

CSX CORP
Form 10-Q
April 19, 2010

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 March 26, 2010

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

Edgar Filing: CSX CORP - Form 10-Q

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 389,225,965 shares of common stock outstanding on March 26, 2010 (the latest practicable date that is closest to the filing date).

1

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 26, 2010
INDEX

| | | Page |
|----------|--|------|
| PART I. | FINANCIAL INFORMATION | |
| Item 1. | Financial Statements | |
| | <u>Consolidated Income Statements (Unaudited) -</u> Quarters Ended March 26, 2010 and March 27, 2009 | 3 |
| | <u>Consolidated Balance Sheets -</u> At March 26, 2010 (Unaudited) and December 25, 2009 | 4 |
| | <u>Consolidated Cash Flow Statements (Unaudited) -</u> Quarters Ended March 26, 2010 and March 27, 2009 | 5 |
| | <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 6 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 28 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 40 |
| Item 4. | <u>Controls and Procedures</u> | 40 |
| PART II. | OTHER INFORMATION | |
| Item 1. | <u>Legal Proceedings</u> | 40 |
| Item 1A. | <u>Risk Factors</u> | 40 |
| Item 2. | <u>CSX Purchases of Equity Securities</u> | 41 |
| Item 3. | <u>Defaults upon Senior Securities</u> | 42 |
| Item 4. | <u>Submission of Matters to a Vote of Security Holders</u> | 42 |
| Item 5. | <u>Other Information</u> | 42 |
| Item 6. | <u>Exhibits</u> | 42 |
| | <u>Signature</u> | 43 |

Table of Contents

CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS (Unaudited)
(Dollars in Millions, Except Per Share Amounts)

| | First Quarters | |
|---|----------------|---------|
| | 2010 | 2009 |
| Revenue | \$2,491 | \$2,247 |
| Expense | | |
| Labor and Fringe | 729 | 662 |
| Materials, Supplies and Other | 453 | 477 |
| Fuel | 283 | 191 |
| Depreciation | 229 | 224 |
| Equipment and Other Rents | 100 | 113 |
| Inland Transportation | 63 | 58 |
| Total Expense | 1,857 | 1,725 |
| Operating Income | 634 | 522 |
| Interest Expense | (142) | (141) |
| Other Income - Net (Note 8) | 11 | 3 |
| Earnings From Continuing Operations | | |
| Before Income Taxes | 503 | 384 |
| Income Tax Expense (Note 9) | (197) | (130) |
| Earnings From Continuing Operations | 306 | 254 |
| Discontinued Operations (Note 10) | - | (8) |
| Net Earnings | \$306 | \$246 |
| Per Common Share (Note 2) | | |
| Net Earnings Per Share, Basic | | |
| Continuing Operations | \$0.78 | \$0.65 |
| Discontinued Operations | - | (0.02) |
| Net Earnings | \$0.78 | \$0.63 |
| Net Earnings Per Share, Assuming Dilution | | |
| Continuing Operations | \$0.78 | \$0.64 |
| Discontinued Operations | - | (0.02) |
| Net Earnings | \$0.78 | \$0.62 |
| Average Shares Outstanding (Thousands) | 391,079 | 391,160 |
| Average Shares Outstanding, | | |
| Assuming Dilution (Thousands) | 394,323 | 394,101 |
| Cash Dividends Paid Per Common Share | \$0.24 | \$0.22 |

See accompanying notes to consolidated financial statements.

Table of Contents

CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

| | (Unaudited) March 26, 2010 | December 25, 2009 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$993 | \$1,029 |
| Short-term Investments | 57 | 61 |
| Accounts Receivable - Net (Note 1) | 971 | 995 |
| Materials and Supplies | 218 | 203 |
| Deferred Income Taxes | 184 | 158 |
| Other Current Assets | 78 | 124 |
| Total Current Assets | 2,501 | 2,570 |
| Properties | 31,276 | 31,081 |
| Accumulated Depreciation | (7,986) | (7,868) |
| Properties - Net | 23,290 | 23,213 |
| Investment in Conrail | 654 | 650 |
| Affiliates and Other Companies | 442 | 438 |
| Other Long-term Assets | 306 | 165 |
| Total Assets | \$27,193 | \$27,036 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$931 | \$967 |
| Labor and Fringe Benefits Payable | 376 | 383 |
| Casualty, Environmental and Other Reserves (Note 4) | 185 | 190 |
| Current Maturities of Long-term Debt (Note 7) | 617 | 113 |
| Income and Other Taxes Payable | 162 | 112 |
| Other Current Liabilities | 117 | 100 |
| Total Current Liabilities | 2,388 | 1,865 |
| Casualty, Environmental and Other Reserves (Note 4) | 553 | 547 |
| Long-term Debt (Note 7) | 7,372 | 7,895 |
| Deferred Income Taxes | 6,668 | 6,585 |
| Other Long-term Liabilities | 1,327 | 1,284 |
| Total Liabilities | 18,308 | 18,176 |
| Shareholders' Equity: | | |
| Common Stock \$1 Par Value | 389 | 393 |
| Other Capital | - | 80 |
| Retained Earnings | 9,279 | 9,182 |

Edgar Filing: CSX CORP - Form 10-Q

| | | |
|---|----------|----------|
| Accumulated Other Comprehensive Loss (Note 1) | (798) | (809) |
| Noncontrolling Interest | 15 | 14 |
| Total Shareholders' Equity | 8,885 | 8,860 |
| Total Liabilities and Shareholders' Equity | \$27,193 | \$27,036 |

See accompanying notes to consolidated financial statements.

4

Table of Contents

CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS

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

| | First Quarters | |
|--|----------------|---------|
| | 2010 | 2009 |
| OPERATING ACTIVITIES | | |
| Net Earnings | \$306 | \$246 |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities: | | |
| Depreciation | 229 | 224 |
| Deferred Income Taxes | 47 | 79 |
| Other Operating Activities | 64 | (65) |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 24 | 132 |
| Other Current Assets | (34) | (76) |
| Accounts Payable | (26) | (36) |
| Income and Other Taxes Payable | 125 | 31 |
| Other Current Liabilities | 12 | (86) |
| Net Cash Provided by Operating Activities | 747 | 449 |
| INVESTING ACTIVITIES | | |
| Property Additions (Note 1) | (331) | (309) |
| Other Investing Activities | 18 | 37 |
| Net Cash Used in Investing Activities | (313) | (272) |
| FINANCING ACTIVITIES | | |
| Long-term Debt Issued (Note 7) | - | 500 |
| Long-term Debt Repaid (Note 7) | (17) | (26) |
| Dividends Paid | (93) | (86) |
| Stock Options Exercised (Note 3) | 6 | 2 |
| Shares Repurchased | (229) | - |
| Other Financing Activities (Note 1) | (137) | (180) |
| Net Cash (Used in) Provided by Financing Activities | (470) | 210 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (36) | 387 |
| CASH AND CASH EQUIVALENTS | | |
| Cash and Cash Equivalents at Beginning of Period | 1,029 | 669 |
| Cash and Cash Equivalents at End of Period | \$993 | \$1,056 |

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 suppliers. The Company’s rail and intermodal businesses provide rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

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

Other entities

In addition to CSXT, the rail segment includes non-railroad subsidiaries Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. 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 by the Company to be operating activities. Results of these activities fluctuate with the timing of real estate sales.

