

CSX CORP  
Form 10-Q  
October 26, 2011  
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 September 30, 2011

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

(Address of principal executive offices)

32202

(Zip  
Code)

(904) 359-3200

(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

Smaller Reporting Company

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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 1,049,953,020 shares of common stock outstanding on September 30, 2011 (the latest practicable date that is closest to the filing date).

1

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CSX CORPORATION  
 FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011  
 INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Income Statements (Unaudited)</u> - Quarters and Nine Months Ended September 30, 2011 and September 24, 2010	<u>3</u>
<u>Consolidated Balance Sheets</u> - At September 30, 2011 (Unaudited) and December 31, 2010	<u>4</u>
<u>Consolidated Cash Flow Statements (Unaudited)</u> - Nine Months Ended September 30, 2011 and September 24, 2010	<u>5</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
Item 4. <u>Controls and Procedures</u>	<u>40</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>40</u>
Item 1A. <u>Risk Factors</u>	<u>40</u>
Item 2. <u>CSX Purchases of Equity Securities</u>	<u>41</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>42</u>
Item 4. <u>Removed and Reserved</u>	<u>42</u>
Item 5. <u>Other Information</u>	<u>42</u>
Item 6. <u>Exhibits</u>	<u>42</u>
<u>Signature</u>	<u>43</u>

Table of Contents

## CSX CORPORATION

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Third Quarters		Nine Months	
	2011	2010	2011	2010
Revenue	\$2,963	\$2,666	\$8,792	\$7,820
Expense				
Labor and Fringe	765	731	2,294	2,181
Materials, Supplies and Other	562	509	1,649	1,579
Fuel	412	279	1,245	866
Depreciation	251	232	740	690
Equipment and Other Rents	95	90	287	279
Total Expense	2,085	1,841	6,215	5,595
Operating Income	878	825	2,577	2,225
Interest Expense	(138	)(131	)(412	)(408
Other Income - Net (Note 8)	6	8	11	28
Earnings Before Income Taxes	746	702	2,176	1,845
Income Tax Expense (Note 9)	(282	)(288	)(811	)(712
Net Earnings	\$464	\$414	\$1,365	\$1,133
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$0.43	\$0.36	\$1.25	\$0.98
Net Earnings Per Share, Assuming Dilution	\$0.43	\$0.36	\$1.24	\$0.97
Average Shares Outstanding (In millions)	1,071	1,134	1,094	1,152
Average Shares Outstanding, Assuming Dilution (In millions)	1,077	1,145	1,100	1,162
Cash Dividends Paid Per Common Share	\$0.12	\$0.08	\$0.33	\$0.24

All share and per share data were retroactively restated to reflect the three-for-one stock split effective May 31, 2011.

See accompanying notes to consolidated financial statements.

Table of Contents

## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	(Unaudited) September 30, 2011	December 31, 2010	
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$580	\$1,292	
Short-term Investments	61	54	
Accounts Receivable - Net (Note 1)	1,148	993	
Materials and Supplies	236	218	
Deferred Income Taxes	164	192	
Other Current Assets	112	106	
Total Current Assets	2,301	2,855	
Properties	33,141	32,065	
Accumulated Depreciation	(8,723)	(8,266)	)
Properties - Net	24,418	23,799	
Investment in Conrail	687	673	
Affiliates and Other Companies	481	461	
Other Long-term Assets	361	353	
Total Assets	\$28,248	\$28,141	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities			
Accounts Payable	\$1,170	\$1,046	
Labor and Fringe Benefits Payable	474	520	
Casualty, Environmental and Other Reserves (Note 4)	200	176	
Current Maturities of Long-term Debt (Note 7)	494	613	
Income and Other Taxes Payable	129	85	
Other Current Liabilities	101	97	
Total Current Liabilities	2,568	2,537	
Casualty, Environmental and Other Reserves (Note 4)	434	502	
Long-term Debt (Note 7)	8,160	8,051	
Deferred Income Taxes	7,535	7,053	
Other Long-term Liabilities	1,283	1,298	
Total Liabilities	19,980	19,441	
Common Stock \$1 Par Value	1,050	370	
Retained Earnings	7,944	9,087	
Accumulated Other Comprehensive Loss (Note 1)	(738)	(771)	)
Noncontrolling Interest	12	14	

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Total Shareholders' Equity	8,268	8,700
Total Liabilities and Shareholders' Equity	\$28,248	\$28,141

See accompanying notes to consolidated financial statements.

4

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Table of Contents

## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

	Nine Months 2011	2010	
<b>OPERATING ACTIVITIES</b>			
Net Earnings	\$1,365	\$1,133	
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	740	690	
Deferred Income Taxes	486	139	
Other Operating Activities	(6)	)80	
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(149)	)5	
Other Current Assets	(37	)(44	)
Accounts Payable	117	27	
Income and Other Taxes Payable	83	150	
Other Current Liabilities	(14	)97	
Net Cash Provided by Operating Activities	2,585	2,277	
<b>INVESTING ACTIVITIES</b>			
Property Additions	(1,436	)(1,103	)
Other Investing Activities	35	41	
Net Cash Used in Investing Activities	(1,401	)(1,062	)
<b>FINANCING ACTIVITIES</b>			
Long-term Debt Issued (Note 7)	600	—	
Long-term Debt Repaid (Note 7)	(595	)(103	)
Dividends Paid	(354	)(275	)
Stock Options Exercised (Note 3)	27	21	
Shares Repurchased	(1,564	)(1,123	)
Other Financing Activities	(10	)(128	)
Net Cash Used in Financing Activities	(1,896	)(1,608	)
Net Decrease in Cash and Cash Equivalents	(712	)(393	)
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and Cash Equivalents at Beginning of Period	1,292	1,029	
Cash and Cash Equivalents at End of Period	\$580	\$636	

Certain amounts have been reclassified to conform to the current year presentation.

See accompanying notes to consolidated financial statements.

Table of Contents

CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

CSX Corporation (“CSX”), and together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides 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. The Company's intermodal business links customers to railroads via trucks and terminals.

Other entities

In addition to CSXT, the Company's subsidiaries include CSX Intermodal Terminals, Inc. (“CSX Intermodal Terminals”), Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. CSX Intermodal Terminals owns and operates a system of intermodal terminals, predominantly in the eastern United States and also performs drayage services (the door to door pickup and delivery of intermodal shipments) and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. CSX Technology and other subsidiaries provide support services for the Company.

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. These activities are classified in other income - net because they are not considered to be operating activities by the Company. Results of these activities fluctuate with the timing of non-operating real estate transactions.

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 quarter and nine months ended September 30, 2011 and September 24, 2010;
- Consolidated balance sheets at September 30, 2011 and December 31, 2010; and
- Consolidated cash flow statements for the nine months ended September 30, 2011 and September 24, 2010.



Table of Contents

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 U.S. generally accepted accounting principles (“GAAP”) 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 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 third fiscal quarter of 2011 and 2010 consisted of 13 weeks ending on September 30, 2011 and September 24, 2010, respectively.

The nine month periods of 2011 and 2010 consisted of 39 weeks ending on September 30, 2011 and September 24, 2010, respectively.

