with changes in applicable interest rates. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value and carrying value of the Company's long-term debt is as follows:

| (Dollars in millions)                        | June<br>2009 | December<br>2008 |
|--|--------------|------------------|
| Long-term Debt Including Current Maturities: |              |                  |
| Fair Value                                   | \$8,568      | \$7,415          |
| Carrying Value                               | \$8,251      | \$7,831          |

## NOTE 13. Business Segments

The Company's consolidated operating income results are comprised of two business segments: Rail and Intermodal. The Rail segment provides rail freight transportation over a network of approximately 21,000 route miles in 23 states, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Intermodal segment provides integrated rail and truck transportation services and operates a network of dedicated intermodal facilities across North America. These segments are strategic business units that offer different services and are managed separately. Performance of the segment is evaluated and resources are allocated based on several factors, of which the principal financial measures are business segment operating income and operating ratio. The accounting policies of the segments are the same as those described in Note 1, Nature of Operations and Significant Accounting Policies, in CSX's most recent Annual Report on Form 10-K. Business segment information is as follows:

| (Dollars in<br>millions)               | Second Quarters |         |            |       | CSX          |         |           |
|--|-----------------|---------|------------|-------|--------------|---------|-----------|
|  | Rail (a)        |         | Intermodal |       | Consolidated |         |           |
|  | 2009            | 2008    | 2009       | 2008  | 2009         | 2008    | \$ Change |
| Revenues from<br>External<br>Customers | \$1,894         | \$2,522 | \$291      | \$385 | \$2,185      | \$2,907 | \$(722)   |
| Segment<br>Operating Income            | 546             | 641     | 36         | 76    | 582          | 717     | (135)     |

| (Dollars in<br>millions) | Six Months |      |            |      | CSX          |      |           |
|--------------------------|------------|------|------------|------|--------------|------|-----------|
|                          | Rail (a)   |      | Intermodal |      | Consolidated |      |           |
|                          | 2009       | 2008 | 2009       | 2008 | 2009         | 2008 | \$ Change |

(Dollars in  
millions)

|  | 2009    | 2008    | 2009  | 2008  | 2009    | 2008    | \$ Change |
|--|---------|---------|-------|-------|---------|---------|-----------|
| Revenues from<br>External<br>Customers | \$3,871 | \$4,887 | \$561 | \$733 | \$4,432 | \$5,620 | \$(1,188) |
| Segment<br>Operating Income            | 1,044   | 1,206   | 60    | 137   | 1,104   | 1,343   | (239)     |

(a) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as TDSI, Transflo, CSX Technology and other subsidiaries.

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NOTE 14. Summarized Consolidating Financial Data

In December 2007, CSXT sold secured equipment notes maturing in 2023 and in October 2008, CSXT sold additional secured equipment notes maturing in 2014 in registered public offerings. CSX has fully and unconditionally guaranteed the notes. In connection with the notes, the Company is providing the following condensed consolidating financial information in accordance with SEC disclosure requirements. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation and the allocation of certain expenses of CSX incurred for the benefit of its subsidiaries.

Condensed consolidating financial information for the obligor, CSXT, and parent guarantor, CSX, is as follows:

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## NOTE 14. Summarized Consolidating Financial Data, continued

Consolidating Income Statements  
(Dollars in Millions)

| Quarter Ended June 2009                    | CSX<br>Corporation | CSX<br>Transportation | Other | Eliminations | Consolidated |
|--|--------------------|-----------------------|-------|--------------|--------------|
| Operating Revenue                          | \$-                | \$1,879               | \$332 | \$(26)       | \$2,185      |
| Operating Expense                          | (63)               | 1,395                 | 294   | (23)         | 1,603        |
| Operating Income                           | 63                 | 484                   | 38    | (3)          | 582          |
| Equity in Earnings of Subsidiaries         | 308                | -                     | -     | (308)        | -            |
| Interest Expense                           | (125)              | (28)                  | (3)   | 17           | (139)        |
| Other Income - Net                         | (22)               | (3)                   | 49    | (14)         | 10           |
| <b>Earnings From Continuing Operations</b> |                    |                       |       |              |              |
| Before Income Taxes                        | 224                | 453                   | 84    | (308)        | 453          |
| Income Tax Benefit (Expense)               | 52                 | (179)                 | (41)  | -            | (168)        |
| Earnings From Continuing Operations        | 276                | 274                   | 43    | (308)        | 285          |
| Discontinued Operations                    | 32                 | -                     | (9)   | -            | 23           |
| Net Earnings                               | \$308              | \$274                 | \$34  | \$(308)      | \$308        |

| Quarter Ended June 2008                    | CSX<br>Corporation | CSX<br>Transportation | Other | Eliminations | Consolidated |
|--|--------------------|-----------------------|-------|--------------|--------------|
| Operating Revenue                          | \$-                | \$2,501               | \$439 | \$(33)       | \$2,907      |
| Operating Expense                          | (33)               | 1,929                 | 324   | (30)         | 2,190        |
| Operating Income                           | 33                 | 572                   | 115   | (3)          | 717          |
| Equity in Earnings of Subsidiaries         | 421                | -                     | -     | (421)        | -            |
| Interest Expense                           | (138)              | (34)                  | (6)   | 45           | (133)        |
| Other Income - Net                         | 24                 | 20                    | 15    | (42)         | 17           |
| <b>Earnings From Continuing Operations</b> |                    |                       |       |              |              |
| Before Income Taxes                        | 340                | 558                   | 124   | (421)        | 601          |
| Income Tax Benefit (Expense)               | 45                 | (208)                 | (46)  | -            | (209)        |
| Earnings From Continuing Operations        | 385                | 350                   | 78    | (421)        | 392          |
| Discontinued Operations                    | -                  | -                     | (7)   | -            | (7)          |
| Net Earnings                               | \$385              | \$350                 | \$71  | \$(421)      | \$385        |



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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 14. Summarized Consolidating Financial Data, continued