Basis of Presentation

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

- Consolidated income statements for the quarters ended March 26, 2010 and March 27, 2009;
- Consolidated balance sheets at March 26, 2010 and December 25, 2009; and
- Consolidated cash flow statements for the quarters ended March 26, 2010 and March 27, 2009.

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 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 first fiscal quarter of 2010 and 2009 consisted of 13 weeks ending on March 26, 2010 and March 27, 2009, respectively.
- Fiscal year 2009 consisted of 52 weeks ending on December 25, 2009.
- Please note that fiscal year 2010 consists of 53 weeks ending on December 31, 2010.

Except as otherwise specified, references to quarters indicate CSX’s fiscal periods ending March 26, 2010 and March 27, 2009, and references to year-end indicate the fiscal year ended December 25, 2009.

Comprehensive Earnings

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the 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 related tax effects and were \$318 million and \$246 million for first quarters 2010 and 2009, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss (“AOCI”) represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement adjustments. Overall equity was reduced by \$798 million and \$809 million as of March 2010 and December 2009, respectively, primarily as a result of normal quarterly pension reclassifications. In general, for CSX, AOCI is not materially impacted by other items.

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, public project receivables (work done by the Company on behalf of a government agency), claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$47 million is included in the consolidated balance sheets as of March 2010 and December 2009.

Capital Expenditures

Property additions, which are classified as investing activities on the consolidated cash flow statements, consisted of \$331 million and \$309 million for first quarters 2010 and 2009, respectively. Total capital expenditures for 2009 included purchases of new assets using seller financing of approximately \$160 million, for which payments are included in other financing activities on the consolidated cash flow statements. There were no purchases of new assets under seller financing agreements during first quarter 2010. The Company plans to spend \$1.7 billion for total capital expenditures in 2010.

Retained Earnings

During first quarter 2010, 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 \$116 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.

Other Items

Dividend Increase

On February 10, 2010, CSX announced a 9 percent increase to its quarterly cash dividend to 24 cents per share payable on March 15, 2010 to shareholders of record on February 26, 2010. With this dividend increase, CSX more than tripled its quarterly dividend since the end of 2005.

Subsequent Event – Share Repurchases

In first quarter 2010, CSX completed \$229 million of share repurchases. Subsequent to the end of first quarter, through the date of this filing, the Company completed an additional \$34 million of share repurchases pursuant to the outstanding Board authority. Since March 2008, CSX has completed \$1.5 billion in share repurchases and has remaining authority of \$1.5 billion. Future share repurchases will be based on market and business conditions.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share

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

| | First Quarters | |
|--|----------------|---------|
| | 2010 | 2009 |
| Numerator (Dollars in millions): | | |
| Earnings from Continuing Operations | \$306 | \$254 |
| Discontinued Operations - Net of Tax (a) | - | (8) |
| Net Earnings | 306 | 246 |
| Denominator (Units in thousands): | | |
| Average Common Shares Outstanding | 391,079 | 391,160 |
| Convertible Debt | 1,042 | 1,118 |
| Stock Option Common Stock Equivalents (b) | 2,131 | 1,823 |
| Other Potentially Dilutive Common Shares | 71 | - |
| Average Common Shares Outstanding, Assuming Dilution | 394,323 | 394,101 |
| Net Earnings Per Share, Basic: | | |
| Continuing Operations | \$0.78 | \$0.65 |
| Discontinued Operations (a) | - | (0.02) |
| Net Earnings | \$0.78 | \$0.63 |
| Net Earnings Per Share, Assuming Dilution: | | |
| Continuing Operations | \$0.78 | \$0.64 |
| Discontinued Operations (a) | - | (0.02) |
| Net Earnings | \$0.78 | \$0.62 |

(a) For additional information regarding discontinued operations, see Note 10, Discontinued Operations.

(b) When calculating diluted earnings per share for stock option common stock equivalents, 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

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 represents the number of shares that would be issued if all of CSX's outstanding convertible debentures were converted into CSX common stock.

As a result, diluted shares outstanding are not impacted when debentures are converted into CSX common stock because those shares were already included in the diluted shares calculation. Shares outstanding for basic earnings per share, however, are impacted on a weighted-average basis when conversions occur. During first quarter 2010, \$3 million of face value of convertible debentures were converted into 95 thousand shares of CSX common stock. There were no conversions of convertible debentures during first quarter 2009. As of March 2010, approximately \$28 million of convertible debentures at face value remained outstanding, which are convertible into approximately 1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

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

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

| (Dollars in millions) | First Quarters | |
|--------------------------------------|----------------|-------|
| | 2010 | 2009 |
| Share-Based Compensation Expense (a) | \$23 | \$(8) |
| Income Tax Benefit / (Expense) | 9 | (3) |

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

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.

| (In thousands) | First Quarters | |
|-----------------------------------|----------------|------|
| | 2010 | 2009 |
| Number of Stock Options Exercised | 359 | 74 |

As of December 2009, all outstanding options are vested and therefore, there will be no future expense related to these options. As of March 2010, CSX had approximately 5 million stock options outstanding. However, the impact of options to diluted earnings per share is much smaller (see footnote b to the table in Note 2, Earnings Per Share for more information).

NOTE 4. Casualty, Environmental and Other Reserves

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

| (Dollars in millions) | March 2010 | | | December 25, 2009 | | |
|-----------------------|------------|-----------|-------|-------------------|-----------|-------|
| | Current | Long-term | Total | Current | Long-term | Total |
| Casualty: | | | | | | |
| Personal Injury | \$78 | \$220 | \$298 | \$85 | \$215 | \$300 |
| Occupational | 28 | 132 | 160 | 27 | 132 | 159 |
| Total Casualty | 106 | 352 | 458 | 112 | 347 | 459 |
| Separation | 15 | 54 | 69 | 16 | 57 | 73 |
| Environmental | 37 | 60 | 97 | 37 | 60 | 97 |
| Other | 27 | 87 | 114 | 25 | 83 | 108 |
| Total | \$185 | \$553 | \$738 | \$190 | \$547 | \$737 |

Details with respect to each type of reserve are described below. Actual settlements and claims received could differ. The final outcome of these matters cannot be predicted with certainty. Considering the legal defenses 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 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 and occupational injury claims. Currently, no individual claim is expected to exceed the Company's self-insured retention amount of \$25 million per injury. 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. 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 or former subsidiaries are covered by various state workers' compensation laws, the Federal Longshore and Harbor Workers' Compensation Program or the Maritime Jones Act.

