CSX CORP
Form 10-K
February 19, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 26, 2008

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		62-1051971
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
500 Water Street, 15th Floor, Jacksonville, FL	32202	(904) 359-3200
(Address of principal executive offices)	(Zip Code)	(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $1 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).
Yes (X) No ( )

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ( ) No (X)

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 (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).
Large Accelerated Filer (X) Accelerated Filer ( ) Non-accelerated Filer ( )

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

On June 27, 2008 (which is the last day of the second quarter and the required date to use), the aggregate market value of the Registrant's voting stock held by non-affiliates was approximately $25.2 billion (based on the New York Stock Exchange closing price on such date).

There were 399,254,173 shares of Common Stock outstanding on January 30, 2009 (the latest practicable date that is closest to the filing date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement (the "Proxy Statement") to be filed no later than 120 days after the end of the fiscal year with respect to its annual meeting of shareholders scheduled to be held on May 6, 2009.

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Item 1. Business by Segment

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

Rail

CSX's principal operating company, CSX Transportation, Inc. ("CSXT"), provides a crucial 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. It serves 70 ocean, river and lake ports along the Atlantic and Gulf Coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. CSXT also serves thousands of production and distribution facilities through track connections to more than 230 short-line and regional railroads.

Other Entities

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

Intermodal

CSX Intermodal, Inc. ("Intermodal"), one of the nation's largest coast-to-coast intermodal transportation providers, is a stand-alone, integrated intermodal company linking customers to railroads via trucks and terminals. Containers and trailers are loaded and unloaded from trains, and trucks provide the link between intermodal terminals and the customer.

Lines of Business

Together, the rail and intermodal segments generated $11.3 billion of revenue during 2008 and served four primary lines of business:

- The merchandise business is the most diverse market with nearly 2.5 million carloads per year of aggregates, which include crushed stone, sand and gravel, metal, phosphate, fertilizer, food, consumer, agricultural, paper and chemical products. The merchandise business generated approximately 49% of the Company's revenue in 2008 and 37% of volume.

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- Coal, which delivered approximately 1.9 million carloads of coal, coke and iron ore to electricity generating power plants, ocean, river and lake piers and terminals, steel makers and industrial plants, accounted for approximately 29% of the Company's revenue in 2008 and 28% of volume. The Company transports almost one-third of every ton of coal used for generating electricity in the areas it serves.

- Automotive, which delivers finished vehicles and auto parts, generated approximately 7% of the Company's revenue and 5% of the Company's volume in 2008. The Company delivers approximately 30% of North America's light vehicles, serving both traditional manufacturers and the increasing number of global manufacturers.

- Intermodal offers a competitive cost advantage over long-haul trucking by combining the economics of rail transportation with the short-haul flexibility of trucks. Through its network of more than 50 terminals, Intermodal serves all major markets east of the Mississippi River and transports mainly manufactured consumer goods in containers, providing customers with truck-like service for longer shipments. For 2008, Intermodal accounted for approximately 13% of the Company's total revenue and 30% of volume.

Other revenue, which includes revenue from regional railroads, demurrage, switching and other incidental charges, accounted for 2% of the Company's total 2008 revenue. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed by railroads when shippers or receivers of freight hold railcars beyond a specified period of time. Switching revenue is generated when CSXT switches cars between trains for a customer or another railroad.

Other Businesses

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, and the Greenbrier Hotel Corporation, formerly known as CSX Hotels, Inc., a resort doing business as The Greenbrier. These items are classified in other income because they are not considered by the Company to be operating activities and results may fluctuate with the timing of real estate sales and resort seasonality. See Note 9, Other Income, for more information related to the Company's investment in The Greenbrier resort.

Financial Information about Operating Segments

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for operating revenue, operating income and total assets by segment for each of the last three fiscal years.

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Company History

A leader in freight rail transportation for more than 180 years, the Company’s roots date back to the early nineteenth century when The Baltimore and Ohio Railroad Company (“B&O”) – the nation’s first common carrier – was chartered in 1827. Since that time, the Company has built on the foundation laid by early pioneers who had a vision to create a railroad that could safely and reliably service the ever-increasing demands of a growing nation.

Since its founding, numerous railroads have combined with the former B&O through merger and consolidation to create what has become CSX. Each of the railroads that combined into the CSX family brought unique and valuable geographical reach to new markets, gateways, cities, ports and transportation corridors.

CSX was incorporated in 1978 under Virginia law. In 1980, the Company completed the merger of the Chessie System (“Chessie”) and Seaboard Coast Line Industries (“Seaboard”) into CSX. The merger allowed the Company to connect northern population centers and Appalachian coal fields to growing southeastern markets. In 1986, the Chessie and Seaboard operating entities were transferred to the rail entity CSXT, which was created through the merger. Intermodal was originally formed in 1986 in order to provide nationwide, door-to-door intermodal service.

In 1997, CSXT and Norfolk Southern Railway jointly acquired the rights to operate Conrail, Inc. (“Conrail”) and then in 2004, CSXT acquired an allocated portion of Conrail’s assets, which CSXT operated. Conrail was formed in 1976 from several financially troubled northeast railroads to restructure and revive the region’s railroads. The Company’s acquisition of key portions of Conrail allows CSXT to link the northeast, including New England and the New York metropolitan area, with Chicago, midwest markets and the growing areas in the southeast that were already served by CSXT. This current rail network allows the Company to directly serve every major market in the eastern United States with dependable, environmentally friendly and fuel efficient freight transportation and intermodal service.

Regulatory Environment

The Company's operations are subject to a variety of federal, state and local laws and regulations, generally applicable to many businesses in the United States. The railroad operations conducted by the Company's subsidiaries, including CSXT, are subject in many respects to the regulatory jurisdiction of the Surface Transportation Board ("STB"), the Federal Railroad Administration ("FRA"), and its sister agency within the U.S. Department of Transportation ("DOT"), the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). Together, FRA and PHMSA have broad jurisdiction over railroad operating standards and practices, including track, freight cars and locomotives, and hazardous materials requirements. Additionally, the Transportation Security Administration ("TSA"), a component of the Department of Homeland Security ("DHS"), has broad authority over railroad operating practices that may include homeland security implications. In some cases, state and local laws and regulations can be preempted in their application to railroads by the operation of these and other federal authorities.