Fiscal year 2010 consisted of 53 weeks ending on December 31, 2010. Therefore, fourth quarter 2010 consisted of 14 weeks.

Fiscal year 2011 will consist of 52 weeks ending on December 30, 2011.

Except as otherwise specified, references to “third quarter(s)” or “nine months” indicate CSX's fiscal periods ending September 30, 2011 and September 24, 2010, and references to year-end indicate the fiscal year ended December 31, 2010.

Comprehensive Earnings

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the Financial Accounting Standards Board's Accounting Standards Codification (“ASC”) in the Consolidated Statement of Changes in Shareholders' Equity. 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 (e.g., 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 tax and were \$473 million and \$431 million for third quarters 2011 and 2010, respectively, and \$1.4 billion and \$1.2 billion for nine months 2011 and 2010, 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 or loss, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement adjustments and reduced overall equity by \$738 million and \$771 million as of the end of third quarter 2011 and December 2010, respectively.

See the New Accounting Pronouncements section below for information related to the change in presentation requirements.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, 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 \$40 million and \$38 million is included in the consolidated balance sheets as of the end of third quarter 2011 and December 2010, respectively.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an Accounting Standards Update to the Comprehensive Income Topic in the ASC aimed at increasing the prominence of items reported in other comprehensive income in the financial statements. This update requires companies to present comprehensive income in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. Companies will no longer be allowed to present comprehensive income on the statement of changes in shareholders' equity. In both options, companies must present the components of net income, total net income, the components of other comprehensive income, total other comprehensive income and total comprehensive income. This update does not change which items are reported in other comprehensive income or the requirement to report reclassifications of items from other comprehensive income to net income. This requirement will become effective for CSX beginning with the first quarter 2012 10-Q filing. CSX will present comprehensive income in two separate statements. This update will require retrospective application for all periods presented.

Other Items

Other Capital

During third quarter 2011, CSX's other capital balance was reduced to zero as a result of share repurchases. In accordance with the Equity Topic in the ASC, other capital cannot be negative. Therefore, a reclassification of \$978 million was made between retained earnings and other capital to bring the other capital balance to zero. Generally, retained earnings is only impacted by net earnings and dividends.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share

In May 2011, CSX announced a three-for-one split of its common stock. All shareholders of record on May 31, 2011 received two additional shares of CSX common stock that were distributed on June 15, 2011. Pursuant to the Earnings Per Share Topic in the ASC, all share and per share disclosures have been retroactively restated to reflect the stock split.

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

	Third Quarters		Nine Months	
	2011	2010	2011	2010
Numerator (Dollars in millions):				
Net Earnings	\$464	\$414	\$1,365	\$1,133
Denominator (Units in millions):				
Average Common Shares Outstanding	1,071	1,134	1,094	1,152
Other Potentially Dilutive Common Shares <sup>(a)</sup>	6	11	6	10
Average Common Shares Outstanding, Assuming Dilution	1,077	1,145	1,100	1,162
Net Earnings Per Share, Basic	\$0.43	\$0.36	\$1.25	\$0.98
Net Earnings Per Share, Assuming Dilution	\$0.43	\$0.36	\$1.24	\$0.97

<sup>(a)</sup> Other potentially dilutive common shares include convertible debt, stock options, common stock equivalents and performance units granted under a management incentive compensation plan.

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.

The Earnings Per Share Topic in the ASC requires CSX to include additional shares in the computation of earnings per share, assuming dilution. The additional shares included in diluted earnings per share represent the number of shares that would be issued if all of the above potentially dilutive instruments were converted into CSX common stock.

When calculating diluted earnings per share, the Earnings Per Share Topic in the ASC 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.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share, continued

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 third quarters 2011 and 2010, approximately \$700 thousand and \$300 thousand of face value convertible debentures were converted into 73 thousand and 30 thousand shares of CSX common stock, respectively. As of the end of third quarter 2011, approximately \$4 million of convertible debentures at face value remained outstanding, which are convertible into approximately 469 thousand shares of CSX common stock.

## NOTE 3. Share-Based Compensation

Under CSX's share-based compensation plans, awards primarily consist of performance grants, restricted stock awards, restricted stock units, stock options and stock grants for directors. CSX has not granted stock options since 2003. Awards granted under the various programs 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.

In May 2011, approximately 1.1 million performance units (post-split) were granted to key members of management under a new long-term incentive plan ("LTIP") adopted under the CSX Stock and Incentive Award Plan. This LTIP provides for a three-year cycle ending in fiscal year 2013. Similar to the two existing plans, the financial target upon which payments are based is operating ratio, which is defined as operating expenses divided by operating revenue and is calculated excluding certain non-recurring items. Grants were made in performance units, with each unit being equivalent to one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the original grant based upon CSX's attainment of pre-established operating ratio targets for fiscal year 2013. Payouts to certain senior executive officers are subject to a reduction of up to 30% at the discretion of the Compensation Committee of the Board of Directors based upon Company performance against certain CSX strategic initiatives.

Additionally, as part of the 2011 long-term incentive compensation program, the Company granted approximately 360 thousand time-based restricted stock units (post-split) to key members of management. The restricted stock units vest three years after the date of grant and participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and support retention objectives.

For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent annual report on Form 10-K.

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

(Dollars in millions)	Third Quarters		Nine Months	
	2011	2010	2011	2010
Share-Based Compensation Expense	\$7	\$13	\$30	\$46
Income Tax Benefit	3	5	11	17



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 3. Share-Based Compensation, continued

The following table provides information about stock options exercised and expired.

(In thousands)	Third Quarters		Nine Months	
	2011	2010	2011	2010
Number of Stock Options Exercised	589	280	4,543	1,193
Number of Stock Options Expired	6	—	27	—

As of December 2009, all outstanding options were vested, and therefore, there will be no future expense related to these options. As of the end of third quarter 2011, CSX had approximately 5 million stock options outstanding.

## NOTE 4. Casualty, Environmental and Other Reserves

Casualty, environmental and other reserves are considered critical accounting estimates that involve significant management judgments. They are provided for in the consolidated balance sheets as follows:

(Dollars in millions)	September 30, 2011			December 31, 2010		
	Current	Long-term	Total	Current	Long-term	Total
<b>Casualty:</b>						
Personal Injury	\$78	\$175	\$253	\$78	\$176	\$254
Occupational	10	34	44	10	30	40
Asbestos	9	58	67	9	72	81
Total Casualty	97	267	364	97	278	375
Separation	16	36	52	16	44	60
Environmental	55	31	86	37	70	107
Other	32	100	132	26	110	136
Total	\$200	\$434	\$634	\$176	\$502	\$678

These liabilities are accrued when estimable and probable in accordance with the Contingencies Topic in the ASC. Actual settlements and claims received could differ. The final outcome of these matters cannot be predicted with certainty. Considering the legal defenses currently available, 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. Should a number of these items occur in the same period, however, they could have a material effect on the Company's financial condition, results of operations or liquidity in that particular period.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves represent accruals for personal injury, occupational injury and asbestos claims. During 2010 the Company increased its self-insured retention amount for these claims from \$25 million to \$50 million per injury for claims occurring on or after June 1, 2010. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, 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. These reserves fluctuate based upon the timing of payments as well as changes in independent third-party estimates, which are reviewed by management. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the claims relate to CSXT unless otherwise noted below. 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.