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

Occupational

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

An analysis of occupational claims is performed semi-annually by an independent third party and reviewed by management. The methodology used includes an estimate 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 settlement rates. Actual claims may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Separation

Separation liabilities provide for 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 251 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 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.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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.

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 exposure, the amount and materiality of which cannot presently be reliably estimated. Based upon information currently available, however, the Company believes its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall financial condition, results of operations or liquidity.

Other

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

NOTE 5. Commitments and Contingencies

Insurance

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

While the Company's 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.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Guarantees

CSX and certain of its subsidiaries are contingently liable, individually and jointly with others, as guarantors of approximately \$41 million in obligations principally relating to leased equipment, vessels and joint facilities used by the Company in its current and former business operations. Utilizing the Company's guarantee for these obligations allows the obligor to take advantage of lower interest rates and to obtain other favorable terms. Guarantees are contingent commitments issued by the Company that could require CSX or one of its affiliates to make payment to, or to perform certain actions for, the beneficiary of the guarantee based on another entity's failure to perform.

At March 2010, the Company's guarantees primarily related to the following:

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

As of March 2010, the Company had not recognized any liabilities in its financial statements in connection with any guarantee arrangements. The maximum amount of future payments the Company could be required to make under these guarantees is the sum of the guaranteed amounts.

For information related to CSX's guarantee of CSXT's secured equipment notes, see Note 13, Summarized Consolidating Financial Data.

Legal Proceedings

There were no material developments during the quarter concerning the fuel surcharge antitrust litigation or the Seminole Electric Cooperative, Inc. rate case. For further details, see Note 7, Commitments and Contingencies, in CSX's most recent Annual Report on Form 10-K.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies, continued

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

NOTE 6. Employee Benefit Plans

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

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

The Company engages independent, external actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company selects. The following table describes the components of expense/(income) related to net periodic benefit cost:

| (Dollars in millions) | Pension Benefits | | Other Post-retirement Benefits | |
|------------------------------------|------------------|------|--------------------------------------|------|
| | First Quarters | | First Quarters | |
| | 2010 | 2009 | 2010 | 2009 |
| Service Cost | \$10 | \$8 | \$1 | \$1 |
| Interest Cost | 31 | 32 | 5 | 6 |
| Expected Return on Plan Assets | (41) | (37) | - | - |
| Amortization of Prior Service Cost | 1 | 1 | - | - |
| Amortization of Net Loss | 15 | 7 | 2 | 1 |
| Net Periodic Benefit Cost | \$16 | \$11 | \$8 | \$8 |

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Employee Benefit Plans, continued

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. The Company made pension plan contributions of \$250 million to its qualified defined benefit pension plans in 2009. At the current time, the Company anticipates that no contributions to its qualified pension plans will be required in 2010. 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 March 2010 was as follows:

| (Dollars in millions) | Current Portion | Long-term Portion | Total Long-term Debt Activity |
|---------------------------------------|--------------------|----------------------|--|
| Total long-term debt at December 2009 | \$113 | \$7,895 | \$8,008 |
| 2010 activity: | | | |
| Issued | - | - | - |
| Repaid | (17) | - | (17) |
| Reclassifications | 523 | (523) | - |
| Converted into CSX stock | (2) | - | (2) |
| Total long-term debt at March 2010 | \$617 | \$7,372 | \$7,989 |

Debt Exchange

On March 24, 2010, CSX exchanged \$660 million of notes (the "Existing Notes"), bearing interest at an average rate of 7.74% with maturities ranging from 2017 to 2038. These Existing Notes were exchanged for \$660 million of debt securities (the "New Notes") bearing interest at 6.22% and due April 30, 2040. In addition, CSX paid approximately \$141 million to the debtholders as cash consideration. CSX also paid the debtholders any accrued and unpaid interest on the Existing Notes. In accordance with the Debt Topic in the ASC, this transaction has been accounted for as a debt exchange. As such, the \$141 million of cash consideration paid to the debtholders is included in other long-term assets. This cash consideration and the unamortized discount and issue costs from the Existing Notes will be amortized as an adjustment of interest expense over the term of the New Notes. There were no gain or loss recognized as a result of this exchange. However, all costs related to the debt exchange and due to parties other than the debtholders, were included in interest expense during the quarter. These costs totaled approximately \$3 million.

Pursuant to a registration rights agreement entered into in connection with the exchange offer, CSX has agreed to offer to exchange the New Notes for notes registered under the Securities Act of 1933, as amended. If CSX fails to satisfy this obligation under the registration rights agreement within the specified time periods, it will be required to pay additional interest to holders of the New Notes.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

For fair value information related to the Company's long-term debt, see Note 11, Fair Value Measurements.

Revolving Credit Facility

CSX has a \$1.25 billion unsecured revolving credit facility with a syndicate of banks. The facility allows borrowings at floating rates based on the London interbank offered rate ("LIBOR"), plus a spread, depending upon CSX's senior unsecured debt ratings. The facility requires CSX to maintain a ratio of total debt to total capitalization below a prescribed limit. The facility does not require CSX to post collateral under any circumstances. As of March 2010, this facility was not drawn on, and CSX was in compliance with all covenant requirements under the facility. This facility expires in 2012.

Receivables Securitization Facility

In 2009, the Company entered into a \$250 million receivables securitization facility. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. This facility has a 364-day term and expires on September 27, 2010. As of the date of this filing, the Company has not drawn on this facility. Under the terms of this facility, CSX Transportation and CSX Intermodal transfer eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX will service 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.

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. Miscellaneous income (expense) includes equity earnings or losses, investment gains and losses and other non-operating activities. Other income – net consisted of the following:

| (Dollars in Millions) | First Quarters | |
|--------------------------------|----------------|------|
| | 2010 | 2009 |
| Interest Income | \$1 | \$4 |
| Income from Real Estate | 7 | 1 |
| Miscellaneous Income (Expense) | 3 | (2) |
| Total Other Income - Net | \$11 | \$3 |

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Income Taxes

During the first quarter of 2010, the Patient Protection and Affordable Care Act was enacted and signed into law. This Act included a provision eliminating the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage. As a result of this legislation and the Health Care and Education Reconciliation Act of 2010, the Company recorded tax expense of \$7 million.

During the first quarter of 2009, as a result of the expiration of statutes of limitations and the resolution of other income tax matters the Company recorded an income tax benefit of \$13 million.

There have been no material changes to the balance of unrecognized tax benefits as reported at December 2009.

NOTE 10. Discontinued Operations

The Greenbrier

In the second quarter of 2009, CSX sold the stock of a subsidiary that indirectly owned Greenbrier Hotel Corporation (“GHC” or “The Greenbrier”) to Justice Family Group, LLC (“JFG”) for approximately \$21 million in cash. CSX recognized a gain on the sale of \$25 million which included a tax benefit of \$3 million in the second quarter of 2009.