Decisions of these and other agencies can affect the profitability of the Company's business. For further discussion on regulatory risks to the Company, see Item 1A. Risk Factors beginning on page 8.

Although the Staggers Act of 1980 significantly deregulated rail rates and much of the rail traffic of the Company's subsidiaries is currently exempt from rate regulation by agency decision, the STB has broad jurisdiction over railroad commercial practices, including some railroad rates. This includes jurisdiction over freight car charges, the transfer, extension or abandonment of rail lines, rates charged on certain regulated rail traffic and any acquisition of control over rail common carriers. In 2008, for example, the STB issued a decision modifying its policies governing certain contractual terms sometimes used in sales of rail lines. See Note 6, Commitments and Contingencies for further information.

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation includes a mandate that all Class I freight railroads implement a positive train control system ("PTC") by December 31, 2015. PTC must be installed on all main lines with passenger and computer operations as well as those over which toxic-by-inhalation hazardous materials ("TIH") are transported. Implementation of a PTC system is designed to prevent train-to-train collisions, over-speed derailments, incursions into established work-zone limits, and a train from diverting off-course onto another set of tracks through a switch left in a wrong position. Significant capital costs are anticipated with the implementation of PTC as well as ongoing operating expenses.

Also in 2008, the TSA issued rules that apply to the transportation of certain kinds of highly hazardous materials. The new rules place significant new security and safety requirements on passenger and freight railroad carriers, rail transit systems, and facilities that ship hazardous materials by rail.

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Competition

The business environment in which the Company operates is highly competitive. Shippers typically select transportation providers that offer the most compelling combination of service and price. Service requirements, both in terms of transit time and reliability, vary by shipper and commodity. As a result, the Company's primary competition varies by commodity, geographic location and mode of available transportation.

CSXT's primary rail competitor is Norfolk Southern Railway, which operates throughout much of CSX's territory. Other railroads also operate in parts of CSXT's territory. Depending on the specific market, competing railroads and deregulated motor carriers may exert pressure on price and service levels. For further discussion on the risk of competition to the Company, see Item 1A. Risk Factors beginning on page 8.

Other Information

CSX makes available on its website www.csx.com, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission ("SEC"). Additionally, the Company has posted its code of ethics on its website, which is also available to any shareholder who requests it. This Form 10-K and other SEC filings made by CSX are also accessible through the SEC's website at www.sec.gov.

CSX has included the certifications of its Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") regarding the Company's public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 ("the Act") as Exhibit 31, as well as Section 906 of the Act as Exhibit 32 to this Form 10-K report. Additionally, on October 23, 2008, CSX filed its annual CEO certification with the New York Stock Exchange ("NYSE") confirming CSX's compliance with the NYSE Corporate Governance Listing Standards. The CEO was not aware of any violations of these standards by CSX as of January 30, 2009 (the latest practicable date that is closest to the filing of this Form 10-K). This certification is also included as Exhibit 99 to this Form 10-K.

The Company's annual average number of employees was approximately 34,000 in 2008, which includes approximately 29,000 union employees. Most of the Company's employees provide or support transportation services. The information set forth in Item 6. Selected Financial Data is incorporated herein by reference.

For additional information concerning business conducted by the Company during 2008, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data - Note 17 Business Segments.

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Item 1A. Risk Factors

The following risk factors could have a materially adverse effect on the Company's financial condition, results of operations or liquidity, and could cause those results to differ materially from those expressed or implied in the Company's forward-looking statements. Although the risks described below are those that management believes are the most significant, these are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently does not deem to be material also may materially impact the Company's financial condition, results of operations or liquidity.

New legislation or regulatory changes could impact the Company's earnings or restrict its ability to independently negotiate prices.

Political changes could result in legislative or regulatory changes that impose new burdens on the Company, increase operating costs, reduce operating efficiency or limit revenues. Legislation passed by Congress or new regulations issued by federal agencies can significantly affect the revenues, costs and profitability of the Company's business. The railroad industry is vulnerable to economic re-regulation by Congress, which could have a significant negative impact on the Company's ability to determine prices for rail services and would likely force a reduction in capital spending. For example, statutes imposing price or labor constraints or affecting rail-to-rail competition could adversely affect the Company's profitability. Also, additional regulations related to environmental matters such as greenhouse gas emissions could increase the Company's operating costs or reduce operating efficiencies or impact the business of CSX customers.

Government regulation and compliance risks may affect the Company's operations and financial results.

The Company is subject to the jurisdiction of various regulatory agencies, including the STB, the FRA and other state and federal regulatory agencies for a variety of economic, health, safety, labor, environmental, tax, legal and other matters. The FRA regulates several of the Company's core operations including track and mechanical equipment standards, signaling systems, inspection of grade crossing warning devices, locomotive engineer certifications and employee injury reporting, among other areas.

In addition, the DOT and DHS have crafted rules requiring new safety measures and security protocols. These regulations will increase operational costs and affect freight transportation routes. Legislation recently enacted by Congress will also increase compliance risks. The Rail Safety Improvement Act of 2008 imposes limits on employee work hours and may result in higher operating costs for the Company.

Noncompliance with applicable laws or regulations could erode public confidence in the Company and can subject the Company to fines, penalties and other legal or regulatory sanctions. In addition, a change in these regulations could increase operating costs and reduce operating efficiency.

General economic conditions could negatively impact demand for commodities and other freight.

The current economic environment has impacted demand for rail and intermodal services. Further decline in general domestic and global economic conditions that affect demand for the commodities that the Company carries or that lead to bankruptcies or liquidations of one or more large customers of the Company could reduce the Company's revenues, increase its bad debt expense, reduce its ability to make capital expenditures or have other adverse effects. Because certain of the Company's customers are in the automotive, housing and other industries, continued weakness or further downturns in these sectors could adversely affect the Company's operating results.