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 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. An analysis is performed by the independent actuarial firm quarterly 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.

Occupational & Asbestos

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

An analysis of occupational claims is performed quarterly by an independent actuarial firm and reviewed by management. The methodology used includes estimates of future anticipated incurred but not reported claims based on the Company's trends in average historical claim filing rates, future anticipated dismissal rates and future settlement rates.

Asbestos claims are from employees alleging exposure to asbestos in the workplace. Asbestos claims are reviewed quarterly by management, and analyzed annually by a third party expert. The methodology used includes estimates of future anticipated incurred but not reported claims based on the Company's trends in average historical claim filing rates, future anticipated dismissal rates and future settlement rates.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Separation

Separation liabilities represent 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 256 environmentally impaired sites. Many of these 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. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling 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.

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 the Asset Retirement and Environmental Obligations Topic in the ASC, the Company reviews its role with respect to each site identified at least quarterly, giving consideration to a number of factors such as:

- type of clean-up required;
- nature of the Company's alleged connection to the location (e.g., generator of waste sent to the site or owner or operator of the site);
- extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- number, connection and financial viability of other named and unnamed potentially responsible parties at the location.

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. 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. Environmental remediation costs are included in materials, supplies and other on the consolidated income statement.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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, conditions that are currently unknown could, at any given location, result in additional 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.

Other

Other reserves include liabilities for various claims, such as longshoremen disability claims, freight claims and claims for property, automobile and general liability.

NOTE 5. Commitments and Contingencies

Insurance

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the liability and property programs. The Company has a \$25 million retention per occurrence for the non-catastrophic property program and a \$50 million retention per occurrence for the liability and catastrophic property programs.

While the Company believes its current insurance coverage is adequate to cover its damages, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

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, the Company sponsors a self-insured post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Prior to 2011, the post-retirement medical plan was partially funded by all participating retirees, with retiree contributions adjusted annually. Beginning in 2011, Medicare-eligible retirees will be covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Non-Medicare eligible retirees will continue to be covered by the existing self-insured program. The life insurance plan is non-contributory.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 6. Employee Benefit Plans, continued

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company selects. These amounts are reviewed by management. The following table describes the components of expense / (income) related to net benefit expense:

(Dollars in millions)	Pension Benefits				
	Third Quarters		Nine Months		
	2011	2010	2011	2010	
Service Cost	\$10	\$10	\$30	\$31	
Interest Cost	30	30	90	91	
Expected Return on Plan Assets	(39	)(42	)(118	)(124	)
Amortization of Net Loss	18	15	54	44	
Total Expense	\$19	\$13	\$56	\$42	

(Dollars in millions)	Other Post-retirement Benefits			
	Third Quarters		Nine Months	
	2011	2010	2011	2010
Service Cost	\$1	\$2	\$3	\$4
Interest Cost	4	5	10	14
Amortization of Net Loss	2	1	5	5
Amortization of Prior Service Cost	—	—	(1	)—
Total Expense	\$7	\$8	\$17	\$23

Qualified pension plan obligations are funded in accordance with prescribed regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. At this time, the Company anticipates that no contributions to its qualified pension plans will be required in 2011. For further details, see Note 8, Employee Benefit Plans, in CSX's most recent annual report on Form 10-K.

## NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of third quarter 2011 was as follows:

(Dollars in millions)	Current Portion	Long-term Portion	Total	
Long-term debt as of December 2010	\$613	\$8,051	\$8,664	
2011 activity:				
Long-term debt issued	—	600	600	
Long-term debt repaid	(595	)—	(595	)
Reclassifications	481	(481	)—	
Debt conversions to CSX stock	(5	)—	(5	)
Discount and premium activity	—	(10	)(10	)
Long-term debt as of the end of third quarter 2011	\$494	\$8,160	\$8,654	

For fair value information related to the Company's long-term debt, see Note 10, Fair Value Measurements.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 7. Debt and Credit Agreements, continued

## Debt Issuance

In May 2011, CSX issued \$350 million of 4.25% notes due June 2021 and \$250 million of 5.50% notes due April 2041. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time. The net proceeds from the sale of the notes will be used for general corporate purposes, which may include debt repayments from time to time, repurchases of CSX common stock, capital expenditures, working capital requirements, improvements in productivity and other cost reductions.

## Revolving Credit Facility

During the quarter, CSX replaced its existing \$1.25 billion credit facility that was set to expire in May 2012 with a new \$1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This new facility expires in September 2016 and has not been drawn on as of the date of this filing. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. As of the end of third quarter 2011, CSX was in compliance with all covenant requirements under the facility.

## Receivables Securitization Facility

The Company has a \$250 million receivables securitization facility that expires in June 2012. This facility has a 364-day term. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. Under the terms of this facility, CSX Transportation transfers eligible third-party receivables to CSX Trade Receivables, LLC ("CSX Trade Receivables"), a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX services the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements. As of the date of this filing, the Company has no outstanding balances under this facility.

## 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. Other income - net consisted of the following:

(Dollars in millions)	Third Quarters		Nine Months	
	2011	2010	2011	2010
Interest Income	\$1	\$1	\$3	\$4
Income from Real Estate	6	5	14	20
Miscellaneous Income (Expense)	(1	)2	(6	)4
Total Other Income - Net	\$6	\$8	\$11	\$28



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 9. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits during the third quarter 2011 and 2010. Last year the Company recorded an income tax charge of \$22 million or \$0.02 per share primarily related to the merger of the Company's former Intermodal subsidiary with CSXT. As a result of this merger, CSXT's effective state tax rate increased and resulted in a revaluation of the deferred tax liabilities.

NOTE 10. Fair Value Measurements

The Financial Instruments Topic in the ASC requires disclosures about fair value of financial instruments in annual reports as well as in quarterly reports. For CSX, this statement applies to certain investments and long-term debt. Disclosure of the fair value of pension plan assets is only required annually.

Various inputs are considered when determining the value of the Company's investments, pension plan assets and long-term debt. 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 valuation methods described below may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Fair Value Measurements, continued

## Investments

The Company's investment assets, valued by a third-party trustee, consist primarily of corporate bonds and are carried at fair value, on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. Level 1 inputs were used to determine fair value of the Company's investment assets. The fair value and amortized cost of these bonds are as follows:

(Dollars in millions)	September 30, 2011	December 31, 2010
Fair Value	\$ 153	\$ 123
Amortized Cost	\$ 152	\$ 121

These investments have the following maturities:

(Dollars in millions)	September 30, 2011	December 31, 2010
Less than 1 year	\$53	\$44
1 - 2 years <sup>(a)</sup>	27	45
2 - 5 years <sup>(b)</sup>	73	31
Greater than 5 years	—	3
Total	\$ 153	\$ 123

The 1-2 year category includes callable bonds of approximately \$5 million as of year end 2010, which are (a)classified as short-term investments on the consolidated balance sheet. There were no callable bonds in this category as of nine months ended 2011.