Previously, all amounts associated with the operations of The Greenbrier were included in Other Income – Net. All prior periods have been reclassified to reflect discontinued operations. In first quarter 2009, The Greenbrier had revenue of \$7 million and pre-tax losses of \$12 million. There was no activity in 2010.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. 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. In addition, 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 may not be 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.

Investments

The Company's investment assets are valued by a third-party trustee, consist primarily of corporate bonds and are carried at fair value on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. Level 2 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) | March 2010 | December 2009 |
|-----------------------|---------------|------------------|
| Fair Value | \$91 | \$96 |
| Amortized Cost | \$88 | \$91 |

CSX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 11. Fair Value Measurements, continued

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 using discounted cash flow analysis based upon the yields provided by the same independent third party. All inputs used to determine the fair value of the Company's long-term debt qualify as 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, the value 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. The fair value and carrying value of the Company's long-term debt are as follows:

| (Dollars in Millions) | March 2010 | December 2009 |
|--|---------------|------------------|
| Long-term Debt Including Current Maturities: | | |
| Fair Value | \$8,720 | \$8,780 |
| Carrying Value | \$7,989 | \$8,008 |

Table of Contents

CSX CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 12. Business Segments

The Company's consolidated operating income results are comprised of two business segments: Rail and Intermodal. The Rail segment provides rail freight transportation over a network of approximately 21,000 route miles in 23 states, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Intermodal segment provides integrated rail and truck transportation services and operates a network of dedicated intermodal facilities across North America. These segments are strategic business units that offer different services and are managed separately. Performance of the segment is evaluated and resources are allocated based on several factors, of which the principal financial measures are business segment operating income and operating ratio. The accounting policies of the segments are the same as those described in Note 1, Nature of Operations and Significant Accounting Policies and Note 6, Properties, in CSX's most recent Annual Report on Form 10-K. Business segment information is as follows:

| (Dollars in millions) | First Quarters | | | | CSX | | |
|----------------------------------|----------------|---------|------------|-------|--------------|---------|-----------|
| | Rail (a) | | Intermodal | | Consolidated | | \$ Change |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | |
| Revenues from External Customers | \$2,168 | \$1,977 | \$323 | \$270 | \$2,491 | \$2,247 | \$244 |
| Segment Operating Income | 595 | 498 | 39 | 24 | 634 | 522 | 112 |

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

Intermodal entered into a new jointly-marketed domestic interline container program called UMAX with Union Pacific Corporation. This agreement which became effective beginning in the second quarter is expected to result in revenue loss to Intermodal of \$40 million to \$50 million on a quarterly basis with a similar reduction expected in inland transportation expense. The impact on operating income is expected to be neutral in the near-term and positive long-term. Additionally, financial consideration was provided that will be amortized over the term of the agreement, which is not material to any period.

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. 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 13. Summarized Consolidating Financial Data, continued

| Consolidating Income Statements | | | | | |
|--|-------------|----------------|---------|--------------|--------------|
| (Dollars in Millions) | | | | | |
| | CSX | CSX | Other | Eliminations | Consolidated |
| Quarter Ended March 2010 | Corporation | Transportation | | | |
| Operating Revenue | \$- | \$2,152 | \$365 | \$(26) | \$2,491 |
| Operating Expense | (37) | 1,605 | 315 | (26) | 1,857 |
| Operating Income | \$37 | \$547 | \$50 | \$- | \$634 |
| Equity in Earnings of Subsidiaries | 398 | - | (36) | (362) | - |
| Interest Expense | (126) | (28) | (6) | 18 | (142) |
| Other Income - Net | 6 | 18 | 5 | (18) | 11 |
| Earnings From Continuing Operations | | | | | |
| Before Income Taxes | \$315 | \$537 | \$13 | \$(362) | \$503 |
| Income Tax Benefit (Expense) | (9) | (210) | 22 | - | (197) |
| Earnings From Continuing Operations | \$306 | \$327 | \$35 | \$(362) | \$306 |
| Discontinued Operations | - | - | - | - | - |
| Net Earnings | \$306 | \$327 | \$35 | \$(362) | \$306 |
| Quarter Ended March 2009 | | | | | |
| | CSX | CSX | Other | Eliminations | Consolidated |
| Quarter Ended March 2009 | Corporation | Transportation | | | |
| Operating Revenue | \$- | \$1,960 | \$313 | \$(26) | \$2,247 |
| Operating Expense | (79) | 1,563 | 265 | (24) | 1,725 |
| Operating Income | \$79 | \$397 | \$48 | \$(2) | \$522 |
| Equity in Earnings of Subsidiaries | 549 | - | (294) | (255) | - |
| Interest Expense | (124) | (31) | (1) | 15 | (141) |
| Other Income - Net | 8 | 6 | 2 | (13) | 3 |
| Earnings From Continuing Operations | | | | | |
| Before Income Taxes | \$512 | \$372 | \$(245) | \$(255) | \$384 |
| Income Tax Benefit (Expense) | (266) | (140) | 276 | - | (130) |
| Earnings From Continuing Operations | \$246 | \$232 | \$31 | \$(255) | \$254 |
| Discontinued Operations | - | - | (8) | - | (8) |
| Net Earnings | \$246 | \$232 | \$23 | \$(255) | \$246 |

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in Millions)

| As of March 2010 | CSX Corporation | CSX Transportation | Other | Eliminations | Consolidated |
|---|--------------------|-----------------------|------------------|-------------------|-----------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and Cash Equivalents | \$839 | \$61 | \$93 | \$- | \$993 |
| Short-term Investments | - | - | 57 | - | 57 |
| Accounts Receivable - Net | 152 | 896 | (77) | - | 971 |
| Materials and Supplies | - | 219 | (1) | - | 218 |
| Deferred Income Taxes | 15 | 154 | 15 | - | 184 |
| Other Current Assets | 20 | 62 | 569 | (573) | 78 |
| Total Current Assets | \$1,026 | \$1,392 | \$656 | \$(573) | \$2,501 |
| Properties | 4 | 29,916 | 1,356 | - | 31,276 |
| Accumulated Depreciation | (6) | (7,137) | (843) | - | (7,986) |
| Properties - Net | \$(2) | \$22,779 | \$513 | \$- | \$23,290 |
| Investments in Conrail | - | - | 654 | - | 654 |
| Affiliates and Other Companies | - | 572 | (130) | - | 442 |
| Investments in Consolidated Subsidiaries | 15,700 | - | 47 | (15,747) | - |
| Other Long-term Assets | 183 | 75 | 91 | (43) | 306 |
| Total Assets | \$16,907 | \$24,818 | \$1,831 | \$(16,363) | \$27,193 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | \$99 | \$933 | \$(101) | \$- | \$931 |
| Labor and Fringe Benefits Payable | 34 | 314 | 28 | - | 376 |
| Payable to Affiliates | 952 | 358 | (774) | (536) | - |
| Casualty, Environmental and Other Reserves | - | 170 | 15 | - | 185 |
| Current Maturities of Long-term Debt | 507 | 107 | 3 | - | 617 |
| Income and Other Taxes Payable | 143 | 247 | (228) | - | 162 |
| Other Current Liabilities | 2 | 107 | 44 | (36) | 117 |
| Total Current Liabilities | \$1,737 | \$2,236 | \$(1,013) | \$(572) | \$2,388 |
| Casualty, Environmental and Other Reserves | - | 451 | 102 | - | 553 |
| Long-term Debt | 6,048 | 1,320 | 4 | - | 7,372 |