Weaknesses in the capital and credit markets could negatively impact the Company's access to capital.

The Company is in a capital intensive industry that requires continuing infrastructure improvements and acquisition of capital assets. The Company from time to time accesses the credit markets for additional liquidity. Credit markets have recently experienced adverse conditions, increasing the costs associated with issuing debt. These conditions may further increase the Company's funding costs, limit the Company's ability to sell debt securities on acceptable terms and impede the Company's attempts to revise its current debt arrangements as contemplated.

CSXT, as a common carrier by rail, is required by law to transport hazardous materials, which could expose the Company to significant costs and claims.

Under federal regulations, CSXT is required to transport hazardous materials under its common carrier obligation. A train accident involving the transport of hazardous materials could result in significant claims arising from personal injury, property damage, and environmental penalties and remediation. Such claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates. CSXT is also required to comply with regulations regarding the handling of hazardous materials.

In November 2008, the TSA issued final rules placing significant new security and safety requirements on passenger and freight railroad carriers, rail transit systems, and facilities that ship hazardous materials by rail. Noncompliance with these rules can subject the Company to significant penalties and could be a factor in litigation arising out of a train accident. Finally, legislation preventing the transport of hazardous materials through certain cities could result in network congestion and increase the length of haul for hazardous substances, which could result in increased operating costs, reduced operating efficiency or increase the risk of an accident involving the transport of hazardous materials.

Future acts of terrorism, war or regulatory changes to combat the risk of terrorism may cause significant disruptions in the Company's operations.

Terrorist attacks, along with any government response to those attacks, may adversely affect the Company's financial condition, results of operations or liquidity. CSXT's rail lines or other key infrastructure may be direct targets or indirect casualties of acts of terror or war. This risk could cause significant business interruption and result in increased costs and liabilities and decreased revenues. In addition, premiums charged for some or all of the insurance coverage currently maintained by the Company could increase dramatically or the coverage may no longer be available.

Furthermore, in response to the heightened risk of terrorism, federal, state and local governmental bodies are proposing and, in some cases, have adopted various legislation and regulations relating to security issues that impact the transportation industry. For example, the DHS adopted regulations that require freight railroads to implement additional security protocols when transporting hazardous materials. Complying with these regulations could continue to increase the Company's operating costs and reduce operating efficiencies.

The Company is subject to environmental laws and regulations that may result in significant costs.

The Company's operations are subject to wide-ranging federal, state and local environmental laws and regulations concerning, among other things, emissions into the air, discharges into water, the handling, storage, transportation and disposal of waste and other materials and clean-up of hazardous material or petroleum releases. In certain circumstances, environmental liability can extend to formerly owned or operated properties, leased properties, adjacent properties and properties owned by third parties or Company predecessors, as well as to properties currently owned and used by the Company.

The Company has been, and may be subject to, allegations or findings to the effect that it has violated, or is strictly liable under, environmental laws or regulations, and such violations can result in the Company's incurring fines, penalties or costs relating to the clean-up of environmental contamination. Although the Company believes it has appropriately recorded current and long-term liabilities for known future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing and may be required to incur significant expenses to investigate and remediate known, unknown or future environmental contamination.

Severe weather or other natural occurrences could result in significant business interruptions and expenditures in excess of available insurance coverage.

The Company's operations may be affected by external factors such as severe weather and other natural occurrences, including floods, fires, hurricanes and earthquakes. Insurance maintained by the Company to protect against loss of business and other related consequences resulting from these natural occurrences is subject to limitations on coverage, depending on the nature of the risk insured against. This insurance may not be sufficient to cover all of the Company's damages or damages to others and this insurance may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of service, the Company may not be able to restore service without a significant interruption in operations.

The Company may be subject to various claims and lawsuits that could result in significant expenditures.

The Company is subject to various existing lawsuits, including putative class action litigation alleging violations of antitrust laws and potential unknown litigation. The Company may experience material judgments or incur significant costs to defend any such lawsuits. Additionally, existing litigation may suffer adverse developments not currently reflected in the Company's reserve estimates as the ultimate outcome of existing litigation is subject to numerous factors outside of the Company's control. While the Company uses its best efforts to evaluate existing litigation, the final judgments or settlement amounts may differ materially from the recorded reserves.

Increases in the number and magnitude of property damage and personal injury claims could adversely affect the Company's operating results.

The Company faces inherent business risk from exposure to property damage, occupational injury claims, and personal injury claims resulting from train accidents, worker injury claims under the Federal Employers' Liability Act ("FELA") and claims from outside parties resulting from the Company's operations. The Company could experience material property damage, personal injury or occupational claims in the future and it may incur significant costs to defend such claims.

Existing claims may suffer adverse developments not currently reflected in reserve estimates, as the ultimate outcome of existing claims is subject to numerous factors outside of the Company's control. Although the Company establishes reserves and maintains insurance to cover these types of claims, final amounts determined to be due on any outstanding matters may differ materially from the recorded reserves and exceed the Company's insurance coverage.

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Failure to complete negotiations on collective bargaining agreements could result in strikes and/or work stoppages.

Most of CSXT's employees are represented by labor unions and are covered by collective bargaining agreements. Generally speaking, these agreements are bargained nationally by the National Carriers Committee. In the rail industry, negotiations have generally taken place over a number of years and previously have not resulted in any extended work stoppages. Over the last 30 years, there were only six days of work stoppage related to labor disputes over national handling. If the Company is unable to negotiate acceptable agreements, it could result in strikes by the affected workers, loss of business and increased operating costs as a result of higher wages or benefits paid to union members. Under the Railway Labor Act's procedures (which include mediation, cooling-off periods and the possibility of Presidential intervention), neither party may take action until the procedures are exhausted.

The Company faces competition from other transportation providers.

The Company experiences competition in the form of pricing, service, reliability and other factors from other transportation providers including railroads and motor carriers that operate similar routes across its service area and, to a less significant extent, barges, ships and pipelines. Transportation providers such as motor carriers and barges utilize public rights-of-way that are built and maintained by governmental entities while CSXT and other railroads must build and maintain rail networks using largely internal resources. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, or legislation providing for less stringent size or weight restrictions on trucks, could negatively impact the Company's competitive position.