The 2-5 year category includes callable bonds of approximately \$8 million and \$5 million as of nine months ended (b)2011 and year end 2010, respectively, which are classified as short-term investments on the consolidated balance sheet.

## Long-term Debt

Long-term debt is reported at carrying amount on the consolidated balance sheet and is the Company's only financial instrument with fair values significantly different from their carrying amounts. The majority of the Company's long-term debt is valued by an independent third party. For those instruments not valued by the third party, the fair value has been estimated by applying market rates of similar instruments to the scheduled contractual debt payments and maturities. These market rates are provided by the same third party. All of the inputs used to determine the fair value of the Company's long-term debt are Level 2 inputs.

The fair value of outstanding debt fluctuates with changes in a number of factors. Such factors include, but are not limited to, interest rates, market conditions, values of similar financial instruments, size of the transaction, cash flow projections and comparable trades. 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 of a company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting

rules.

18

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Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Fair Value Measurements, continued

The fair value and carrying value of the Company's long-term debt is as follows:

(Dollars in millions)	September 30, 2011	December 31, 2010
Long-term Debt Including		
Current Maturities:		
Fair Value	\$ 10,043	\$ 9,624
Carrying Value	\$ 8,654	\$ 8,664

## NOTE 11. Summarized Consolidating Financial Data

In 2007, CSXT sold secured equipment notes maturing in 2023 and in 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:

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

Third Quarter 2011	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$2,946	\$17	\$2,963
Expense	(77)	)2,220	(58)	)2,085
Operating Income	77	726	75	878
Equity in Earnings of Subsidiaries	500	(1	)499	)—
Interest (Expense) / Benefit	(123	)19	)4	(138
Other Income - Net	3	6	(3	)6
Earnings Before Income Taxes	457	712	(423	)746
Income Tax (Expense) / Benefit	7	(266	)23	)282
Net Earnings	\$464	\$446	\$(446	)\$464
Third Quarter 2010	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$2,650	\$16	\$2,666
Expense	(46	)1,841	46	1,841
Operating Income	46	809	(30	)825
Equity in Earnings of Subsidiaries	492	—	(492	)—
Interest (Expense) / Benefit	(119	)22	)10	(131
Other Income - Net	4	17	(13	)8
Earnings Before Income Taxes	423	804	(525	)702
Income Tax (Expense) / Benefit	(9	)327	)48	(288
Net Earnings	\$414	\$477	\$(477	)\$414

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

Nine Months Ended September 30, 2011	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$8,743	\$49	\$8,792
Expense	(210)	)6,584	(159)	)6,215
Operating Income	210	2,159	208	2,577
Equity in Earnings of Subsidiaries	1,472	2	(1,474)	)—
Interest (Expense) / Benefit	(370)	)64	)22	(412)
Other Income - Net	11	8	(8)	)11
Earnings Before Income Taxes	1,323	2,105	(1,252)	)2,176
Income Tax (Expense) / Benefit	42	(782)	)71	)811
Net Earnings	\$1,365	\$1,323	\$(1,323)	)\$1,365
Nine Months Ended September 24, 2010	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$7,139	\$681	\$7,820
Expense	(129)	)5,120	604	5,595
Operating Income	129	2,019	77	2,225
Equity in Earnings of Subsidiaries	1,381	—	(1,381)	)—
Interest (Expense) / Benefit	(367)	)77	)36	(408)
Other Income - Net	13	55	(40)	)28
Earnings Before Income Taxes	1,156	1,997	(1,308)	)1,845
Income Tax (Expense) / Benefit	(23)	)772	)83	(712)
Net Earnings	\$1,133	\$1,225	\$(1,225)	)\$1,133

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

As of September 30, 2011	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$367	\$140	\$73	\$580
Short-term Investments	—	—	61	61
Accounts Receivable - Net	5	446	697	1,148
Receivable from Affiliates	1,199	1,718	(2,917)	)—
Materials and Supplies	—	236	—	236
Deferred Income Taxes	—	160	4	164
Other Current Assets	79	103	(70)	)112
Total Current Assets	1,650	2,803	(2,152)	)2,301
Properties	8	31,501	1,632	33,141
Accumulated Depreciation	(8	)(7,807	)(908	)(8,723
Properties - Net	—	23,694	724	24,418
Investments in Conrail	—	—	687	687
Affiliates and Other Companies	—	563	(82	)481
Investments in Consolidated Subsidiaries	17,232	—	(17,232	)—
Other Long-term Assets	167	107	87	361
Total Assets	\$19,049	\$27,167	\$(17,968	)\$28,248
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities				
Accounts Payable	\$148	\$970	\$52	\$1,170
Labor and Fringe Benefits Payable	39	397	38	474
Payable to Affiliates	2,567	574	(3,141	)—
Casualty, Environmental and Other Reserves	—	186	14	200
Current Maturities of Long-term Debt	404	88	2	494
Income and Other Taxes Payable	529	124	(524	)129
Other Current Liabilities	—	101	—	101
Total Current Liabilities	3,687	2,440	(3,559	)2,568
Casualty, Environmental and Other Reserves	—	352	82	434
Long-term Debt	7,008	1,151	1	8,160
Deferred Income Taxes	(583	)(7,655	463	7,535
Other Long-term Liabilities	681	526	76	1,283
Total Liabilities	\$10,793	\$12,124	\$(2,937	)\$19,980

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Shareholders' Equity				
Common Stock, \$1 Par Value	1,050	181	(181	) 1,050
Other Capital	—	5,650	(5,650	)—
Retained Earnings	7,944	9,255	(9,255	) 7,944
Accumulated Other Comprehensive Loss	(738	) (63	) 63	(738 )
Noncontrolling Interest	—	20	(8	) 12
Total Shareholders' Equity	8,256	15,043	(15,031	) 8,268
Total Liabilities and Shareholders' Equity	\$ 19,049	\$ 27,167	\$(17,968	) \$ 28,248

22

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Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

As of December 31, 2010	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	\$ 1,100	\$ 118	\$ 74	\$ 1,292	
Short-term Investments	—	—	54	54	
Accounts Receivable - Net	5	447	541	993	
Receivable from Affiliates	1,048	943	(1,991)	)—	
Materials and Supplies	—	218	—	218	
Deferred Income Taxes	15	171	6	192	
Other Current Assets	46	56	4	106	
Total Current Assets	2,214	1,953	(1,312)	)2,855	
Properties	8	30,557	1,500	32,065	
Accumulated Depreciation	(8	) (7,405	) (853	) (8,266	)
Properties - Net	—	23,152	647	23,799	
Investments in Conrail	—	—	673	673	
Affiliates and Other Companies	—	595	(134	) 461	
Investment in Consolidated Subsidiaries	16,278	—	(16,278	)—	
Other Long-term Assets	174	110	69	353	
Total Assets	\$ 18,666	\$ 25,810	\$(16,335	) \$28,141	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$ 116	\$ 904	\$ 26	\$ 1,046	
Labor and Fringe Benefits Payable	42	431	47	520	
Payable to Affiliates	1,942	401	(2,343	)—	
Casualty, Environmental and Other Reserves	—	161	15	176	
Current Maturities of Long-term Debt	517	94	2	613	
Income and Other Taxes Payable	378	109	(402	) 85	
Other Current Liabilities	—	96	1	97	
Total Current Liabilities	2,995	2,196	(2,654	) 2,537	
Casualty, Environmental and Other Reserves	—	411	91	502	
Long-term Debt	6,815	1,235	1	8,051	
Deferred Income Taxes	(526	) 7,228	351	7,053	
Other Long-term Liabilities	696	525	77	1,298	
Total Liabilities	\$ 9,980	\$ 11,595	\$(2,134	) \$19,441	
<b>Shareholders' Equity</b>					