Consolidating Income Statements  
(Dollars in Millions)

|  | CSX<br>Corporation | CSX<br>Transportation | Other | Eliminations | Consolidated |
|--|--------------------|-----------------------|-------|--------------|--------------|
| Six Months Ended June 2009                 |                    |                       |       |              |              |
| Operating Revenue                          | \$-                | \$3,839               | \$645 | \$(52)       | \$4,432      |
| Operating Expense                          | (142)              | 2,958                 | 559   | (47)         | 3,328        |
| Operating Income                           | 142                | 881                   | 86    | (5)          | 1,104        |
| Equity in Earnings of Subsidiaries         | 563                | -                     | -     | (563)        | -            |
| Interest Expense                           | (249)              | (59)                  | (4)   | 32           | (280)        |
| Other Income - Net                         | 280                | 3                     | (243) | (27)         | 13           |
| <b>Earnings From Continuing Operations</b> |                    |                       |       |              |              |
| Before Income Taxes                        | 736                | 825                   | (161) | (563)        | 837          |
| Income Tax Benefit (Expense)               | (214)              | (319)                 | 235   | -            | (298)        |
| Earnings From Continuing Operations        | 522                | 506                   | 74    | (563)        | 539          |
| Discontinued Operations                    | 32                 | -                     | (17)  | -            | 15           |
| Net Earnings                               | \$554              | \$506                 | \$57  | \$(563)      | \$554        |

|  | CSX<br>Corporation | CSX<br>Transportation | Other | Eliminations | Consolidated |
|--|--------------------|-----------------------|-------|--------------|--------------|
| Six Months Ended June 2008                 |                    |                       |       |              |              |
| Operating Revenue                          | \$-                | \$4,845               | \$845 | \$(70)       | \$5,620      |
| Operating Expense                          | (90)               | 3,792                 | 639   | (64)         | 4,277        |
| Operating Income                           | 90                 | 1,053                 | 206   | (6)          | 1,343        |
| Equity in Earnings of Subsidiaries         | 792                | -                     | -     | (792)        | -            |
| Interest Expense                           | (272)              | (77)                  | (13)  | 110          | (252)        |
| Other Income - Net                         | 64                 | 90                    | 39    | (104)        | 89           |
| <b>Earnings From Continuing Operations</b> |                    |                       |       |              |              |
| Before Income Taxes                        | 674                | 1,066                 | 232   | (792)        | 1,180        |
| Income Tax Benefit (Expense)               | 62                 | (401)                 | (87)  | -            | (426)        |
| Earnings From Continuing Operations        | 736                | 665                   | 145   | (792)        | 754          |
| Discontinued Operations                    | -                  | -                     | (18)  | -            | (18)         |
| Net Earnings                               | \$736              | \$665                 | \$127 | \$(792)      | \$736        |





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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 14. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet  
(Dollars in Millions)

| June 2009                                   | CSX<br>Corporation | CSX<br>Transportation | Other          | Eliminations      | Consolidated    |
|---|--------------------|-----------------------|----------------|-------------------|-----------------|
| <b>ASSETS</b>                               |                    |                       |                |                   |                 |
| <b>Current Assets</b>                       |                    |                       |                |                   |                 |
| Cash and Cash Equivalents                   | \$968              | \$84                  | \$56           | \$-               | \$1,108         |
| Short-term Investments                      | -                  | 1                     | 69             | -                 | 70              |
| Accounts Receivable - Net                   | 5                  | 869                   | 11             | -                 | 885             |
| Materials and Supplies                      | -                  | 254                   | -              | -                 | 254             |
| Deferred Income Taxes                       | 10                 | 146                   | 3              | -                 | 159             |
| Other Current Assets                        | 129                | 81                    | 63             | (113)             | 160             |
| <b>Total Current Assets</b>                 | <b>1,112</b>       | <b>1,435</b>          | <b>202</b>     | <b>(113)</b>      | <b>2,636</b>    |
| Properties                                  | 6                  | 29,312                | 1,266          | -                 | 30,584          |
| Accumulated Depreciation                    | (9)                | (6,899)               | (789)          | -                 | (7,697)         |
| <b>Properties - Net</b>                     | <b>(3)</b>         | <b>22,413</b>         | <b>477</b>     | <b>-</b>          | <b>22,887</b>   |
| Investments in Conrail                      | -                  | -                     | 622            | -                 | 622             |
| Affiliates and Other Companies              | -                  | 529                   | (124)          | -                 | 405             |
| Investments in Consolidated Subsidiaries    | 15,001             | -                     | 44             | (15,045)          | -               |
| Other Long-term Assets                      | 51                 | 77                    | 100            | (43)              | 185             |
| <b>Total Assets</b>                         | <b>\$16,161</b>    | <b>\$24,454</b>       | <b>\$1,321</b> | <b>\$(15,201)</b> | <b>\$26,735</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                    |                       |                |                   |                 |
| <b>Current Liabilities</b>                  |                    |                       |                |                   |                 |
| Accounts Payable                            | \$122              | \$ 578                | \$ 204         | \$ -              | \$ 904          |
| Labor and Fringe Benefits Payable           | 31                 | 286                   | 32             | -                 | 349             |
| Payable to Affiliates                       | 472                | 985                   | (1,390)        | (67)              | -               |
| Casualty, Environmental and Other Reserves  | -                  | 159                   | 22             | -                 | 181             |
| Current Maturities of Long-term Debt        | 200                | 115                   | 3              | -                 | 318             |
| Income and Other Taxes Payable              | (4)                | 286                   | (172)          | -                 | 110             |
| Other Current Liabilities                   | 1                  | 91                    | 53             | (46)              | 99              |
|   | 822                | 2,500                 | (1,248)        | (113)             | 1,961           |

| Total Current Liabilities                         |                 |                 |                |                   |                 |
|---|-----------------|-----------------|----------------|-------------------|-----------------|
| Casualty, Environmental and Other Reserves        | 1               | 506             | 72             | -                 | 579             |
| Long-term Debt                                    | 6,556           | 1,371           | 6              | -                 | 7,933           |
| Deferred Income Taxes                             | (440)           | 6,760           | 97             | -                 | 6,417           |
| Long-term Payable to Affiliates                   | -               | -               | 44             | (44)              | -               |
| Other Long-term Liabilities                       | 780             | 459             | 150            | -                 | 1,389           |
| <b>Total Liabilities</b>                          | <b>7,719</b>    | <b>11,596</b>   | <b>(879)</b>   | <b>(157)</b>      | <b>18,279</b>   |
| Shareholders' Equity                              |                 |                 |                |                   |                 |
| Common Stock, \$1 Par Value                       | 392             | 181             | -              | (181)             | 392             |
| Other Capital                                     | 29              | 5,565           | 1,950          | (7,515)           | 29              |
| Retained Earnings                                 | 8,756           | 7,138           | 313            | (7,450)           | 8,757           |
| Accumulated Other Comprehensive Loss              | (735)           | (47)            | (102)          | 149               | (735)           |
| Noncontrolling Minority Interest                  | -               | 21              | 39             | (47)              | 13              |
| <b>Total Shareholders' Equity</b>                 | <b>8,442</b>    | <b>12,858</b>   | <b>2,200</b>   | <b>(15,044)</b>   | <b>8,456</b>    |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$16,161</b> | <b>\$24,454</b> | <b>\$1,321</b> | <b>\$(15,201)</b> | <b>\$26,735</b> |