Network congestion could have a negative impact on service and operating efficiency.

The Company may experience rail network difficulties related to network capacity, unplanned increases in demand for rail service, increased passenger activities in capacity-constrained areas or regulatory changes impacting when CSXT can transport freight or service routes that could have a negative effect on the Company's operational fluidity, leading to deterioration of service, asset utilization and overall efficiency.

The Company relies on the stability and availability of its technology systems to operate its business.

The Company relies on information technology in all aspects of its business. A significant disruption or failure of the Company's information technology systems, including computer hardware, software and communications equipment, could result in a service interruption, safety failure, security breach or other operational difficulties. While the Company has taken steps to mitigate these risks, the performance and reliability of its technology systems are critical to its ability to operate and compete effectively.

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Disruption of the supply chain could negatively impact operating efficiency and increase costs.

The capital intensive nature and sophistication of core rail equipment (including rolling stock equipment, locomotives, rail, and ties) limits the number of railroad equipment suppliers. If any of the current manufacturers stops production or experiences a supply shortage, the Company could experience a significant cost increase or material shortage. In addition, a few critical railroad suppliers are foreign. Adverse developments in international relations, new trade regulations, disruptions in international shipping, or increases in global demand could make procurement of these supplies more difficult or increase the Company's operating costs.

Additionally, if a fuel supply shortage were to arise, whether due to the Organization of the Petroleum Exporting Countries or other production restrictions, lower refinery outputs, a disruption of oil imports or otherwise, the Company would be negatively impacted.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties by Segment

Rail Property

CSXT's properties primarily consist of track and its related infrastructure, locomotives and freight cars. These categories and the geography of the network are described below.

Track and Infrastructure

Serving 23 states, the District of Columbia, and the Canadian provinces of Ontario and Quebec, the CSXT rail network serves, among other markets, New York, Philadelphia and Boston in the northeast and mid-Atlantic, the southeast markets of Atlanta, Miami and New Orleans, and the midwestern cities of St. Louis, Memphis and Chicago.

CSXT's track structure includes main thoroughfares connecting terminals and yards (known as mainline track), track within terminals and switching yards, track adjacent to the mainlines used for passing trains, track connecting the mainline track to customer locations and track that diverts trains from one track to another known as turnouts. Total track miles are greater than the Company's approximately 21,000 route miles, which reflect the size of CSXT's rail network that connects markets, customers and western railroads. At December 2008, the breakdown of track miles was as follows:

	Track Miles
Mainline track	26,753
Terminals and switching yards	9,602
Passing sidings and turnouts	969
Total	37,324

In addition to its physical track structure, CSXT operates numerous yards and terminals. These serve as the hubs between CSXT and its local customers and as sorting facilities where rail cars often are received, re-sorted and placed onto new outbound trains.

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The following 36 yards are identified as key to the CSXT system (listed in alphabetical order by state):

Rail Yards or Terminals

Birmingham, AL	Detroit, MI
Mobile, AL	Hamlet, NC
Montgomery, AL	Rocky Mount, NC
Baldwin, FL	Buffalo, NY
Moncrief (Jacksonville), FL	Selkirk, NY
Tampa, FL	Syracuse, NY
Atlanta, GA	Cincinnati, OH
East Savannah, GA	Cleveland, OH
Waycross, GA	Columbus, OH
Avon (Indianapolis), IN	Stanley (Toledo), OH
Chicago, IL	Walbridge (Toledo), OH
Evansville, IN	Willard, OH
Louisville, KY	Greenwich (Philadelphia), PA
Russell, KY	Charleston, SC
New Orleans, LA	Florence, SC
Cumberland, MD	Erwin, TN
Curtis Bay (Baltimore), MD	Nashville, TN
Locust Point (Baltimore), MD	Richmond, VA

For a list of Intermodal's terminals, see page 18.

Network Geography

CSXT's rail operations are primarily focused on four major transportation networks and corridors which are defined geographically and by commodity flows below.

Coal Network – The CSXT coal network connects the coal mining operations in nine eastern states with industrial areas in the northeast and mid-Atlantic, as well as many river, lake, and deep water port facilities. Coal is used to generate more than half of the electricity in the United States. CSXT's coal network is well positioned to supply utility markets in both the northeast and southeast.

Southeastern Corridor – This critical part of the network runs between CSXT's western gateways of Chicago, St. Louis and Memphis through the cities of Nashville, Birmingham, and Atlanta and markets in the southeast. The corridor provides direct rail service between the coal reserves of the southern Illinois basin and the increasing demand for coal in the southeast. The Southeastern Corridor is the premier rail route connecting these key cities, gateways, and markets and positions CSXT well to efficiently handle projected traffic volumes of intermodal, coal, automotive and general merchandise traffic.

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Interstate 90 (I-90) Corridor – This CSXT corridor links Chicago and metropolitan areas in New York and New England. This route, also known as the "waterlevel route", has minimal hills and grades and nearly all of it has two main tracks (referred to as double track). These superior engineering attributes permit the corridor to support consistent, high-speed intermodal, automotive and merchandise service. This corridor is a primary route for import traffic moving eastward across the country, through Chicago and into the population centers in the northeast. The I-90 Corridor is also a critical link between ports in New York, New Jersey, and Pennsylvania and consumption markets in the midwest.

Interstate 95 (I-95) Corridor – The CSXT I-95 Corridor connects Charleston, Jacksonville, Miami and many other cities throughout the southeast with the heavily populated northeastern cities of Baltimore, Philadelphia, and New York. CSXT primarily transports food and consumer products, as well as metals and chemicals along this line. It is the only rail corridor along the eastern seaboard south of Washington, D.C., and provides access to all the major eastern ports.

Locomotives

CSXT focuses on maximum use of its fleet and prudent investment in new units to drive the rail network. Better locomotive management can help CSXT move freight more efficiently, while continued investment in CSXT's power source can enable CSXT to operate more locomotives better.