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Common Stock, \$1 Par Value	370	181	(181	) 370
Other Capital	—	5,634	(5,634	) —
Retained Earnings	9,087	8,443	(8,443	) 9,087
Accumulated Other Comprehensive Loss	(771	) (65	) 65	(771 )
Noncontrolling Minority Interest	—	22	(8	) 14
Total Shareholders' Equity	8,686	14,215	(14,201	) 8,700
Total Liabilities and Shareholders' Equity	\$18,666	\$25,810	\$(16,335	) \$28,141

23

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Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

Nine months ended September 30, 2011	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>Operating Activities</b>				
Net Cash Provided by (Used in) Operating Activities	\$1,062	\$2,014	\$(491)	)\$2,585
<b>Investing Activities</b>				
Property Additions	—	(1,285)	)(151)	)(1,436)
Other Investing Activities	(19)	)(90)	)144	35
Net Cash Used in Investing Activities	(19)	)(1,375)	)(7)	)(1,401)
<b>Financing Activities</b>				
Long-term Debt Issued	600	—	—	600
Long-term Debt Repaid	(507)	)(86)	)(2)	)(595)
Dividends Paid	(362)	)(510)	)518	(354)
Stock Options Exercised	27	—	—	27
Shares Repurchased	(1,564)	)—	—	(1,564)
Other Financing Activities	30	(21)	)(19)	)(10)
Net Cash Provided by (Used in) Financing Activities	(1,776)	)(617)	)497	(1,896)
Net Decrease in Cash and Cash Equivalents	(733)	)22	(1)	)(712)
Cash and Cash Equivalents at Beginning of Period	1,100	118	74	1,292
Cash and Cash Equivalents at End of Period	\$367	\$140	\$73	\$580
<b>Nine months ended September 24, 2010</b>				
<b>Operating Activities</b>				
Net Cash Provided by (Used in) Operating Activities	\$242	\$2,461	\$(426)	)\$2,277
<b>Investing Activities</b>				
Property Additions	—	(1,037)	)(66)	)(1,103)
Other Investing Activities	(17)	)(86)	)144	41
Net Cash Provided by (Used in) Investing Activities	(17)	)(1,123)	)78	(1,062)
<b>Financing Activities</b>				
Long-term Debt Repaid	—	(101)	)(2)	)(103)
Dividends Paid	(281)	)(443)	)449	(275)

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Stock Options Exercised	21	—	—	21	
Shares Repurchased	(1,123	)—	—	(1,123	)
Other Financing Activities	703	(713	)(118	)(128	)
Net Cash Provided by (Used in) Financing Activities	(680	)(1,257	)329	(1,608	)
Net Increase (Decrease) in Cash and Cash Equivalents	(455	)81	(19	)(393	)
Cash and Cash Equivalents at Beginning of Period	918	30	81	1,029	
Cash and Cash Equivalents at End of Period	\$463	\$111	\$62	\$636	

24

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Table of Contents

CSX CORPORATION

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

STRATEGIC OVERVIEW

CSX provides rail-based freight transportation services including traditional rail service and the transport of intermodal containers and trailers. The Company and the rail industry provide customers with access to an expansive and interconnected transportation network that plays a key role in North American commerce and is critical to the economic success and global competitiveness of the United States. CSX's network is positioned to reach nearly two-thirds of Americans, who account for the majority of the nation's consumption of goods. Through this network, the Company transports a diverse portfolio of products and commodities to meet the country's needs. These products range from energy sources like coal and ethanol, to automobiles, chemicals, building materials, paper, metals, grains and consumer products. The Company categorizes these products into three primary lines of business: merchandise, coal and intermodal. CSX's transportation solutions connect industries across the United States with each other and with global markets to meet the transportation needs of port facilities, energy producers, manufacturers, industrial producers, construction companies, farmers and feed mills, wholesalers and retailers and the United States armed forces.

Strategic Growth Initiatives

As CSX continues to strengthen its core business, the Company is focusing on three key strategic growth initiatives related to intermodal, export coal and total service integration. The Company believes these initiatives will allow it to capture additional domestic and international volume, while improving service offerings to its customers in a cost-effective manner.

The Company's intermodal business is an economical, environmentally-friendly alternative to transporting freight on highways via truck. CSX is capitalizing on this opportunity by building new terminals and increasing network capacity. Construction of a new intermodal terminal in Louisville, Kentucky and major terminal expansion projects such as the Worcester, Massachusetts and Columbus, Ohio terminals are currently underway. These investments are in addition to the Company's new Northwest Ohio intermodal terminal that became operational during first quarter 2011. This high-capacity terminal, which is part of CSX's National Gateway initiative discussed below, expands service offerings to customers as well as improves market access to and from east coast ports.

Rapid economic growth in developing countries such as India, China and Brazil has generated a long term growth cycle in coal demand. As a result of the increase in global steel production, demand for U.S. coal is expected to remain strong. Demand for coal used in electric power generation is also expected to remain high due to rising consumption as developing countries become more urbanized. These increases in global coal demand are expected to largely be met by export shipments with a sizeable portion originating from the U.S. The Company is well-positioned to capitalize on this market growth through its network access to large U.S. coal suppliers and multiple port facilities. CSX's Total Service Integration ("TSI") initiative, which was launched in 2006, supports growth by improving service, optimizing train size, and increasing asset utilization for unit train shipments from origin to destination. CSX is now advancing this initiative to enhance service quality for customers who ship by the carload. This program, TSI Carload, focuses where the customer is impacted most - during the first and last mile of service. These enhancements aim to further emphasize the advantages of rail transportation over other modes of transportation. These improvements to operational processes, customer communication and service will better align the Company's operating capabilities with customers' needs.

Table of Contents

**Balanced Approach to Capital Deployment**

CSX remains highly committed to delivering value to shareholders through a balanced approach to deploying capital that includes investments in infrastructure, dividend growth and share repurchases. In 2011, the Company is investing approximately \$2.2 billion to further enhance the capacity, quality, safety and flexibility of its network. In addition, CSX continues to return value to its shareholders in the form of dividends and share repurchases. The Company has increased its quarterly cash dividend nine times over the last five years including a 38% increase to \$0.12 per share in 2011. Also during 2011, CSX announced a new \$2 billion share repurchase authority expected to be completed by the end of 2012 based on market and business conditions.