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 14. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet  
(Dollars in Millions)

| December 2008                               | CSX<br>Corporation | CSX<br>Transportation | Other   | Eliminations | Consolidated |
|---|--------------------|-----------------------|---------|--------------|--------------|
| <b>ASSETS</b>                               |                    |                       |         |              |              |
| <b>Current Assets</b>                       |                    |                       |         |              |              |
| Cash and Cash Equivalents                   | \$559              | \$63                  | \$47    | \$-          | \$669        |
| Short-term Investments                      | -                  | -                     | 76      | -            | 76           |
| Accounts Receivable - Net                   | 5                  | 1,046                 | 56      | -            | 1,107        |
| Materials and Supplies                      | -                  | 217                   | -       | -            | 217          |
| Deferred Income Taxes                       | 11                 | 187                   | 5       | -            | 203          |
| Other Current Assets                        | 112                | 34                    | 52      | (79)         | 119          |
| Total Current Assets                        | 687                | 1,547                 | 236     | (79)         | 2,391        |
| Properties                                  | 6                  | 28,958                | 1,244   | -            | 30,208       |
| Accumulated Depreciation                    | (9)                | (6,758)               | (753)   | -            | (7,520)      |
| Properties - Net                            | (3)                | 22,200                | 491     | -            | 22,688       |
| Investments in Conrail                      | -                  | -                     | 609     | -            | 609          |
| Affiliates and Other Companies              | -                  | 527                   | (121)   | -            | 406          |
| Investments in Consolidated Subsidiaries    | 14,566             | -                     | 41      | (14,607)     | -            |
| Other Long-term Assets                      | 52                 | 76                    | 109     | (43)         | 194          |
| Total Assets                                | \$15,302           | \$24,350              | \$1,365 | \$(14,729)   | \$26,288     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                    |                       |         |              |              |
| <b>Current Liabilities</b>                  |                    |                       |         |              |              |
| Accounts Payable                            | \$99               | \$739                 | \$135   | \$-          | \$973        |
| Labor and Fringe Benefits Payable           | 40                 | 366                   | 59      | -            | 465          |
| Payable to Affiliates                       | 455                | 765                   | (1,153) | (67)         | -            |
| Casualty, Environmental and Other Reserves  | -                  | 211                   | 25      | -            | 236          |
| Current Maturities of Long-term Debt        | 200                | 116                   | 3       | -            | 319          |
| Income and Other Taxes Payable              | (2)                | 208                   | (81)    | -            | 125          |
| Other Current Liabilities                   | 2                  | 271                   | 24      | (11)         | 286          |
| Total Current Liabilities                   | 794                | 2,676                 | (988)   | (78)         | 2,404        |
| Casualty, Environmental and Other Reserves  | 1                  | 547                   | 95      | -            | 643          |

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|  |          |          |         |            |          |
|--|----------|----------|---------|------------|----------|
| Long-term Debt                             | 6,058    | 1,447    | 7       | -          | 7,512    |
| Deferred Income Taxes                      | (629)    | 6,591    | 273     | -          | 6,235    |
| Long-term Payable to Affiliates            | -        | -        | 44      | (44)       | -        |
| Other Long-term Liabilities                | 1,010    | 493      | (36)    | (41)       | 1,426    |
| Total Liabilities                          | 7,234    | 11,754   | (605)   | (163)      | 18,220   |
| Shareholders' Equity                       |          |          |         |            |          |
| Common Stock, \$1 Par Value                | 391      | 181      | -       | (181)      | 391      |
| Other Capital                              | -        | 5,566    | 1,923   | (7,489)    | -        |
| Retained Earnings                          | 8,398    | 6,870    | 148     | (7,018)    | 8,398    |
| Accumulated Other Comprehensive Loss       | (741)    | (41)     | (104)   | 145        | (741)    |
| Noncontrolling Minority Interest           | 20       | 20       | 3       | (23)       | 20       |
| Total Shareholders' Equity                 | 8,068    | 12,596   | 1,970   | (14,566)   | 8,068    |
| Total Liabilities and Shareholders' Equity | \$15,302 | \$24,350 | \$1,365 | \$(14,729) | \$26,288 |

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CSX CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

## NOTE 14. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements  
 (Dollars in Millions)

| Six Months Ended June 2009                              | CSX<br>Corporation | CSX<br>Transportation | Other | Eliminations | Consolidated |
|---|--------------------|-----------------------|-------|--------------|--------------|
| <b>Operating Activities</b>                             |                    |                       |       |              |              |
| Net Cash Provided by (Used in)<br>Operating Activities  | \$53               | \$1,026               | \$148 | \$(246)      | \$981        |
| <b>Investing Activities</b>                             |                    |                       |       |              |              |
| Property Additions                                      | -                  | (644)                 | (23)  | -            | (667)        |
| Purchases of Short-term Investments                     | -                  | -                     | -     | -            | -            |
| Proceeds from Sales of Short-term Investments           | -                  | -                     | -     | -            | -            |
| Other Investing Activities                              | (87)               | 27                    | 23    | 86           | 49           |
| Net Cash Provided by (Used in)<br>Investing Activities  | (87)               | (617)                 | -     | 86           | (618)        |
| <b>Financing Activities</b>                             |                    |                       |       |              |              |
| Long-term Debt Issued                                   | 500                | -                     | -     | -            | 500          |
| Long-term Debt Repaid                                   | -                  | (81)                  | (2)   | -            | (83)         |
| Dividends Paid  | (176)              | (238)                 | (8)   | 246          | (176)        |
| Stock Options Exercised                                 | 12                 | -                     | -     | -            | 12           |
| Shares Repurchased                                      | -                  | -                     | -     | -            | -            |
| Other Financing Activities                              | 107                | (69)                  | (129) | (86)         | (177)        |
| Net Cash Provided by (Used in)<br>Financing Activities  | 443                | (388)                 | (139) | 160          | 76           |
| Net Increase (Decrease) in Cash and Cash<br>Equivalents | 409                | 21                    | 9     | -            | 439          |
| Cash and Cash Equivalents at Beginning of<br>Period     | 559                | 63                    | 47    | -            | 669          |
| Cash and Cash Equivalents at End of Period              | \$968              | \$84                  | \$56  | \$-          | \$1,108      |

| Six Months Ended June 2008                             | CSX<br>Corporation | CSX<br>Transportation | Other   | Eliminations | Consolidated |
|--|--------------------|-----------------------|---------|--------------|--------------|
| <b>Operating Activities</b>                            |                    |                       |         |              |              |
| Net Cash Provided by (Used in)<br>Operating Activities | \$391              | \$1,325               | \$(191) | \$(182)      | \$1,343      |
| <b>Investing Activities</b>                            |                    |                       |         |              |              |
| Property Additions                                     | 1                  | (873)                 | (40)    | -            | (912)        |