CSXT operates more than 4,000 locomotives, of which over 95% are owned by CSXT. Freight locomotives are the power source used primarily to pull rail cars. Switching locomotives are used in yards to sort railcars so that the right railcar gets attached to the right train in order to get it to its final destination. Auxiliary units are typically used to provide extra traction for heavy trains in hilly terrain. At December 2008, CSXT's fleet of owned and long-term leased locomotives consisted of the following types of locomotives:

	Locomotives	%
Freight	3,600	87%
Switching	322	8%
Auxiliary Units	221	5%
Total	4,143	100%

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The table below indicates the number and year built for locomotives owned or on long-term lease at December 2008.

Year Built	Locomotives	%
1989 and before	2,021	50%
1990 - 1994	541	13%
1995 - 1999	601	15%
2000 - 2004	380	9%
2005	100	2%
2006	100	2%
2007	184	4%
2008	216	5%
Total	4,143	100%

Freight Car Fleet

The average daily fleet of cars-on-line consists of approximately 224,000 cars, but at any point in time, over half of the railcars on the CSXT system are not owned or leased by CSXT. Examples of these are: railcars owned by other railroads (which are utilized by CSXT), shipper-furnished or private cars (which are generally used only in that shipper's service) and multi-level railcars.

CSXT's freight car fleet consists of six main types of cars:

Gondolas – Support CSXT's metals markets and provide transport for woodchips and other bulk commodities. Some gondolas are equipped with special hoods for protecting products like coil and sheet steel.

Open-top hoppers – Transport heavy dry bulk commodities such as coal, coke, stone, sand, ores and gravel that are resistant to weather conditions.

Box cars – Include a variety of tonnages, sizes, door configurations and heights to accommodate a wide range of finished products, including paper, auto parts, appliances and building materials. Insulated box cars deliver food products, canned goods, beer and wine.

Covered hoppers – Have a permanent roof and are segregated based upon commodity density. Lighter bulk commodities such as grain, fertilizer, flour, salt, sugar, clay and lime are shipped in large cars called jumbo covered hoppers. Heavier commodities like cement, ground limestone and glass sand are shipped in small cube covered hoppers.

Multi-level flat cars – Transport finished automobiles and are differentiated by the number of levels: bi-levels for large vehicles such as pickup trucks and SUVs and tri-levels for sedans and smaller automobiles.

Flat cars – Used for shipping intermodal containers and trailers or bulk and finished goods, such as lumber, pipe, plywood, drywall and pulpwood.

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Other cars owned or leased on the network include, but are not limited to, center beam cars for transporting lumber and building products.

CSXT owns more than 60% of its freight cars. At December 2008, CSXT's owned and long-term leased freight car fleet consisted of the following:

	Freight Cars	%
Gondolas	26,377	29%
Open-top hoppers	18,760	21%
Box cars	13,198	14%
Covered hoppers	12,915	14%
Multi-level flat cars	11,772	13%
Flat cars	7,195	8%
Other cars	1,133	1%
Total	91,350	100%

Intermodal Property

Infrastructure

Intermodal serves 56 terminals in 22 states. These terminals serve as a transfer point between rail and trucks. If the city or state has more than one terminal, it is indicated by the number next to it (listed in alphabetical order by state).

Intermodal Terminals	
Mobile, AL	Kansas City, MO
Lathrop, CA	Charlotte, NC
Los Angeles/Long Beach, CA (3)	Buffalo, NY
Oakland, CA	Syracuse, NY
Jacksonville, FL (2)	New York/New Jersey (6)
Miami, FL	Cincinnati, OH
Orlando, FL	Cleveland, OH
Tampa, FL	Columbus, OH (2)
Atlanta, GA (2)	Marion, OH
Savannah, GA (2)	Portland, OR
Chicago, IL (3)	Chambersburg, PA
East St. Louis, IL (2)	Philadelphia, PA
Indianapolis, IN	Charleston, SC
Evansville, IN	Memphis, TN (2)
New Orleans, LA	Nashville, TN
Boston, MA	Houston, TX
Springfield, MA	Dallas, TX
Worcester, MA (3)	Portsmouth, VA
Baltimore, MD	Seattle, WA

Detroit, MI

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Equipment

Intermodal equipment consists primarily of containers, chassis and other equipment (such as lift equipment). Containers are weather-proof boxes used for bulk shipment of freight, and chassis are the wheeled support framework for a container that allows it to be attached to a tractor. All of Intermodal's chassis are leased. Intermodal also has other types of equipment such as doublestack railcars, which are railcars that allow for two containers to be mounted one above the other.

At December 2008, Intermodal owned or long-term leased equipment consisted of the following:

	Equipment	%
Containers	14,577	52%
Chassis	13,060	47%
Other	426	2%
Total	28,063	100%

Item 3. Legal Proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. For more information on legal proceedings, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Critical Accounting Estimates – Casualty, Environmental and Legal Reserves" and Item 8. Financial Statements and Supplementary Data - Note 6 Commitments and Contingencies under the caption "Other Legal Proceedings."

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Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders in the fourth quarter of 2008.

Executive Officers of the Registrant

Executive officers of the Company are elected by the CSX Board of Directors and generally hold office until the next annual election of officers. There are no family relationships or any arrangement or understanding between any officer and any other person pursuant to which such officer was elected. As of the date of this filing, the executive officers are:

Name and Age	Business Experience During Past 5 Years
Michael J. Ward, 58 Chairman, President and Chief Executive Officer	A 31-year veteran of the Company, Ward has served as Chairman, President and Chief Executive Officer of CSX since January 2003. In 2000, he was named President of CSXT, and he was later appointed President of CSX and elected to the Board of Directors in 2002. His distinguished railroad career has included key executive positions in nearly all aspects of the Company's business, including sales and marketing, operations and finance.
Oscar Munoz, 49 Executive Vice President and Chief Financial Officer	Munoz has served as Executive Vice President and Chief Financial Officer of CSX and CSXT since May 2003 and is responsible for management and oversight of all financial, strategic planning, information technology, purchasing and real estate activities of CSX. He brings to the Company years of experience from a variety of industries. Before joining CSX in 2003, Munoz served as Chief Financial Officer and Vice President of AT&T Consumer Services. He has also held key executive positions within the telecommunication and beverage industries, including the Coca-Cola Company and Pepsico Corporation.