Edgar Filing: CSX CORP - Form 10-Q

| | | | | | |
|---|-----------------|-----------------|----------------|-------------------|-----------------|
| Deferred Income Taxes | (317) | 6,928 | 57 | - | 6,668 |
| Long-term Payable to Affiliates | - | - | 44 | (44) | - |
| Other Long-term Liabilities | 570 | 516 | 241 | - | 1,327 |
| Total Liabilities | \$8,038 | \$11,451 | \$(565) | \$(616) | \$18,308 |
| Shareholders' Equity | | | | | |
| Common Stock, \$1 Par Value | \$389 | \$181 | \$- | \$(181) | \$389 |
| Other Capital | - | 5,572 | 1,968 | (7,540) | - |
| Retained Earnings | 9,278 | 7,666 | 448 | (8,113) | 9,279 |
| Accumulated Other Comprehensive Loss | (798) | (75) | (63) | 138 | (798) |
| Noncontrolling Interest | - | 23 | 43 | (51) | 15 |
| Total Shareholders' Equity | \$8,869 | \$13,367 | \$2,396 | \$(15,747) | \$8,885 |
| Total Liabilities and Shareholders' Equity | \$16,907 | \$24,818 | \$1,831 | \$(16,363) | \$27,193 |

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in Millions)

| As of December 2009 | CSX Corporation | CSX Transportation | Other | Eliminations | Consolidated |
|---|--------------------|-----------------------|----------------|-------------------|-----------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and Cash Equivalents | \$918 | \$30 | \$81 | \$- | \$1,029 |
| Short-term Investments | - | - | 61 | - | 61 |
| Accounts Receivable - Net | 4 | 888 | 103 | - | 995 |
| Materials and Supplies | - | 203 | - | - | 203 |
| Deferred Income Taxes | 13 | 137 | 8 | - | 158 |
| Other Current Assets | 19 | 32 | 533 | (460) | 124 |
| Total Current Assets | \$954 | \$1,290 | \$786 | \$(460) | \$2,570 |
| Properties | 4 | 29,739 | 1,338 | - | 31,081 |
| Accumulated Depreciation | (6) | (7,036) | (826) | - | (7,868) |
| Properties - Net | \$(2) | \$22,703 | \$512 | - | \$23,213 |
| Investments in Conrail | - | - | 650 | - | 650 |
| Affiliates and Other Companies | - | 566 | (128) | - | 438 |
| Investments in Consolidated Subsidiaries | 15,474 | - | 47 | (15,521) | - |
| Other Long-term Assets | 46 | 75 | 87 | (43) | 165 |
| Total Assets | \$16,472 | \$24,634 | \$1,954 | \$(16,024) | \$27,036 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | \$111 | \$628 | \$228 | \$- | \$967 |
| Labor and Fringe Benefits Payable | 37 | 307 | 39 | - | 383 |
| Payable to Affiliates | 625 | 786 | (962) | (449) | - |
| Casualty, Environmental and Other Reserves | - | 168 | 22 | - | 190 |
| Current Maturities of Long-term Debt | - | 110 | 3 | - | 113 |
| Income and Other Taxes Payable | 32 | 182 | (102) | - | 112 |
| Other Current Liabilities | 1 | 97 | 13 | (11) | 100 |
| Total Current Liabilities | \$806 | \$2,278 | \$(759) | \$(460) | \$1,865 |
| Casualty, Environmental and Other Reserves | - | 449 | 98 | - | 547 |
| Long-term Debt | 6,557 | 1,334 | 4 | - | 7,895 |

Edgar Filing: CSX CORP - Form 10-Q

| | | | | | |
|---|-----------------|-----------------|----------------|-------------------|-----------------|
| Deferred Income Taxes | (337) | 6,871 | 51 | - | 6,585 |
| Long-term Payable to Affiliates | - | - | 44 | (44) | - |
| Other Long-term Liabilities | 600 | 522 | 162 | - | 1,284 |
| Total Liabilities | \$7,626 | \$11,454 | \$(400) | \$(504) | \$18,176 |
| Shareholders' Equity | | | | | |
| Common Stock, \$1 Par Value | \$393 | \$181 | \$ - | \$(181) | \$393 |
| Other Capital | 80 | 5,569 | 1,951 | (7,520) | 80 |
| Retained Earnings | 9,182 | 7,485 | 415 | (7,900) | 9,182 |
| Accumulated Other Comprehensive Loss | (809) | (77) | (54) | 131 | (809) |
| Noncontrolling Interest | - | 22 | 42 | (50) | 14 |
| Total Shareholders' Equity | \$8,846 | \$13,180 | \$2,354 | \$(15,520) | \$8,860 |
| Total Liabilities and Shareholders' Equity | \$16,472 | \$24,634 | \$1,954 | \$(16,024) | \$27,036 |

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

| Quarter Ended March 2010 | CSX Corporation | CSX Transportation | Other | Eliminations | Consolidated |
|--|--------------------|-----------------------|--------|--------------|--------------|
| Operating Activities | | | | | |
| Net Cash Provided by Operating Activities | \$98 | \$597 | \$52 | \$- | \$747 |
| Investing Activities | | | | | |
| Property Additions | \$ - | \$(311) | \$(20) | \$- | \$(331) |
| Other Investing Activities | 2 | (79) | 7 | 88 | 18 |
| Net Cash Provided by (Used in) Investing Activities | \$2 | \$(390) | \$(13) | \$88 | \$(313) |
| Financing Activities | | | | | |
| Long-term Debt Repaid | \$ - | \$(16) | \$(1) | \$- | \$(17) |
| Dividends Paid | (95) | - | 2 | - | (93) |
| Stock Options Exercised | 6 | - | - | - | 6 |
| Shares Repurchased | (229) | - | - | - | (229) |
| Other Financing Activities | 139 | (160) | (28) | (88) | (137) |
| Net Cash Used in Financing Activities | \$(179) | \$(176) | \$(27) | \$(88) | \$(470) |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$(79) | \$31 | \$12 | \$- | \$(36) |
| Cash and Cash Equivalents at Beginning of Period | 918 | 30 | 81 | - | 1,029 |
| Cash and Cash Equivalents at End of Period | \$839 | \$61 | \$93 | \$- | \$993 |
| Quarter Ended March 2009 | | | | | |
| | CSX Corporation | CSX Transportation | Other | Eliminations | Consolidated |
| Operating Activities | | | | | |
| Net Cash Provided by (Used in) Operating Activities | \$(162) | \$370 | \$241 | \$- | \$449 |
| Investing Activities | | | | | |
| Property Additions | \$(1) | \$(299) | \$(9) | \$- | \$(309) |
| Purchases of Short-term Investments | - | - | - | - | - |