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|  |         |       |      |      |         |
|--|---------|-------|------|------|---------|
| Purchases of Short-term Investments                  | (25)    | -     | -    | -    | (25)    |
| Proceeds from Sales of Short-term Investments        | 280     | -     | -    | -    | 280     |
| Other Investing Activities                           | (247)   | (11)  | 220  | 37   | (1)     |
| Net Cash Provided by (Used in)                       |         |       |      |      |         |
| Investing Activities                                 | 9       | (884) | 180  | 37   | (658)   |
| <b>Financing Activities</b>                          |         |       |      |      |         |
| Long-term Debt Issued                                | 1,000   | -     | -    | -    | 1,000   |
| Long-term Debt Repaid                                | (89)    | (87)  | -    | -    | (176)   |
| Dividends Paid                                       | (137)   | (162) | (14) | 179  | (134)   |
| Stock Options Exercised                              | 65      | -     | -    | -    | 65      |
| Shares Repurchased                                   | (453)   | -     | -    | -    | (453)   |
| Other Financing Activities                           | 208     | (172) | 41   | (34) | 43      |
| Net Cash Provided by (Used                           |         |       |      |      |         |
| in) Financing Activities                             | 594     | (421) | 27   | 145  | 345     |
| Net Increase (Decrease) in Cash and Cash Equivalents | 994     | 20    | 16   | -    | 1,030   |
| Cash and Cash Equivalents at Beginning of Period     | 298     | 55    | 15   | -    | 368     |
| Cash and Cash Equivalents at End of Period           | \$1,292 | \$75  | \$31 | \$-  | \$1,398 |

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STRATEGIC OVERVIEW

The Company provides customers with access to an interconnected transportation network that links ports, production facilities and distribution centers to markets in the Northeast, Midwest and southern states. The Company serves major markets in the eastern United States and has direct access to all significant Atlantic and Gulf Coast ports, as well as the Mississippi River, the Great Lakes and the St. Lawrence Seaway. The Company also has access to Pacific ports through commercial arrangements with western railroads.

The Company transports a broad portfolio of products, such as coal, forest products, ethanol, automobiles, chemicals and consumer electronics. Those goods are transported across the country in a way that, compared to alternative modes of transportation, reduces the impact on the environment, takes traffic off an already congested highway system and reduces fuel consumption and transportation costs.

The global recession that intensified in late 2008 has continued to impact CSX's business in 2009, and rail volume will be lower for the year. Beginning in late 2008, the Company began taking aggressive actions to manage costs and right-size resources to match demand conditions. With a mix of pricing, productivity, prudent investment in train network and rail efficiency, the Company believes it is positioned to take advantage of an eventual economic recovery.

SECOND QUARTER 2009 HIGHLIGHTS

- Revenue decreased \$722 million or 25% to \$2.2 billion due to declines in volume and lower fuel surcharge revenue.
  - Expenses decreased \$587 million or 27% to \$1.6 billion.
  - Operating income decreased \$135 million or 19% to \$582 million.
- CSX realized a \$25 million after-tax gain from the sale of The Greenbrier resort.

CSX operating results reflect the impact of the ongoing recessionary environment. Second quarter revenues of \$2.2 billion were down 25% from the prior year, primarily due to a 21% decline in volume and lower fuel surcharge recovery associated with the sharp decline in fuel prices. Volume continued to decline across the board, although the rate of decline in the coal market accelerated in the second quarter (from the first quarter) due to lower demand for export coal and high utility inventory levels. However, the other major lines of business have stabilized since the first quarter. Despite a challenging environment, the Company was able to achieve pricing gains predominantly due to the overall cost advantages that rail based solutions provide to customers versus other modes of transportation.

Despite the challenging economy, CSX was able to reduce expenses to \$587 million down 27% from the prior year. The expense reductions were a combined result of extensive productivity initiatives, cost-cutting efforts and a favorable casualty reserve adjustment.

For additional information, refer to Rail and Intermodal Results of Operations discussed on pages 35 through 36.





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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to the financial highlights described above, the Company measures and reports safety and service performance. CSX strives for continuous improvement in these measures through training, initiatives and investment. For example, the Company's safety and train accident prevention programs rely on broad employee involvement. The programs utilize operating rules training, compliance measurement, root cause analysis and communication to create a safer environment for employees and the public. Continued capital investment in Company assets, including track, bridges, signals, equipment and detection technology, also supports safety performance.

In second quarter 2009, the Company continued its focus on safety and operating performance. Results in both Federal Railroad Administration ("FRA") personal injuries and train accidents improved as a result of leadership and high levels of employee commitment to the Company's safety programs. The FRA personal injury index improved 6% to 1.22 in the quarter. Reported FRA train accident frequency declined to 2.22, a 16% improvement compared to the same quarter of 2008. As mentioned above, continued favorable historical trends on the personal injury index directly contributed to the favorable casualty reserve adjustment.

Key service metrics improved significantly in the quarter. On-time train originations and arrivals were 83% and 81%, respectively, during the quarter. Average dwell rose slightly to 24.1 hours and average cars-on-line declined to 218,313 primarily due to lower demand levels. Average train velocity improved to 21.7 miles per hour, as the network remained fluid. The Company aims to maintain key operating measures and service reliability at high levels, while reducing resource utilization in response to current business conditions.