**Public-Private Partnerships**

Expanding capacity on U.S. rail networks will provide substantial public benefits including job creation, increased business activity at U.S. ports, reduced highway congestion and lower air emissions. Therefore, CSX and its government partners are working jointly to invest in multi-year rail infrastructure projects such as the National Gateway. This initiative is a public-private partnership which will increase intermodal capacity on key corridors between Mid-Atlantic ports and the Midwest. Current projects related to the National Gateway include the expansion of the Virginia Avenue Tunnel in Washington, D.C. and construction for double-stack train clearances in Ohio, West Virginia, Pennsylvania, Maryland and the District of Columbia.

CSX is engaged in another major partnership initiative with the Commonwealth of Massachusetts. Currently, CSX provides single line service to and from New England. To further improve its service offering to customers, CSX is expanding its intermodal terminal footprint in Worcester, Massachusetts and making the route into this market double-stack cleared.

Additionally, CSX has entered into a transaction with the state of Florida to help alleviate highway congestion through a new commuter rail operation known as SunRail. CSX will sell the state a portion of its track for the new commuter rail and will invest all these funds for additional freight rail capacity and infrastructure within the state. This includes a new automotive and intermodal facility in central Florida. This transaction is projected to be cash neutral. These long-term investments provide a foundation for volume growth and productivity improvement, enhanced customer service and continued advancements in the safety and reliability of operations. To continue these types of investments, the Company must be able to operate in an environment in which it can generate adequate returns and drive shareholder value. CSX will continue to advocate for a fair and balanced regulatory environment to ensure that the value of the Company's rail service would be reflected in any potential new legislation or policies.

Table of Contents

## CSX CORPORATION

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

## THIRD QUARTER 2011 HIGHLIGHTS

Revenue grew \$297 million or 11% to nearly \$3 billion, a third quarter record.

Expenses increased \$244 million or 13% to \$2.1 billion.

Operating income increased \$53 million or 6% to \$878 million, a third quarter record.

Operating ratio was 70.4%.

	Third Quarters		
(In thousands)	2011	2010	
Volume	1,619	1,609	
(In millions)			
Revenue	\$2,963	\$2,666	
Expense	2,085	1,841	
Operating Income	\$878	\$825	
Operating Ratio	70.4	% 69.1	%

The Company achieved positive year-over-year volume and revenue results as demand for rail service in the markets CSX serves continued to support profitable growth. The overall increase in volume reflects growth in metals and forest products. Revenue increased 11% from prior year driven by the ongoing emphasis on pricing above rail inflation and higher fuel recovery associated with the increase in fuel prices.

Expenses increased 13% versus the prior year quarter largely due to a \$133 million increase in total fuel costs as a result of higher fuel prices. Materials, supplies, and other expenses increased primarily due to volume-related expenses, inflation and other costs. Labor and fringe increased primarily due to inflation, service and training-related expenses and other costs partially offset by lower employee incentive compensation. Excluding the rise in total fuel costs, total expenses increased 7% year over year.

For additional information, refer to Results of Operations discussed on pages 30 through 34.

Table of Contents

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. The Company 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 that are intended to create a safer environment for employees and the public. Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance.

The Company continued to advance its efforts on safety during third quarter 2011. While the FRA reportable personal injuries frequency index increased 4% over 2010 to 1.08, the reported FRA train accident frequency rate improved 26% to 1.81.

Overall, network reliability and service measures improved during the third quarter of 2011 compared to the first half of the year. However, key service measures in third quarter 2011 declined versus 2010. On-time train originations and arrivals declined to 72% and 61%, respectively. Dwell time increased to 25.5 hours from 24.8 hours in third quarter 2010. Average train velocity declined 2% to 20.6 miles per hour compared to last year's third quarter

The operating statistics table on the following page shows year-over-year results, however, CSX also analyzes these measures sequentially. The Company has taken steps to improve its performance, including increasing its workforce and adding locomotive resources to the system. These efforts have had favorable results as seen sequentially from the end of second quarter to the end of third quarter 2011. On-time train originations improved 10%, on-time arrivals improved 13%, train velocity improved 4%, and dwell decreased 2% since second quarter 2011.



Table of Contents

CSX CORPORATION

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

## Operating Statistics (Estimated)

		Third Quarters		
		2011	2010	Improvement/ (Decline)
Safety and Service Measurements	FRA Personal Injury Frequency Index	1.08	1.04	(4)%
	FRA Train Accident Rate	1.81	2.44	26%
	On-Time Train Originations	72	% 77	% (6)%
	On-Time Destination Arrivals	61	% 69	% (12)%
	Dwell	25.5	24.8	(3)%
	Cars-On-Line	204,649	210,117	3%
	Train Velocity	20.6	21.1	(2)%
Resources	Route Miles	21,043	21,091	—%
	Locomotives (owned and long-term leased)	4,069	4,068	—%
	Freight Cars (owned and long-term leased)	77,828	80,919	(4)%

## Key Performance Measures Definitions

FRA Personal Injury 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 - Average percent of scheduled road trains that depart the origin yard on-time or ahead of schedule.

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

Dwell - Average 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 - An average count of all cars on the network (does not include locomotives, cabooses, trailers, containers or maintenance equipment).

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

Table of Contents

## CSX CORPORATION

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

## FINANCIAL RESULTS OF OPERATIONS

	Third Quarters				Nine Months				
	2011	2010	\$ Change	% Change	2011	2010	\$ Change	% Change	
Revenue	\$2,963	\$2,666	\$297	11	% \$8,792	\$7,820	\$972	12	%
Expense									
Labor and Fringe	765	731	34	5	% 2,294	2,181	113	5	%
Materials, Supplies and Other	562	509	53	10	% 1,649	1,579	70	4	%
Fuel	412	279	133	48	% 1,245	866	379	44	%
Depreciation	251	232	19	8	% 740	690	50	7	%
Equipment and Other Rents	95	90	5	6	% 287	279	8	3	%
Total Expense	2,085	1,841	244	13	% 6,215	5,595	620	11	%
Operating Income	\$878	\$825	\$53	6	% \$2,577	\$2,225	\$352	16	%
Interest Expense	(138)	(131)	(7)	(5)	% (412)	(408)	(4)	(1)	%
Other Income - Net	6	8	(2)	(25)	% 11	28	(17)	(61)	%
Income Tax Expense	(282)	(288)	6	(2)	% (811)	(712)	(99)	(14)	%
Net Earnings	\$464	\$414	\$50	12	% \$1,365	\$1,133	\$232	20	%
Earnings Per Diluted Share <sup>(a)</sup>	\$0.43	\$0.36	\$0.07	19	% \$1.24	\$0.97	\$0.27	28	%
Operating Ratio	70.4%	69.1	% 130	bps	70.7%	71.5	% (80	)	bps

(a) All share and per-share data have been retroactively restated for the three-for-one stock split which was effective May 31, 2011.