Edgar Filing: CSX CORP - Form 10-Q

| | | | | | |
|--|--------------|------------|-------------|------------|--------------|
| Proceeds from Sales of Short-term Investments | - | - | - | - | - |
| Other Investing Activities | 11 | 28 | 5 | (7) | 37 |
| Net Cash Provided by (Used in) | | | | | |
| Investing Activities | \$10 | \$(271) | \$(4) | \$(7) | \$(272) |
| Financing Activities | | | | | |
| Long-term Debt Issued | \$500 | \$- | \$- | \$- | \$500 |
| Long-term Debt Repaid | - | (25) | (1) | - | (26) |
| Dividends Paid | (88) | - | 2 | - | (86) |
| Stock Options Exercised | 2 | - | - | - | 2 |
| Shares Repurchased | - | - | - | - | - |
| Other Financing Activities | 107 | (67) | (227) | 7 | (180) |
| Net Cash Provided by (Used in) | | | | | |
| Financing Activities | \$521 | \$(92) | \$(226) | \$7 | \$210 |
| Net Increase (Decrease) in Cash and Cash | | | | | |
| Equivalents | \$369 | \$7 | \$11 | \$- | \$387 |
| Cash and Cash Equivalents at Beginning of Period | 559 | 63 | 47 | - | 669 |
| Cash and Cash Equivalents at End of Period | \$928 | \$70 | \$58 | \$- | \$1,056 |

Table of Contents

CSX CORPORATION

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

STRATEGIC OVERVIEW

CSX and the rail industry provide customers with access to an expansive and interconnected transportation network that plays a key role in North American commerce. CSX's network is positioned to reach more than two-thirds of Americans, who account for about three-quarters of the nation's consumption of goods. Through this network, the Company transports a broad portfolio of products, ranging from coal and new energy sources, like biodiesel and ethanol, to automobiles, chemicals, military equipment and consumer products.

In 2009, the Company and the rail industry experienced significant freight rail volume declines. During this period the Company, nonetheless, was able to make financial and operational improvements by maintaining a focus on safety, train operations and cost control. With these concentrated efforts, the Company believes it is positioned to benefit from the economy as it continues to strengthen in 2010. CSX expects to deliver strong double-digit earnings per share growth for 2010. This expectation is supported by strong volume and revenue growth, including export coal shipments of about 30 million tons this year, and strong operating ratio improvement as well.

Additionally, the Company continues to invest in its network to further enhance safety and improve service and reliability for its customers. The Company plans to spend \$1.7 billion for total capital expenditures in 2010, including \$170 million for the implementation of a positive train control system ("PTC") which is discussed below. To adequately continue these 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 will be reflected in new legislation and policy.

As an example of the Company's commitment to investing in its network and improving the flow of freight, the Company launched the National Gateway, a multi-year public-private infrastructure initiative which will significantly improve the efficiency of the freight network between the Mid-Atlantic ports and the Midwest. Total project costs are approximately \$850 million, of which CSX expects to contribute approximately \$400 million. A portion of the public funds needed to complete the National Gateway have been secured and CSX is working with its state partners to apply for the additional funding needed to complete the project. When completed, the National Gateway is expected to reduce truck traffic and increase intermodal capacity on key corridors without increasing the number of trains. As a result, the Company's customers will benefit from improved service and reliability, reduced transport times and expanded access to rail services.

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation includes a mandate that all Class I freight railroads implement PTC by December 31, 2015. PTC must be installed on all lines with passenger and commuter operations as well as all main lines over which toxic-by-inhalation hazardous materials ("TIH") are transported. Significant capital costs are anticipated with the implementation of PTC as well as ongoing operating expenses. Currently, CSX estimates that the total multi-year cost of PTC implementation will be at least \$1.2 billion for the Company.

Table of Contents

CSX CORPORATION

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

FIRST QUARTER 2010 HIGHLIGHTS

- Revenue increased \$244 million or 11% to \$2.5 billion driven by increases in volume and core pricing gains.
- Expenses increased \$132 million or 8% to \$1.9 billion driven by higher fuel prices and labor-related costs.
- Operating income increased \$112 million or 21% to \$634 million and operating ratio improved to 74.5%, a first quarter record.
 - Employee safety drives a record in the personal injuries frequency index of 0.81.

CSX first quarter results reflect strong year-over-year volume and revenue growth as a result of the gradual and steady growth in the economy. Revenue increased 11% from the prior year, to nearly \$2.5 billion, with gains across most of the company's markets. These gains were driven by a 5% increase in volume, ongoing yield management initiatives and higher fuel recovery associated with the increase in fuel prices.

Expenses increased by \$132 million, or 8%, versus the prior year. This increase was driven by a rise in fuel costs due to higher fuel prices, higher incentive compensation and labor-related inflation partially offset by lower staffing levels.

For additional information, refer to Rail and Intermodal Results of Operations discussed on pages 32 through 33.

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

During first quarter 2010, the Company continued to advance its efforts on safety and operating performance. CSXT delivered all-time record results in Federal Railroad Administration ("FRA") personal injuries in first quarter 2010. The FRA personal injuries index improved to 0.81, a 38% improvement. This represents a new record for CSX, surpassing the one established in the fourth quarter of 2009. Reported FRA train accident frequency also improved 14% to 3.13.

Table of Contents

CSX CORPORATION

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

Key service metrics declined in the quarter primarily due to more challenging weather conditions versus the prior year. On-time train originations and arrivals both declined to 69% and 67%, respectively. Dwell time rose to 25.8 hours from 24.1 hours in same quarter of 2009. Average train velocity declined 3% to 20.9 miles per hour. The Company strives to sustain key operating measures and service reliability at high levels, while increasing operational efficiency.

Rail Operating Statistics (Estimated)

| | | 2010 | 2009 | First Quarters Improvement/ (Decline) % |
|---------------------------------|---|---------|---------|---|
| Safety and Service Measurements | FRA Personal Injuries Frequency Index | 0.81 | 1.30 | 38% |
| | FRA Train Accident Rate | 3.13 | 3.62 | 14% |
| | On-Time Train Originations | 69% | 83% | (17)% |
| | On-Time Destination Arrivals | 67% | 79% | (15)% |
| | Dwell | 25.8 | 24.1 | (7)% |
| | Cars-On-Line | 214,845 | 218,863 | 2% |
| | System Train Velocity | 20.9 | 21.6 | (3)% |
| | | | | Increase/ (Decrease) |
| Resources | Route Miles | 21,189 | 21,178 | -% |
| | Locomotives (owned and long-term leased) | 4,067 | 4,129 | (2)% |
| | Freight Cars (owned and long-term leased) | 82,452 | 90,027 | (8)% |

Key Performance Measures Definitions

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

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

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

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

Dwell – 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).