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Name and Age	Business Experience During Past 5 Years
Tony L. Ingram, 62 Executive Vice President and Chief Operating Officer	Ingram has served as Executive Vice President and Chief Operating Officer of CSXT since March 2004 and manages all aspects of the Company's operations across its 21,000 mile network, including transportation, service design, customer service, engineering and mechanical. Prior to joining CSXT in 2004, Ingram spent more than 30 years at Norfolk Southern where he served as Senior Vice President – Transportation, Network and Mechanical from February 2003 to March 2004 and Vice President, Transportation – Operations from March 2000 to February 2003.
Clarence W. Gooden, 57 Executive Vice President of Sales and Marketing and Chief Commercial Officer	Gooden has been the Executive Vice President and Chief Commercial Officer of CSX and CSXT since April 2004 and is responsible for generating customer revenue, forecasting business trends and developing CSX's model for future revenue growth. A member of the Company for more than 35 years, Gooden has held key executive positions in both operations and sales and marketing, including being appointed President of CSX Intermodal in 2001 and Senior Vice President of the Merchandise Service Group in 2002.
Ellen M. Fitzsimmons, 48 Senior Vice President of Law and Public Affairs, General Counsel and Corporate Secretary	Fitzsimmons has been the Senior Vice President of Law and Public Affairs, General Counsel, and Corporate Secretary since December 2003. She serves as the Company's chief legal officer and oversees all government relations and public affairs activities. During her 17-year tenure with the Company, her broad responsibilities have included key roles in major risk and corporate governance-related areas.

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Name and Age	Business Experience During Past 5 Years
Lisa A. Mancini, 49 Senior Vice President of Human Resources and Labor Relations	Mancini assumed the role of Senior Vice President of Human Resources and Labor Relations in January 2009 and is responsible for employee compensation and benefits, labor relations, organizational development and transformation, recruitment, training and various administrative activities. She previously served as Vice President-Strategic Infrastructure Initiatives from 2007 to 2009 and, prior to that, Vice President – Labor Relations. Prior to joining CSX in 2003, Mancini served as Chief Operating Officer of the San Francisco Municipal Railway and held executive positions at the San Francisco Municipal Transportation Authority and Southeastern Pennsylvania Transportation Authority.
Carolyn T. Sizemore, 45 Vice President and Controller	Sizemore has served as Vice President and Controller of CSX and CSXT since April 2002 and is responsible for financial and regulatory reporting, paying the Company's 34,000 employees, accounts payable and billing and collections for outside party expenditures along with various other accounting processes. Her responsibilities during her 19-year tenure with the Company have included roles in finance and audit-related areas including a variety of positions in accounting, finance strategies, budgets and performance analysis.

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Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

CSX's common stock is listed on the NYSE, which is its principal trading market, and is traded over-the-counter and on exchanges nationwide. The official trading symbol is "CSX."

Description of Common and Preferred Stock

A total of 600 million shares of common stock are authorized, of which 390,526,847 shares were outstanding as of December 2008. Each share is entitled to one vote in all matters requiring a vote of shareholders. There are no pre-emptive rights. At January 30, 2009, the latest practicable date, there were 40,626 common stock shareholders of record. The weighted average of common shares outstanding, which was used in the calculation of diluted earnings per share, was approximately 409 million as of December 26, 2008. (See Note 2, Earnings Per Share.)

A total of 25 million shares of preferred stock is authorized, none of which is currently outstanding.

The following table sets forth, for the quarters indicated, the dividends declared and the high and low share prices of CSX common stock as required by SEC Regulation S-K.

	Quarter				
	1st	2nd	3rd	4th	Year
2008					
Dividends	$0.15	$0.18	$0.22	$0.22	$0.77
Common Stock Price					
High	$58.10	$70.70	$69.50	$56.35	$70.70
Low	$39.87	$55.04	$50.50	$30.61	$30.61
2007					
Dividends	$0.12	$0.12	$0.15	$0.15	$0.54
Common Stock Price					
High	$42.53	$47.38	$51.88	$46.49	$51.88
Low	$33.50	$39.36	$38.09	$40.17	$33.50

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Stock Performance Graph

The cumulative shareholder returns, assuming reinvestment of dividends, on $100 invested at December 31, 2003 is illustrated on the graph below. The Company references the Standard & Poor 500 Stock Index ("S&P 500") and the Dow Jones U.S. Transportation Average Index, which provide comparisons to a broad-based market index and other companies in the transportation industry. As shown in the graph, CSX's five-year stock returns significantly outpaced those of the S&P 500.ock

* The S&P 500 is a registered trademark of the McGraw-Hill Companies, Inc.

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CSX Purchases of Equity Securities

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

In March 2008, CSX announced an increase to its share repurchase program, prospectively targeting $3 billion in shares. Since that announcement, CSX has completed its internal target of $1.25 billion in share repurchases during 2008. As a result, the company has remaining authority of $1.75 billion. Further repurchases will be dependent upon an improvement in the capital market and business conditions.

Share repurchase activity for fourth quarter 2008 was as follows:

CSX Purchases of Equity Securities
for the Quarter

Fourth 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 Fourth Quarter Balance				$2,013,000,965
October				
(September 27, 2008 - October 24, 2008)	4,776,500	$55.05	4,776,500	$1,750,065,626
November - December				
(October 25, 2008 - December 26, 2008)	-	$ -	-	$1,750,065,626
Total/Ending Balance	4,776,500	$55.05	4,776,500	$1,750,065,626

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Item 6. Selected Financial Data

Selected financial data and significant events related to the Company's financial results for the last five fiscal years are listed below.