## Volume and Revenue (Unaudited)

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

## Third Quarters

	Volume			Revenue			Revenue Per Unit		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Agricultural									
Agricultural Products	96	104	(9)	% \$234	\$246	(5)	% \$2,438	\$2,365	4%
Phosphates and Fertilizers	80	78	2	% 118	107	10	% 1,475	1,372	8%
Food and Consumer	24	26	(5)	% 64	62	3	% 2,667	2,385	8%
Industrial									
Chemicals	116	116	—	% 407	379	8	% 3,509	3,267	7%
Automotive	86	82	4	% 228	196	16	% 2,651	2,390	12%
Metals	66	57	15	% 155	125	24	% 2,348	2,193	7%
Housing and Construction									
Emerging Markets	116	113	3	% 180	163	11	% 1,552	1,442	8%

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Forest Products	73	67	9	%	179	150	20	%	2,452	2,239	9%
Total Merchandise	657	643	2	%	1,565	1,428	10	%	2,382	2,221	7%
Coal	386	392	(1	)%	957	835	15	%	2,479	2,130	16%
Intermodal	576	574	—	%	369	318	16	%	641	554	15%
Other	—	—	—	%	72	85	(15	)%	—	—	—%
Total	1,619	1,609	1	%	\$2,963	\$2,666	11	%	\$1,830	\$1,657	10%

30

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Table of Contents

CSX CORPORATION

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

Third Quarter 2011 Results of Operations

The Company achieved positive year-over-year volume and revenue results as demand for rail service in the markets CSX serves continued to support profitable growth. The overall increase in volume reflects growth in metals and forest products. Ongoing emphasis on pricing above rail inflation, along with higher fuel recovery associated with the increase in fuel prices, drove revenue-per-unit increases in all markets.

Merchandise

Agricultural

Agricultural Products - Volume decreased due to reduced demand for feed shipments as a result of limited supply due to higher corn prices and decreased production from producers of poultry and pork.

Phosphates and Fertilizers - Shipments of fertilizers grew as farmers used more fertilizer to improve crop yields and replenished inventories as a result of higher crop prices.

Food and Consumer - Volume declined due to decreased shipments of alcoholic beverages and appliances. Alcoholic beverage shipments decreased as a result of higher beer inventories while appliance shipments declined from continued weakness in the housing sector.

Industrial

Chemicals - Volume was flat as strength in demand for intermediate products used in manufacturing consumer goods and automobiles, was offset by weakness in plastics due to high inventories. Intermediate products (such as hydrochloric acid used in the production of metals) are key inputs in the production of both durable and nondurable goods as well as packaging.

Automotive - Automotive volume grew as North American automotive production increased to meet demand from delayed purchases during the slowed economy over the last few years.

Metals - Volume growth was driven by higher domestic steel production resulting from strong demand from the automotive and energy sectors for products such as sheet steel and pipe. This increased production, along with international demand, resulted in a large increase in scrap shipments.

Housing and Construction

Emerging Markets - Volume increased due to improved shipments of cement, aggregates (which include crushed stone, sand and gravel) and increased shipments of waste (such as construction and demolition debris) as a result of the storms that occurred in the quarter.

Forest Products - Volume increased, despite the weakness in housing-related markets, with strength in shipments of pulp board and paper used in packaging for consumer products and a slight increase in demand for building products as a result of storm-related damage and low inventories.



Table of Contents

CSX CORPORATION

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

Coal

Shipments of utility coal declined as electrical generation was flat in the eastern U.S., natural gas prices remained low and utility stockpiles were slightly above target levels. This decrease was partially offset by higher export shipments driven by greater demand for U.S. coal in Europe, Asia and South America. The increase in revenue per unit reflects improved yield, fuel recovery and positive mix.

Intermodal

Volume was flat as growth in domestic shipments was offset by weakness in international volume. Domestic shipments increased as higher fuel prices led to over-the-road conversions. International volume declined when compared to an early peak shipping season in 2010, versus a later, more moderate peak shipping season this year. The increase in revenue per unit largely reflects higher fuel recovery due to rising fuel prices as well as positive mix and improved yield.

Other

Other revenue decreased due to lower benefits for contract volume commitments not met as well as incidental charges, partially offset by higher affiliate revenue.

Expense

Expenses increased \$244 million from last year's third quarter. Significant variances are described below.

Labor and Fringe expense increased \$34 million primarily due to the following:

- Inflation related to higher wages and healthcare costs increased \$29 million
- Service and training expenses were \$27 million higher related to additional resources to improve service, reflecting the 4% headcount increase.
- Expenses increased \$14 million for guarantee payments for a facility closure.
- Incentive compensation expenses were \$30 million lower.
- Various other costs that were favorable during the quarter.

Materials, Supplies and Other expense increased \$53 million due to the following:

- Volume-related expenses (e.g., increased activity at coal piers) were \$16 million higher.
- Inflation-related expenses increased \$11 million.
- Higher resources resulted in expenses of \$6 million related to increased locomotive maintenance and crew travel.
- Other various expenses were higher during the quarter, driven by the cycling of prior year items, property taxes as well as storm-related costs.
- Fuel expense increased \$133 million primarily due to a 44% increase in average price per gallon for locomotive fuel as well as higher non-locomotive fuel expense.

Table of Contents

## CSX CORPORATION

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

## Consolidated Results of Operations

## Interest Expense

Interest expense increased \$7 million to \$138 million primarily due to higher average debt balances partially offset by lower interest rates.

## Other Income - Net

Other income-net decreased \$2 million to \$6 million primarily due to an increase in non-operating expenses.

## Income Tax Expense

Income tax expense decreased \$6 million to \$282 million mostly due to a prior year charge of \$22 million, or \$0.02 per share, offset by higher earnings in 2011. This charge was primarily related to the merger of the Company's former Intermodal subsidiary with CSXT and was not repeated in the current year.

## Net Earnings

Net earnings increased \$50 million to \$464 million and earnings per diluted share increased \$0.07 to \$0.43 primarily driven by the after-tax impact of strong revenue growth offset mainly by higher fuel expense.

## Volume and Revenue (Unaudited)

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

## Nine Months

	Volume			Revenue			Revenue Per Unit					
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change			
Agricultural												
Agricultural Products	314	325	(4)	)%	\$767	\$768	—	%	\$2,443	\$2,363	4	%
Phosphates and Fertilizers	243	237	2	%	373	339	10	%	1,535	1,430	7	%
Food and Consumer	76	76	1	%	197	180	9	%	2,592	2,368	8	%
Industrial												
Chemicals	352	344	2	%	1,214	1,102	10	%	3,449	3,203	8	%
Automotive	262	244	7	%	673	570	18	%	2,569	2,336	10	%
Metals	201	183	10	%	461	393	17	%	2,294	2,148	7	%
Housing and Construction												
Emerging Markets	328	311	5	%	504	460	10	%	1,537	1,479	4	%
Forest Products	212	195	9	%	514	440	17	%	2,425	2,256	7	%
Total Merchandise	1,988	1,915	4	%	4,703	4,252	11	%	2,366	2,220	7	%
Coal	1,159	1,166	(1)	)%	2,794	2,406	16	%	2,411	2,063	17	%
Intermodal	1,710	1,612	6	%	1,077	941	15	%	630	584	8	%



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Other	—	—	—	%	218	221	(1	)%	—	—	—	%
Total	4,857	4,693	3	%	\$8,792	\$7,820	12	%	\$1,810	\$1,666	9	%

33

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Table of Contents

CSX CORPORATION

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

Nine Month Results of Operations

Consolidated Results of Operations

Revenue

Revenue increased \$972 million to \$8.8 billion as a result of volume increases in most markets, emphasis on pricing above rail inflation, and higher fuel recovery due to an increase in fuel prices.