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

30

Table of Contents

CSX CORPORATION

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

FINANCIAL RESULTS OF OPERATIONS

Results of Operations(Unaudited)
(Dollars in Millions)

First Quarters

| | Rail (a) | | Intermodal | | CSX Consolidated | | \$ Change | % Change |
|-------------------------------|----------|---------|------------|-------|------------------|---------|-----------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | | |
| Revenue | \$2,168 | \$1,977 | \$323 | \$270 | \$2,491 | \$2,247 | \$244 | 11% |
| Expense | | | | | | | | |
| Labor and Fringe | 710 | 644 | 19 | 18 | 729 | 662 | (67) | (10) |
| Materials, Supplies and Other | 403 | 432 | 50 | 45 | 453 | 477 | 24 | 5 |
| Fuel | 282 | 190 | 1 | 1 | 283 | 191 | (92) | (48) |
| Depreciation | 223 | 218 | 6 | 6 | 229 | 224 | (5) | (2) |
| Equipment and Other Rents | 71 | 88 | 29 | 25 | 100 | 113 | 13 | 12 |
| Inland Transportation | (116) | (93) | 179 | 151 | 63 | 58 | (5) | (9) |
| Total Expense | 1,573 | 1,479 | 284 | 246 | 1,857 | 1,725 | (132) | (8) |
| Operating Income | \$595 | \$498 | \$39 | \$24 | \$634 | \$522 | \$112 | 21% |
| Operating Ratio | 72.6% | 74.8% | 87.9% | 91.1% | 74.5% | 76.8% | | |

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

Volume and Revenue (Unaudited)

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

First Quarters

| | Volume | | | Revenue | | | Revenue Per Unit | | |
|----------------------------|--------|------|----------|---------|-------|----------|------------------|---------|----------|
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Chemicals | 112 | 105 | 7 % | \$351 | \$308 | 14 % | \$3,134 | \$2,933 | 7% |
| Emerging Markets | 85 | 91 | (7) | 130 | 134 | (3) | 1,529 | 1,473 | 4 |
| Forest Products | 63 | 65 | (3) | 140 | 140 | - | 2,222 | 2,154 | 3 |
| Agricultural Products | 114 | 109 | 5 | 267 | 249 | 7 | 2,342 | 2,284 | 3 |
| Metals | 61 | 48 | 27 | 128 | 97 | 32 | 2,098 | 2,021 | 4 |
| Phosphates and Fertilizers | 79 | 60 | 32 | 123 | 87 | 41 | 1,557 | 1,450 | 7 |

Edgar Filing: CSX CORP - Form 10-Q

| | | | | | | | | | |
|-------------------|-------|-------|------|---------|---------|------|---------|---------|-----|
| Food and Consumer | 25 | 25 | - | 59 | 60 | (2) | 2,360 | 2,400 | (2) |
| Total Merchandise | 539 | 503 | 7 | 1,198 | 1,075 | 11 | 2,223 | 2,137 | 4 |
| Coal | 354 | 415 | (15) | 701 | 713 | (2) | 1,980 | 1,718 | 15 |
| Coke and Iron Ore | 19 | 16 | 19 | 35 | 31 | 13 | 1,842 | 1,938 | (5) |
| Total Coal | 373 | 431 | (13) | 736 | 744 | (1) | 1,973 | 1,726 | 14 |
| Automotive | 74 | 45 | 64 | 170 | 95 | 79 | 2,297 | 2,111 | 9 |
| Other | - | - | - | 64 | 63 | 2 | - | - | - |
| Total Rail | 986 | 979 | 1 | 2,168 | 1,977 | 10 | 2,199 | 2,019 | 9 |
| Domestic | 281 | 254 | 11 | 217 | 184 | 18 | 772 | 724 | 7 |
| International | 219 | 186 | 18 | 102 | 83 | 23 | 466 | 446 | 4 |
| Other | - | - | - | 4 | 3 | 33 | - | - | - |
| Total Intermodal | 500 | 440 | 14 | 323 | 270 | 20 | 646 | 614 | 5 |
| Total | 1,486 | 1,419 | 5 % | \$2,491 | \$2,247 | 11 % | \$1,676 | \$1,584 | 6 % |

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

Table of Contents

CSX CORPORATION

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

First Quarter 2010 Results of Operations

CSX first quarter results reflect strong year-over-year volume and revenue growth as a result of the gradual and steady growth in the economy as compared to the level of economic activity last year. The greatest volume increases occurred in the automotive, phosphates, metals, and intermodal markets. Ongoing yield management initiatives and higher fuel recovery associated with the increase in fuel prices drove revenue-per-unit increases in most markets. These gains more than offset continued weakness in utility coal and construction related markets.

Rail Revenue
Merchandise

Chemicals – Volume growth was primarily driven by increased shipments of plastics due to the improvement in demand from the automotive and consumer goods markets, and by growth in shipments of fractionating sand used in natural gas drilling.

Emerging Markets, Forest Products, and Food and Consumer – Volume weakness in building products, appliances, aggregates (which include crushed stone, sand and gravel) was due to the continued softness in residential construction.

Agricultural Products – Volume growth was due to increased shipments of feed ingredients to export markets driven by greater global demand for meat products. In addition, domestic volume increased as a result of continued growth in the ethanol market.

Metals – Strong volume growth was driven by rebounding steel consumption consistent with the ongoing economic recovery. Improving demand from automotive and energy markets, combined with low inventories pushed domestic steel production higher.

Phosphates and Fertilizers – Significant volume growth occurred in the quarter with increased production to meet both export and domestic demand as buyers rebuilt inventories of fertilizer in anticipation of the spring planting season.

Coal

Revenue and volume declines were driven by lower shipments to utility customers as a result of continued high stockpile levels. This decline was partially offset by growth in the export market due to greater Chinese demand for U.S. metallurgical coal. The increase in revenue per unit was driven by improved yield, longer length of haul, and higher fuel recovery.

Automotive

Strong volume and revenue growth was due to a significant increase in North American light vehicle production driven by an increase in automotive sales.

Table of Contents

CSX CORPORATION

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

Rail Expense

Expenses increased \$94 million from last year's quarter. Significant variances are described below.

Labor and Fringe expense increased \$66 million. This increase was driven by higher incentive compensation, inflation and several other items. These increases were partially offset by lower staffing levels.

Materials, Supplies and Other expense decreased \$29 million. This decrease was primarily driven by insurance and legal recoveries of \$17 million in addition to ongoing benefits from safety improvements.

Fuel expense increased \$92 million primarily due to higher prices.