	Fiscal Years				
(Dollars in Millions, Except Per Share Amounts)	2008	2007	2006	2005	2004
Earnings From Continuing Operations					
Operating Revenue	$11,255	$10,030	$9,566	$8,618	$8,040
Operating Expense	8,487	7,770	7,417	7,062	7,043
Operating Income	$2,768	$2,260	$2,149	$1,556	$997
Earnings from Continuing Operations	$1,365	$1,226	$1,310	$720	$418
Earnings Per Share:					
From Continuing Operations	$3.41	$2.85	$2.98	$1.67	$0.97
From Continuing Operations, Assuming Dilution	3.34	2.74	2.82	1.59	0.94
Financial Position					
Cash, Cash Equivalents and Short-term Investments	$745	$714	$900	$602	$859
Total Assets	26,288	25,534	25,129	24,232	24,605
Long-term Debt	7,512	6,470	5,362	5,093	6,248
Shareholders' Equity	8,048	8,685	8,942	7,954	6,811
Other Data Per Common Share					
Dividend Per Share	$0.77	$0.54	$0.33	$0.215	$0.20
Employees -- Annual Averages					
Rail	31,664	32,477	32,987	32,033	32,074
Other	2,699	2,966	3,018	3,076	3,833
Total	34,363	35,443	36,005	35,109	35,907

Significant Events

2008 -- Recognized an impairment loss of $166 million pre-tax, or $107 million after-tax, on investment in The Greenbrier resort.

-- Recognized a tax benefit of $18 million principally related to the settlement of federal income tax audits and certain other tax matters.

-- Recorded a non-cash adjustment to income of $30 million pre-tax, or $19 million after-tax, to correct equity earnings from a non-consolidated subsidiary.

2007 --

Recognized gains of $27 million pre-tax, or $17 million after-tax, on insurance recoveries from claims related to Hurricane Katrina. (See Note 13, Hurricane Katrina.)

2006 -- Two-for-one split of the Company's common stock effective 2006. All periods have been retroactively restated to reflect the stock split.

-- Recognized gains of $168 million pre-tax, or $104 million after-tax, on insurance recoveries from claims related to Hurricane Katrina. (See Note 13, Hurricane Katrina.)

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Significant events, continued:

--Recognized an income tax benefit of $151 million primarily related to the resolution of certain tax matters, including resolution of ordinary course federal income tax audits for 1994 – 1998.

-- Recognized a $26 million after-tax non-cash gain on additional Conrail property received.

2005--Recognized a charge of $192 million pre-tax, or $123 million after-tax, to repurchase $1.0 billion of outstanding debt, for costs of the increase in current market value above original issue value. (See Note 8, Debt and Credit Agreements.)

--Recognized an income tax benefit of $71 million for the Ohio legislative change to gradually eliminate its corporate franchise tax.

2004--Recognized a charge of $71 million pre-tax, or $44 million after-tax, for separation expenses related to management restructuring.

-- Recognized a $16 million after-tax non-cash gain on the Conrail spin-off transaction.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

STRATEGIC OVERVIEW

The Company provides customers with access to an expansive and interconnected transportation network that links ports, production facilities and distribution centers to markets in the Northeast, Midwest and southern states. The Company serves major markets in the eastern United States and has direct access to all Atlantic and Gulf Coast ports, as well as the Mississippi River, the Great Lakes and the St. Lawrence Seaway. The Company also has access to Pacific ports through alliances with western railroads. Overall, the CSXT transportation network encompasses approximately 21,000 route miles of track in 23 states, the District of Columbia and the Canadian provinces of Ontario and Quebec.

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

The Company’s transportation network serves some of the largest population centers in the nation. More than two-thirds of Americans live within the Company’s service territory, accounting for about three-quarters of the nation’s consumption. With a mix of pricing, productivity gains, and prudent investment in train network and rail efficiency, the Company will position itself to take full advantage of an eventual economic recovery.

Over the past five years, the Company has made substantial strides in improving operating performance. In 2004, CSXT implemented the ONE Plan, which is being updated to drive greater network efficiencies. The Company also continues to advance its Total Service Integration (“TSI”) initiative, which aims to better align the Company’s capabilities with customer demands. TSI aims to optimize train size and increase asset utilization while delivering more reliable service to customers. Increases in train size reduce the overall number of shipments resulting in less network congestion and idle time for locomotives and reduce loading and unloading time for customers. These efforts combined with other efficiencies have resulted in substantial improvements in the Company’s operating income, operating ratio/margin and free cash flow.

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In 2008, the Company launched the National Gateway, a multi-million dollar public-private infrastructure initiative to create a more efficient freight transportation link between the Mid-Atlantic ports and the Midwest. When completed, the National Gateway will provide greater capacity for product shipments in and out of the Midwest, reduce truck traffic on already crowded highways and create new jobs.

The global recession that intensified in late 2008 will continue to impact CSX's business in 2009, and rail volume will be lower for the year. Beginning in late December, the Company began taking aggressive actions to manage costs and right-size resources to match demand conditions. The Company has made adjustments to the ONE Plan to reduce the size of its scheduled train network in order to conserve resources. As a result, the Company has begun furloughing employees (which is a temporary layoff) who will return to work when business conditions improve. Additionally, the Company has reduced the number of active locomotives on its network and has placed older locomotives in storage to reduce maintenance costs. The Company will continue to modify the ONE Plan and adjust resources accordingly in order to seek to maximize efficiencies in the current business environment.

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2008 HIGHLIGHTS

- Revenue grew $1.2 billion or 12% to $11.3 billion.
- Expenses increased $717 million or 9% to $8.5 billion.
- Operating income increased $508 million or 22% to $2.8 billion.
- Service and safety measurements remained strong.

Despite a challenging economy in the later part of 2008, CSX delivered solid financial results. Revenue and revenue per unit increased 12% and 17%, respectively, from a year ago reflecting yield management initiatives and higher fuel recovery due to higher fuel prices during most of the year. Under CSXT's fuel surcharge program, CSXT bills the customer on a two month lag for fuel. This lag creates higher fuel recovery in a period when fuel prices are declining. Conversely, this lag creates lower fuel recovery in a period when fuel prices are increasing.