Operating Income

Operating income increased \$352 million to \$2.6 billion primarily due to higher revenue partially offset by increased fuel and labor-related costs.

Interest Expense

Interest expense increased \$4 million to \$412 million primarily due to higher average debt balances partially offset by lower interest rates.

Other Income - Net

Other income - net decreased \$17 million to \$11 million primarily due to an increase in non-operating expenses and lower real estate sales.

Income Tax Expense

Income tax expense increased \$99 million to \$811 million primarily due to higher earnings in 2011.

Net Earnings

Net earnings increased \$232 million to \$1.4 billion and earnings per diluted share increased \$0.27 to \$1.24 primarily due to the after tax impact of higher revenue partially offset by increased fuel, labor-related costs.

LIQUIDITY AND CAPITAL RESOURCES

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.

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

Consolidated Balance Sheets

Total assets and liabilities plus shareholders' equity increased \$107 million from year end. Assets increased primarily due to the increase in net properties and accounts receivable of \$619 million and \$155 million, respectively. These increases were partially offset by the decrease in cash of \$712 million as described below.

Liabilities increased \$539 million driven by a \$482 million increase in deferred income tax liabilities primarily due to the net impact of bonus depreciation on tax accruals. Shareholders' equity was lower from share repurchases of \$1.6 billion and dividends of \$354 million partially offset by net earnings of \$1.4 billion.

Table of Contents

CSX CORPORATION

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

Consolidated Cash Flow Statements

The decrease in cash and cash equivalents of \$712 million was \$319 million lower for the nine months ended 2011 versus the same period in the prior year primarily due to:

Operating activities - Cash increased \$308 million due to higher earnings and the net impact of bonus depreciation on tax accruals. This increase was partially offset by accounts receivable related to higher revenue as well as larger incentive compensation payouts.

Investing activities - Capital expenditures were higher by \$333 million compared to last year.

Financing activities - Higher share repurchases and dividend payments decreased cash by \$288 million. This decrease was partially offset by \$141 million of cash consideration paid to debtholders in 2010 for the exchange of debt securities that was not repeated in the current year.

Liquidity and Working Capital

As of the end of nine months 2011, CSX had \$580 million of cash and cash equivalents. CSX also replaced its existing credit facility that was set to expire in May 2012 with a new \$1 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016 and has not been drawn on as of the date of this filing. CSX uses current cash balances for general corporate purposes, which may include capital expenditures, working capital requirements, improvements in productivity, dividend payments to shareholders and repurchases of CSX common stock. Additionally, in May 2011, CSX issued \$600 million of new long-term debt. See Note 7, Debt and Credit Agreements.

The Company's \$250 million receivables securitization facility has a 364-day term and expires in June 2012. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility. Under the terms of this facility, CSXT transfers eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX services the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital deficit of \$267 million as of the end of third quarter 2011 and a working capital surplus of \$318 million as of December 2010. This decrease since December 2010 is primarily due to cash used for share repurchases and property additions. 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'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. 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, trade receivable facility and shelf registration

statement to manage its day-to-day cash requirements and any anticipated obligations. The Company from time to time accesses the credit markets for additional liquidity.

Table of Contents

CSX CORPORATION

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

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

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

Table of Contents

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. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements within the meaning of the Private Securities Litigation Reform Act may contain, among others, statements regarding: projections and estimates of earnings, revenues, volumes, rates, cost-savings, expenses, taxes or other financial items; 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, strategies and objectives for future operations, capital expenditures, dividends, share repurchases, safety and service performance, proposed new services and other 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 will be achieved.

Table of Contents

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 any 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 CSX's most recent annual report on Form 10-K and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, the potential enactment of initiatives to further 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 matters, taxes, personal injuries and occupational illnesses;

changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation) and the level of demand for products carried by CSXT;

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;

competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;

the cost of compliance with laws and regulations that differ from expectations (including those associated with Positive Train Control implementation) and costs, penalties and operational impacts associated with noncompliance with applicable laws or regulations;

the impact of increased passenger activities in capacity-constrained areas, including potential effects of high speed rail initiatives, or regulatory changes affecting when CSXT can transport freight or service routes;

unanticipated conditions in the financial markets that may affect timely access to capital markets and the cost of capital, as well as management's decisions regarding share repurchases;

changes in fuel prices, surcharges for fuel and the availability of fuel;

availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;

the inherent business 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;



Table of Contents

CSX CORPORATION

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

labor and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or the customers' ability to deliver goods to the Company for shipment;

- the Company's success in implementing its strategic, financial and operational initiatives;
- changes in operating conditions and costs or commodity concentrations; and
- the inherent uncertainty associated with projecting economic and business conditions.

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). The information on the CSX website is not part of this quarterly report on Form 10-Q.

Table of Contents

CSX CORPORATION

PART I

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided under Part II, Item 7A (Quantitative and Qualitative Disclosures about Market Risk) of CSX's most recent annual report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

As of September 30, 2011, 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 September 30, 2011, 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 the third quarter of 2011 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

Fuel Surcharge Antitrust Litigation

There were no material developments during the quarter concerning the fuel surcharge antitrust litigation. For further details, see Item 3, Legal Proceedings in Part I of CSX's most recent annual report on Form 10-K.

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 Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of CSX's most recent annual report on Form 10-K. See also Part I, Item 2 (Forward-Looking Statements) 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.

Table of Contents

CSX CORPORATION

PART II

## ITEM 2. CSX Purchases of Equity Securities

CSX is required to disclose any purchases of its own common stock for the most recent quarter. CSX purchases its own 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 which covers certain union employees. In May 2011, CSX announced a new \$2 billion share repurchase program. Under this program, the Company may purchase shares from time to time on the open market, through block trades or otherwise. CSX expects to complete these repurchases by the end of 2012 based on market and business conditions.

Share repurchase activity of \$1 billion for the third quarter 2011 was as follows:

CSX Purchases of Equity Securities  
for the Quarter

Third Quarter <sup>(a)</sup>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				\$ 1,772,524,393
July	5,202,316	\$25.71	5,202,316	1,638,750,811
August	35,030,000	22.42	35,030,000	853,531,413
September	5,734,000	20.86	5,734,000	733,913,022
Ending Balance	45,966,316	\$22.60	45,966,316	\$733,913,022

(a) Third quarter 2011 consisted of the following fiscal periods: July (July 2, 2011 - July 29, 2011), August (July 30, 2011 - August 26, 2011), September (August 27, 2011 - September 30, 2011).

Table of Contents

CSX CORPORATION  
PART II

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and reserved)

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

10.1 Revolving Credit Agreement dated September 30, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on October 4, 2011).

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 September 30, 2011 filed with the SEC on October 26, 2011, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended September 30, 2011 and September 24, 2010, (ii) consolidated balance sheets at September 30, 2011 and December 31, 2010, (iii) consolidated cash flow statements for the fiscal periods ended September 30, 2011 and September 24, 2010, and (iv) the notes to consolidated financial statements.

\* Filed herewith

Table of Contents

CSX CORPORATION  
PART II

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: October 26, 2011