Depreciation expense increased \$5 million due to a larger asset base related to higher capital spending, partially offset by lower depreciation rates resulting from the previous periodic review of asset useful lives.

Equipment and Other Rents expense decreased \$17 million primarily due to current quarter's cost savings associated with improved asset utilization and higher prior year settlement expenses with other railroads. These decreases were partially offset by increased rents due to higher volume.

First Quarter Intermodal Results of Operations

Intermodal Revenue

Domestic – Volume growth was driven by continued strength in truckload conversions and expanded service offerings. Revenue per unit was higher due to increased fuel recovery and a modestly improved competitive truck pricing environment.

International – Volume increased as U.S. inventory replenishments and improving U.S. exports drove significant growth compared to depressed prior year volume. Revenue per unit was higher due to increased fuel recovery and contract price increases.

Intermodal entered into a new jointly-marketed domestic interline container program called UMAX with Union Pacific Corporation. This agreement which became effective beginning in the second quarter is expected to result in revenue loss to Intermodal of \$40 million to \$50 million on a quarterly basis with a similar reduction expected in inland transportation expense. The impact on operating income is expected to be neutral in the near-term and positive long-term. Additionally, financial consideration was provided that will be amortized over the term of the agreement, which is not material to any period.

Intermodal Expense

Intermodal expense increased primarily due to higher volume during first quarter 2010.

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 \$1 million to \$142 million primarily due to expenses related to the first quarter 2010 debt exchange. This increase was partially offset by lower average debt balances.

Other Income - Net

Other income increased \$8 million to \$11 million driven primarily by real estate gains.

Income Tax Expense

Income tax expense increased \$67 million primarily due to higher earnings in first quarter 2010. In addition, the Company recorded tax expense of \$7 million as a result of the Patient Protection and Affordable Care Act that was signed into law during the quarter. Also adding to this increase were \$13 million of certain favorable tax adjustments included in last year's quarter that were not repeated.

Net Earnings

Net earnings increased \$60 million to \$306 million and earnings per diluted share increased \$0.16 to \$0.78 primarily due to higher revenue partially offset by higher income tax expense.

Table of Contents

CSX CORPORATION

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

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

Property increased \$195 million due to planned capital spending. Other long-term assets increased \$141 million as a result of cash consideration paid in the exchange of debt securities (see Note 7, Debt and Credit Agreements). Stockholder's equity was reduced as a result of \$229 million of share repurchases during first quarter 2010.

Consolidated Cash Flow Statements

Cash provided by operating activities increased \$298 million due in part to higher pre-tax earnings and lower incentive compensation payouts for 2009, which were paid in 2010. Cash used in investing activities increased \$41 million due to an increase in property additions during 2010. Cash used in financing activities increased \$680 million as a result of share repurchases and cash paid related to the exchange of debt securities during first quarter 2010 (see Note 7, Debt and Credit Agreements).

Liquidity and Working Capital

As of the end of the first quarter, CSX had \$993 million of cash and cash equivalents. CSX also has available a \$1.25 billion credit facility with a diverse syndicate of banks that was not drawn on. CSX uses current cash balances for general corporate purposes, which may include capital expenditures, working capital requirements, improvements in productivity and repurchases of CSX common stock.

In 2009, the Company entered into a \$250 million receivables securitization facility. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. This facility has a 364-day term and expires on September 27, 2010. As of the date of this filing, the Company has not drawn on this facility. Under the terms of this facility, CSX Transportation and CSX Intermodal transfer eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX will service 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.

Table of Contents

CSX CORPORATION

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

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of \$113 million and \$705 million at March 2010 and December 2009, respectively. The decline since December 2009 is primarily due to a \$508 million reclassification from long-term debt to current maturities of long-term debt for amounts owed within the next twelve months.

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 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.

CRITICAL ACCOUNTING ESTIMATES

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

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

For further discussion of 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, proposed new services and other similar expressions concerning matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and
- future economic, industry or market conditions or performance and their effect on the Company's financial condition, results of operations or liquidity.

Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "project," "estimate," "preliminary" and similar expressions. The Company cautions against placing undue reliance on forward-looking statements, which reflect its good faith beliefs with respect to future events and are based on information currently available to it as of the date the forward-looking statement is made. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the timing when, or by which, such performance or results 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 this quarterly report on Form 10-Q, 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, including the outcome of tax claims and litigation, 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 contamination, 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);
- worsening conditions in the financial markets that may affect timely access to capital markets, as well as the cost of capital;
- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;
 - changes in fuel prices, surcharges for fuel and the availability of fuel;
- the impact of increased passenger activities in capacity-constrained areas or regulatory changes affecting when CSXT can transport freight or service routes;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property or equipment;
 - noncompliance with applicable laws or regulations;

Table of Contents

CSX CORPORATION

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

- the inherent business risks associated with safety and security, including the availability and cost of insurance, the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- labor 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;
- competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;
 - the Company's success in implementing its strategic, financial and operational initiatives;
 - changes in operating conditions and costs or commodity concentrations; and
- the inherent uncertainty associated with projecting full year 2010 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 and the Company's website at 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

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 March 26, 2010, 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 March 26, 2010, 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 first quarter 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed under 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

ITEM 2. CSX Purchases of Equity Securities

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

In first quarter 2010, CSX completed \$229 million of share repurchases. Subsequent to the end of first quarter, through the date of this filing, the Company completed an additional \$34 million of share repurchases pursuant to the outstanding Board authority. Since March 2008, CSX has completed \$1.5 billion in share repurchases and has remaining authority of \$1.5 billion. Future share repurchases will be based on market and business conditions.

CSX Purchases of Equity Securities
for the Quarter

| First Quarter | 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 | | | | \$1,750,065,626 |
| January (December 26, 2009 - January 22, 2010) | - | \$- | - | 1,750,065,626 |
| February (January 23, 2010 - February 19, 2010) | 4,483,955 | 45.21 | 4,483,955 | 1,547,355,648 |
| March (February 20, 2010 - March 26, 2010) | 572,274 | 45.86 | 572,274 | 1,521,108,801 |
| Total/Ending Balance | 5,056,229 | \$45.28 | 5,056,229 | \$1,521,108,801 |

Table of Contents

CSX CORPORATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

4.1* Eighth Supplemental Indenture, dated as of March 24, 2010 between the Registrant and The Bank of New York Mellon Trust Company, N.A. (as successor to JP Morgan Chase Bank), as Trustee.

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 March 26, 2010 filed with the SEC on April 19, 2010, formatted in XBRL includes: (i) Consolidated Income Statements for the fiscal periods ended March 26, 2010 and March 27, 2009, (ii) Consolidated Balance Sheets at March 26, 2010 and December 25, 2009, (iii) Consolidated Cash Flow Statements for the fiscal periods ended March 26, 2010 and March 27, 2009, and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith

Table of Contents

CSX CORPORATION

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: April 19, 2010