These positive results in revenue were achieved despite volume declines in three of the Company's four lines of business. The overall 4% volume decrease versus last year was primarily driven by continued weakness in the merchandise market relating to housing construction and associated markets as well as declines in automotive production.

For additional information, refer to Rail and Intermodal Results of Operations discussed on pages 38 through 40.

Throughout 2008, the Company continued its focus on safety and operating performance. Leadership and high levels of employee commitment to the Company's safety programs delivered solid improvement in both FRA personal injury and train accident frequencies. Personal injury frequency improved to a record 1.14, a 7% improvement compared to 2007. FRA train accident frequency fell to 2.68, an 11% improvement versus the prior year.

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

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Key service metrics remained at historically high levels in 2008. On-time train originations and arrivals, 79% and 70% respectively, were identical over both years. Average dwell rose slightly to 23.3 hours, primarily due to lower demand levels and resulting surpluses in certain equipment types. Average train velocity declined 1%, although the network remained fluid. Cars-on-line rose slightly with cars counts increasing 1%. The Company aims to improve key operating measures to achieve increased efficiency and higher levels of service reliability.

RAIL OPERATING STATISTICS (Estimated)		Fiscal Years		Improvement/
		2008	2007	(Decline) %
Service Measurements	FRA Personal Injuries Frequency Index	1.14	1.23	7%
	FRA Train Accident Rate	2.68	3.01	11
	On-Time Train Originations	79%	79%	-
	On-Time Destination Arrivals	70%	70%	-
	Dwell	23.3	23.2	-
	Cars-On-Line	223,574	221,943	(1)
	System Train Velocity	20.5	20.8	(1)
				Increase/ (Decrease)
Resources	Route Miles	21,205	21,227	-%
	Locomotives (owned and long-term leased)	4,143	4,007	3
	Freight Cars (owned and long-term leased)	91,350	94,364	(3)%

Key Performance Measures Definitions

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

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

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

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

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

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

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

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In addition to producing sound financial, safety and service results, CSX continued to focus on investing in its business and creating long-term value for shareholders during 2008. The company has taken a balanced approach in deploying its capital through strategic investment, share repurchases and increased dividends for the benefit of shareholders.

Capital expenditures of $1.7 billion in 2008 were slightly lower than prior year. The Company remains committed to maintaining and improving its existing infrastructure and to positioning itself for long-term growth through expanding network and terminal capacity. As described below, free cash flow before dividends increased $845 million to $1.2 billion. This increase was primarily driven by increased cash from operations which were a result of higher earnings.

CSX also steadily increased the quarterly dividend in 2008. First, CSX increased its quarterly dividend from $0.15 to $0.18 during the second quarter of 2008. It then increased the dividend again during the third quarter of 2008 to $0.22, which represented a 47% increase from the quarterly dividend level at fourth quarter 2007. Additionally, CSX completed $1.25 billion of its $3 billion share repurchase program announced during 2008. See Note 1, Nature of Operations and Significant Accounting Policies.

Non-GAAP Reconciliation

Free cash flow is considered a non-GAAP financial measure under SEC Regulation G, Disclosure of Non-GAAP Measures. Management believes, however, that free cash flow is important in evaluating the Company's financial performance and measures an ability to generate cash without incurring additional external financing. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities.

Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities. Also, added to free cash flow is the Company's 42% economic interest in Conrail's free cash flow which is not consolidated in CSX amounts.

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure).

	Fiscal Years		
	2008	2007	Change
(Dollars in Millions)			
Net cash provided by operating activities	$2,914	$2,184	$730
Property additions	(1,740)	(1,773)	33
Other investing activities	36	(41)	77
Conrail free cash flow	11	6	5
Free Cash Flow (before payment of dividends)	$1,221	$376	$845

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FORWARD-LOOKING STATEMENTS

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

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

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

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

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, including the outcome of tax claims and litigation, the potential enactment of initiatives to re-regulate the rail industry and the ultimate outcome of shipper and rate claims subject to adjudication;

- the outcome of litigation and claims, including, but not limited to, those related to fuel surcharge, environmental contamination, personal injuries and occupational illnesses;

- material changes in domestic or international economic or business conditions, including those affecting the transportation industry such as access to capital markets, ability to revise debt arrangements as contemplated, customer demand, customer acceptance of price increases, effects of adverse economic conditions affecting shippers and adverse economic conditions in the industries and geographic areas that consume and produce freight;

- worsening conditions in the financial markets that may affect timely access to capital markets, as well as the cost of capital;

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

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

- the impact of increased passenger activities in capacity-constrained areas or regulatory changes affecting when CSXT can transport freight or service routes;

- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company’s employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company’s operations, systems, property or equipment;

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- noncompliance with applicable laws or regulations;

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

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

- the Company’s success in implementing its strategic plans and operational objectives and improving operating efficiency; and

- changes in operating conditions and costs or commodity concentrations.

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

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FINANCIAL RESULTS OF OPERATIONS

2008 vs. 2007 Results of Operations

(Dollars in Millions)
Fiscal Year

	Rail (b)		Intermodal		CSX Consolidated (a)			
	2008	2007	2008	2007	2008	2007	$ Change	% Change
Revenue	$9,789	$8,674	$1,466	$1,356	$11,255	$10,030	$1,225	12%
Operating Expense:								
Labor and Fringe	2,879	2,905	76	81	2,955	2,986	31	(1)
Materials, Supplies and Other (a)	1,933	1,747	200	178	2,133	1,925	(208)	11
Fuel (a)	1,810	1,307	7	5	1,817	1,312	(505)	38
Depreciation	879	849	25	34	904	883	(21)	2
Equipment and Other Rents	317	341	108	110	425	451	26	(6)
Inland Transportation	(507)	(448)	760	688	253	240	(13)	5
Gain on Insurance Recoveries	-	(27)	-	-	-	(27)	(27)	(100)
Total Expense	7,311	6,674	1,176	1,096	8,487	7,770	(717)	9
Operating Income	$2,478	$2,000	$290	$260	$2,768	$2,260	$508	22