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CSX CORPORATION  
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RAIL OPERATING STATISTICS (Estimated)

|   | 2009    | Second Quarters |                            |
|---|---------|-----------------|----------------------------|
|   |         | 2008            | Improvement<br>(Decline) % |
| Safety and Service Measurements           |         |                 |                            |
| FRA Personal Injuries Frequency Index     | 1.22    | 1.30            | 6%                         |
| FRA Train Accident Rate                   | 2.22    | 2.63            | 16                         |
| On-Time Train Originations                | 83%     | 75%             | 11                         |
| On-Time Destination Arrivals              | 81%     | 65%             | 25                         |
| Dwell                                     | 24.1    | 23.3            | (3)                        |
| Cars-On-Line                              | 218,313 | 224,460         | 3                          |
| System Train Velocity                     | 21.7    | 20.0            | 9%                         |
|   |         |                 | Increase/<br>(Decrease)    |
| Resources                                 |         |                 |                            |
| Route Miles                               | 21,190  | 21,224          | - %                        |
| Locomotives (owned and long-term leased)  | 4,108   | 4,098           | -                          |
| Freight Cars (owned and long-term leased) | 86,300  | 92,083          | (6)%                       |

Key Performance Measures Definitions

FRA Personal Injuries Frequency Index – Number of FRA-reportable injuries per 200,000 man-hours

FRA Train Accident Rate – Number of FRA-reportable train accidents per million train-miles

On-Time Train Originations – Percent of scheduled road trains that depart the origin yard on-time or ahead of schedule

On-Time Destination Arrivals – Percent of scheduled road trains that arrive at the destination yard on-time to two hours late (30 minutes for intermodal trains)

Dwell – Amount of time in hours between car arrival at and departure from the yard. It does not include cars moving through the yard on the same train.

Cars-On-Line – A count of all cars on the network (does not include locomotives, cabooses, trailers, containers or maintenance equipment)

System Train Velocity – Average train speed between terminals in miles per hour (does not include locals, yard jobs, work trains or passenger trains)



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CSX CORPORATION  
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL RESULTS OF OPERATIONS

Results of Operations (Unaudited)  
 (Dollars in Millions)

Second Quarters

|                               | Rail (a) |         | Intermodal |       | CSX Consolidated |         |         |         |
|-------------------------------|----------|---------|------------|-------|------------------|---------|---------|---------|
|                               | 2009     | 2008    | 2009       | 2008  | 2009             | 2008    | Change  | %Change |
| Revenue                       | \$1,894  | \$2,522 | \$291      | \$385 | \$2,185          | \$2,907 | \$(722) | (25)%   |
| Expense                       |          |         |            |       |                  |         |         |         |
| Labor and Fringe              | 638      | 714     | 16         | 19    | 654              | 733     | 79      | 11      |
| Materials, Supplies and Other | 324      | 462     | 44         | 51    | 368              | 513     | 145     | 28      |
| Fuel                          | 184      | 536     | 1          | 1     | 185              | 537     | 352     | 66      |
| Depreciation                  | 222      | 220     | 7          | 7     | 229              | 227     | (2)     | (1)     |
| Equipment and Other Rents     | 74       | 86      | 24         | 26    | 98               | 112     | 14      | 13      |
| Inland Transportation         | (94)     | (137)   | 163        | 205   | 69               | 68      | (1)     | (1)     |
| Total Expense                 | 1,348    | 1,881   | 255        | 309   | 1,603            | 2,190   | 587     | 27      |
| Operating Income              | \$546    | \$641   | \$36       | \$76  | \$582            | \$717   | \$(135) | (19)%   |
| Operating Ratio               | 71.2%    | 74.6%   | 87.6%      | 80.3% | 73.4%            | 75.3%   |         |         |

(a) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as Total Distribution Services, Inc., Transflo Terminal Services, Inc., CSX Technology, Inc. and other subsidiaries.

Volume and Revenue (Unaudited)

Volume (Thousands of units); Revenue (Dollars in millions); Revenue Per Unit (Dollars)

Second Quarters

|                            | Volume |      |          | Revenue |       |          | Revenue Per Unit |         |          |
|----------------------------|--------|------|----------|---------|-------|----------|------------------|---------|----------|
|                            | 2009   | 2008 | % Change | 2009    | 2008  | % Change | 2009             | 2008    | % Change |
| Chemicals                  | 105    | 131  | (20) %   | \$308   | \$381 | (19) %   | \$2,933          | \$2,908 | 1%       |
| Emerging Markets           | 106    | 133  | (20)     | 147     | 191   | (23)     | 1,387            | 1,436   | (3)      |
| Forest Products            | 64     | 90   | (29)     | 133     | 205   | (35)     | 2,078            | 2,278   | (9)      |
| Agricultural Products      | 106    | 108  | (2)      | 233     | 246   | (5)      | 2,198            | 2,278   | (4)      |
| Metals                     | 45     | 96   | (53)     | 87      | 211   | (59)     | 1,933            | 2,198   | (12)     |
| Phosphates and Fertilizers | 74     | 90   | (18)     | 94      | 128   | (27)     | 1,270            | 1,422   | (11)     |

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|                   |       |       |        |         |         |        |         |         |       |
|-------------------|-------|-------|--------|---------|---------|--------|---------|---------|-------|
| Food and Consumer | 25    | 28    | (11)   | 59      | 70      | (16)   | 2,360   | 2,500   | (6)   |
| Total Merchandise | 525   | 676   | (22)   | 1,061   | 1,432   | (26)   | 2,021   | 2,118   | (5)   |
| Coal              | 361   | 450   | (20)   | 639     | 777     | (18)   | 1,770   | 1,727   | 2     |
| Coke and Iron Ore | 14    | 27    | (48)   | 23      | 47      | (51)   | 1,643   | 1,741   | (6)   |
| Total Coal        | 375   | 477   | (21)   | 662     | 824     | (20)   | 1,765   | 1,727   | 2     |
| Automotive        | 54    | 92    | (41)   | 113     | 205     | (45)   | 2,093   | 2,228   | (6)   |
| Other             | -     | -     | -      | 58      | 61      | (5)    | -       | -       | -     |
| Total Rail        | 954   | 1,245 | (23)   | 1,894   | 2,522   | (25)   | 1,985   | 2,026   | (2)   |
| International     | 183   | 262   | (30)   | 81      | 137     | (41)   | 443     | 523     | (15)  |
| Domestic          | 274   | 268   | 2      | 204     | 242     | (16)   | 745     | 903     | (17)  |
| Other             | -     | -     | -      | 6       | 6       | -      | -       | -       | -     |
| Total Intermodal  | 457   | 530   | (14)   | 291     | 385     | (24)   | 637     | 726     | (12)  |
| Total             | 1,411 | 1,775 | (21) % | \$2,185 | \$2,907 | (25) % | \$1,549 | \$1,638 | (5) % |

Certain data within Merchandise categories have been reclassified to conform to the current year presentation.

CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Second Quarter Results of Operations

CSX experienced significant year-over-year volume and revenue declines caused by the broad-based weakness in the economy. The greatest impacts were felt in coal, automotive, construction and consumer-related markets. Lower fuel recovery associated with the sharp decline in fuel prices more than offset the Company's ongoing yield management initiatives.

Rail Revenue

Merchandise

Chemicals – Continued weakness in the housing, automotive and consumer goods markets has significantly reduced demand for chemical products related to those markets.

Emerging Markets – Aggregates (which include crushed stone, sand and gravel) volume declined due to continued softness in residential construction.

Forest Products – A weak housing market has driven the continued decline in lumber and building products. Paper volume continued to be soft due to electronic media substitution and less packaging being used as a result of lower consumer spending.

Agricultural Products – Volume was down slightly as the continuing growth in ethanol was more than offset by lower consumption of poultry and fewer east coast grain exports due to a stronger global supply.

Metals – Volume declines were driven by weak global and domestic steel demand in the automotive and construction industries. This weak demand caused steel producers to continue idling capacity in an attempt to balance supply with demand.

Phosphates and Fertilizers – Phosphate production was down due to weak international and domestic demand. Additionally, farmers are continuing to cut back on levels of phosphate and potash application in reaction to lower commodity prices.

Food and Consumer – Weakness in residential construction caused reduced shipments of appliances and other consumer goods. Yet, basic needs markets such as food products were less severely impacted by the current economic conditions.

Coal

Volume declines were driven by a weaker export market and lower demand from electric utilities. The export market decline is a result of both lower steel production in Europe reducing the need for metallurgical coal (coal used to produce steel), and cheaper alternative global sources for European utilities. The demand for domestic electrical generation from coal was down because of low natural gas prices and lower industrial production.

Automotive

Revenue and volume were down as lower consumer demands, inventory corrections, and bankruptcy filings within the auto industry reduced new car production.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Rail Expense

Expenses decreased \$533 million from last year's quarter. Significant variances are described below.

Labor and Fringe expense decreased \$76 million. This decrease was primarily driven by labor productivity initiatives, such as employee furloughs and reduced crew overtime, and lower incentive compensation. These decreases were partially offset by inflation.

Materials, Supplies and Other expense decreased \$138 million due to several items including a year over year change in casualty reserves of \$70 million. Casualty reserves are reviewed by management and outside experts twice a year. As safety trends have continued to improve, benefits were taken in both years' second quarters - \$85 million in 2009 and \$15 million in the prior year quarter. These benefits were a result of the continuing downward trend in the number and the severity of injuries. Additionally, there were volume-related expense decreases, prior year proxy-related items (not repeated in the current year) and other items.

Fuel expense decreased \$352 million due to lower fuel prices and lower volume.

Intermodal Revenue

International – Volume continues to be down significantly on weak imports and exports due to the global economic recession. Revenue-per-unit was lower on significantly decreased fuel recovery, partially offset by long-term contract price increases.

Domestic – Volume was up slightly as truckload conversion and expanded service offerings helped offset the decline in other segments of the domestic market. Revenue-per-unit was lower on decreased fuel recovery and a competitive truck pricing environment.

Intermodal Expense

Intermodal operating expense decreased in the second quarter of 2009, primarily driven by lower volumes and a decline in fuel price.



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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated Results of Operations

Other Income

Other income decreased \$7 million to \$10 million due to lower average cash and investment balances as well as a lower average rate of return. This decrease was partially offset by higher real estate sales during second quarter 2009.

Interest Expense

Interest expense increased \$6 million to \$139 million due to higher average debt balances in second quarter 2009.

Income Tax Expense

Income tax expense decreased \$41 million to \$168 million due to lower earnings in second quarter 2009. This decrease was partially offset by an \$18 million income tax benefit during the 2008 second quarter principally related to the resolution of various income tax matters that was not repeated during 2009.

Net Earnings

Net earnings decreased \$77 million to \$308 million and earnings per diluted share decreased \$.15 to \$.78 in second quarter 2009 as a result of lower earnings partially offset by a \$25 million after-tax gain related to the sale of The Greenbrier resort in second quarter 2009.

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CSX CORPORATION  
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
 OPERATIONS

Results of Operations(Unaudited)  
 (Dollars in Millions)

Six Months

|                               | Rail(a) |         | Intermodal |       | Operating<br>Income |         | \$ Change |
|-------------------------------|---------|---------|------------|-------|---------------------|---------|-----------|
|                               | 2009    | 2008    | 2009       | 2008  | 2009                | 2008    |           |
| Revenue                       | \$3,871 | \$4,887 | \$561      | \$733 | \$4,432             | \$5,620 | \$(1,188) |
| Expense:                      |         |         |            |       |                     |         |           |
| Labor and Fringe              | 1,282   | 1,440   | 34         | 38    | 1,316               | 1,478   | 162       |
| Materials, Supplies and Other | 756     | 918     | 89         | 100   | 845                 | 1,018   | 173       |
| Fuel                          | 374     | 975     | 2          | 3     | 376                 | 978     | 602       |
| Depreciation                  | 440     | 437     | 13         | 12    | 453                 | 449     | (4)       |
| Equipment and Other Rents     | 162     | 170     | 49         | 53    | 211                 | 223     | 12        |
| Inland Transportation         | (187)   | (259)   | 314        | 390   | 127                 | 131     | 4         |
| Total Expense                 | 2,827   | 3,681   | 501        | 596   | 3,328               | 4,277   | 949       |
| Operating Income              | \$1,044 | \$1,206 | \$60       | \$137 | \$1,104             | \$1,343 | \$(239)   |
| Operating Ratio               | 73.0%   | 75.3%   | 89.3%      | 81.3% | 75.1%               | 76.1%   |           |

(a) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as Total Distribution Services, Inc., Transflo Terminal Services, Inc., CSX Technology, Inc. and other subsidiaries.

Volume and Revenue (Unaudited)

Volume (Thousands of units); Revenue (Dollars in millions); Revenue Per Unit (Dollars)

Six Months

|                               | Volume |      |          |   | Revenue |       |          |   | Revenue Per Unit |         |          |
|-------------------------------|--------|------|----------|---|---------|-------|----------|---|------------------|---------|----------|
|                               | 2009   | 2008 | % Change |   | 2009    | 2008  | % Change |   | 2009             | 2008    | % Change |
| Chemicals                     | 210    | 260  | (19)     | % | \$616   | \$743 | (17)     | % | \$2,933          | \$2,858 | 3%       |
| Emerging Markets              | 197    | 248  | (21)     |   | 281     | 352   | (20)     |   | 1,426            | 1,419   | -        |
| Forest Products               | 129    | 177  | (27)     |   | 273     | 397   | (31)     |   | 2,116            | 2,243   | (6)      |
| Agricultural<br>Products      | 215    | 217  | (1)      |   | 482     | 481   | -        |   | 2,242            | 2,217   | 1        |
| Metals                        | 93     | 188  | (51)     |   | 184     | 408   | (55)     |   | 1,978            | 2,170   | (9)      |
| Phosphates and<br>Fertilizers | 134    | 181  | (26)     |   | 181     | 258   | (30)     |   | 1,351            | 1,425   | (5)      |
| Food and Consumer             | 50     | 55   | (9)      |   | 119     | 135   | (12)     |   | 2,380            | 2,455   | (3)      |

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|                   |       |       |        |         |         |        |         |         |       |
|-------------------|-------|-------|--------|---------|---------|--------|---------|---------|-------|
| Total Merchandise | 1,028 | 1,326 | (22)   | 2,136   | 2,774   | (23)   | 2,078   | 2,092   | (1)   |
| Coal              | 776   | 890   | (13)   | 1,352   | 1,497   | (10)   | 1,742   | 1,682   | 4     |
| Coke and Iron Ore | 30    | 50    | (40)   | 54      | 89      | (39)   | 1,800   | 1,780   | 1     |
| Total Coal        | 806   | 940   | (14)   | 1,406   | 1,586   | (11)   | 1,744   | 1,687   | 3     |
| Automotive        | 99    | 188   | (47)   | 208     | 407     | (49)   | 2,101   | 2,165   | (3)   |
| Other             | -     | -     | -      | 121     | 120     | 1      | -       | -       | -     |
| Total Rail        | 1,933 | 2,454 | (21)   | 3,871   | 4,887   | (21)   | 2,003   | 1,991   | 1     |
| International     | 369   | 515   | (28)   | 164     | 260     | (37)   | 444     | 505     | (12)  |
| Domestic          | 528   | 523   | 1      | 388     | 460     | (16)   | 735     | 880     | (16)  |
| Other             | -     | -     | -      | 9       | 13      | (31)   | -       | -       | -     |
| Total Intermodal  | 897   | 1,038 | (14)   | 561     | 733     | (23)   | 625     | 706     | (11)  |
| Total             | 2,830 | 3,492 | (19) % | \$4,432 | \$5,620 | (21) % | \$1,566 | \$1,609 | (3) % |

Certain data within Merchandise categories have been reclassified to conform to the current year presentation.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Six Month Results of Operations

Consolidated Results of Operations

Operating Revenue

Operating revenue decreased \$1.2 billion to \$4.4 billion in 2009 as a result of significant volume declines and lower fuel recovery associated with the sharp decline in fuel prices since 2008.

Operating Income

Operating income decreased \$239 million to \$1.1 billion as a result of lower operating revenue partially offset by lower fuel expense and the Company's continued efforts to control costs.

Other Income

Other income decreased \$76 million to \$13 million in 2009 due to lower income from real estate sales and a \$30 million benefit to correct equity earnings from a non-consolidated subsidiary in the prior year. A lower average rate of return on cash and investment balances also contributed to this decrease.

Interest Expense

Interest expense increased \$28 million to \$280 million primarily due to higher average debt balances in 2009.

Income Tax Expense

Income tax expense decreased \$128 million to \$298 million primarily due to lower earnings in 2009.

Net Earnings

Net earnings decreased \$182 million to \$554 million and earnings per diluted share decreased \$.38 to \$1.40 in 2009 primarily as a result of lower earnings partially offset by a \$25 million after-tax gain related to the sale of The Greenbrier resort in 2009.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

The following are material changes in the consolidated balance sheets and sources of liquidity and capital, which provide an update to the discussion included in CSX's most recent Annual Report on Form 10-K.

Total long-term debt increased \$421 million driven by a \$500 million debt issuance during first quarter 2009. Additionally, property additions increased \$199 million due to planned capital spending. These increases were partially offset by a \$222 million decrease in accounts receivable due to volume declines this year.

Cash provided by operating activities decreased \$362 million due in part to lower pre-tax earnings. Also, contributing to this decrease were higher incentive compensation payouts this year compared to last year. Additionally, cash from investing activities decreased due to a reduction in the purchases and sales of short-term investments partially offset by lower property additions. Furthermore, cash provided by financing activities decreased \$269 million as the Company paid higher dividends and paid for seller financed assets that were delivered in the prior year.

For 2009, the Company plans to spend \$1.6 billion of capital expenditures. The Company is continually evaluating market and regulatory conditions that could affect its ability to generate sufficient returns on capital investments. The Company may revise this estimate as a result of changes in business conditions, tax legislation or the enactment of new laws or regulations.

Liquidity and Working Capital

As of the end of the second quarter, the Company had \$1.2 billion of cash, cash equivalents and short-term investments. CSX also has available a \$1.25 billion credit facility with a diverse syndicate of banks that was not drawn on. With the current cash balances, CSX intends to pre-fund future contributions up to \$250 million, or \$160 million after-tax, to its pension plans in 2009.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of \$675 million at June 2009 and a working capital deficit of \$13 million at December 2008. The favorable change is primarily due to increased cash balances as a result of new debt issued during the first quarter.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. As a result, the working capital balance could return to a deficit in future periods. A working capital deficit is not unusual for CSX or other companies in the industry and does not indicate a lack of liquidity. The Company continues to maintain adequate current assets to satisfy current liabilities and maturing obligations when they come due. Furthermore, CSX has sufficient financial capacity, including its revolving credit facility, to manage its day-to-day cash requirements and any anticipated obligations. The Company maintains access to the credit markets for additional liquidity as needed. Due to the current economic and credit market environment, CSX, as well as other investment grade debt issuers, may be unable to access capital due to lack of market demand or may experience higher interest costs.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and certain revenues and expenses during the reporting period. Actual results may differ from those estimates. These estimates and assumptions are discussed with the Audit Committee of the Board of Directors on a regular basis. Consistent with the prior year, significant estimates using management judgment are made for the following areas:

- casualty, environmental and legal reserves;
- pension and post-retirement medical plan accounting;
- depreciation policies for assets under the group-life method; and
- income taxes.

For further discussion of the Company's critical accounting estimates, see the Company's most recent Annual Report on Form 10-K.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements in this report and in other materials filed with the SEC, as well as information included in oral statements or other written statements made by the Company, are forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements include, among others, statements regarding:

- expectations as to results of operations and operational initiatives;
- expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition, results of operations or liquidity;
- management's plans, goals, strategies and objectives for future operations and other similar expressions concerning matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and
- future economic, industry or market conditions or performance and their effect on the Company's financial condition, results of operations or liquidity.

Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "project," "estimate," "preliminary" and similar expressions. The Company cautions against placing undue reliance on forward-looking statements, which reflect its good faith beliefs with respect to future events and are based on information currently available to it as of the date the forward-looking statement is made. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the timing when, or by which, such performance or results may be achieved.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements are subject to a number of risks and uncertainties and actual performance or results could differ materially from those anticipated by these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement. If the Company does update any forward-looking statement, no inference should be drawn that the Company will make additional updates with respect to that statement or any other forward-looking statements. The following important factors, in addition to those discussed in Part II, Item 1A (Risk Factors) of this quarterly report on Form 10-Q, and elsewhere in this report, may cause actual results to differ materially from those contemplated by these forward-looking statements:

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, including the outcome of tax claims and litigation, the potential enactment of initiatives to re-regulate the rail industry and the ultimate outcome of shipper and rate claims subject to adjudication;
- the outcome of litigation and claims, including, but not limited to, those related to fuel surcharge, environmental contamination, personal injuries and occupational illnesses;
- material changes in domestic or international economic or business conditions, including those affecting the transportation industry such as access to capital markets, ability to revise debt arrangements as contemplated, customer demand, customer acceptance of price increases, effects of adverse economic conditions affecting shippers and adverse economic conditions in the industries and geographic areas that consume and produce freight;
- worsening conditions in the financial markets that may affect timely access to capital markets, as well as the cost of capital;
- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;
- changes in fuel prices, surcharges for fuel and the availability of fuel;
- the impact of increased passenger activities in capacity-constrained areas or regulatory changes affecting when CSXT can transport freight or service routes;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property or equipment;
- noncompliance with applicable laws or regulations;



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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- the inherent risks associated with safety and security, including the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- labor costs and labor difficulties, including stoppages affecting either the Company's operations or the customers' ability to deliver goods to the Company for shipment;
- competition from other modes of freight transportation, such as trucking, and competition and consolidation within the transportation industry generally;
- the Company's success in implementing its strategic plans and operational objectives and improving operating efficiency; and
- changes in operating conditions and costs or commodity concentrations.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and the Company's website at [www.csx.com](http://www.csx.com).

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CSX CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided under “Quantitative and Qualitative Disclosures about Market Risk” in Item 7A of CSX’s most recent Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

As of June 26, 2009, under the supervision and with the participation of CSX’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), management has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of June 26, 2009, the Company’s disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX’s periodic SEC reports. There were no changes in the Company’s internal controls over financial reporting during second quarter 2009 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information relating to the Company’s legal proceedings, see Note 5, Commitments and Contingencies under Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company’s results of operations, financial condition and liquidity, see the risk factors discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of CSX’s most recent Annual Report on Form 10-K. See also “Forward-Looking Statements” included in Item 2 of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in CSX’s most recent Annual Report on Form 10-K.

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## ITEM 2. CSX Purchases of Equity Securities

CSX is required to disclose any purchases of its common stock for the most recent quarter. CSX purchases its shares for two primary reasons: to further its goals under its share repurchase program and to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan that covers certain union employees.

Since March 2008, CSX has completed \$1.25 billion in share repurchases and has remaining authority of \$1.75 billion. The Company did not repurchase any shares during second quarter 2009. Any future repurchases will be dependent upon an improvement in capital market and business conditions.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Annual Shareholders' meeting held May 6, 2009

(b) See item (c).

(c) There were 399,343,121 shares of CSX common stock outstanding as of March 6, 2009 the record date for the 2009 annual meeting of shareholders, and 324,825,677 shares of CSX common stock were represented at the meeting.

## ITEM 1—Election of Directors

| CSX Nominee          | Votes For   | Votes Withheld |
|----------------------|-------------|----------------|
| Donna M. Alvarado    | 316,170,380 | 8,655,297      |
| Alexandre Behring    | 312,607,671 | 12,218,006     |
| John B. Breaux       | 321,422,003 | 3,403,674      |
| Steven T. Halverson  | 316,294,447 | 8,531,230      |
| Edward J. Kelly, III | 321,652,195 | 3,173,482      |
| Gilbert H. Lamphere  | 312,761,669 | 12,064,008     |
| John D. McPherson    | 321,863,796 | 2,961,881      |
| Timothy T. O'Toole   | 319,154,058 | 5,671,619      |
| David M. Radcliffe   | 315,499,066 | 9,326,611      |
| Donald J. Shepard    | 316,386,492 | 8,439,185      |
| Michael J. Ward      | 317,714,596 | 7,111,081      |

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ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS, CONTINUED

ITEM 2—Ratification of Ernst & Young LLP as the Independent Registered Public Accounting Firm for 2009

| Votes For   | Votes Against | Abstentions |
|-------------|---------------|-------------|
| 316,781,667 | 7,275,437     | 768,573     |

(d) None.

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

Exhibits

31\* Rule 13a-14(a) Certifications

32\* Section 1350 Certifications

101\* The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended June 26, 2009 filed with the SEC on July 15, 2009, formatted in XBRL includes: (i) Consolidated Income Statements for the fiscal periods ended June 26, 2009 and June 27, 2008, (ii) Consolidated Balance Sheets at June 26, 2009 and December 26, 2008, (iii) Consolidated Cash Flow Statements for the fiscal periods ended June 26, 2009 and June 27, 2008, and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text.

\* Filed herewith

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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 CORPORATION

(Registrant)

By: /s/ CAROLYN T. SIZEMORE

Carolyn T. Sizemore

Vice President and Controller

(Principal Accounting Officer)

Dated: July 14, 2009

