

CSX CORP  
Form 10-Q  
July 21, 2011  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

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)

No Change

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

There were 1,095,281,506 shares of common stock outstanding on July 1, 2011 (the latest practicable date that is closest to the filing date).

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CSX CORPORATION  
 FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED JULY 1, 2011  
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## CSX CORPORATION

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

|   | Second Quarters |         | Six Months |         |
|---|-----------------|---------|------------|---------|
|   | 2011            | 2010    | 2011       | 2010    |
| Revenue   | \$3,019         | \$2,663 | \$5,829    | \$5,154 |
| Expense   |                 |         |            |         |
| Labor and Fringe  | 764             | 721     | 1,529      | 1,450   |
| Materials, Supplies and Other                               | 557             | 551     | 1,087      | 1,070   |
| Fuel  | 431             | 304     | 833        | 587     |
| Depreciation  | 246             | 230     | 489        | 458     |
| Equipment and Other Rents                                   | 95              | 89      | 192        | 189     |
| Total Expense   | 2,093           | 1,895   | 4,130      | 3,754   |
| Operating Income  | 926             | 768     | 1,699      | 1,400   |
| Interest Expense  | (134            | )(135   | )(274      | )(277   |
| Other Income - Net (Note 8)                                 | —               | 9       | 5          | 20      |
| Earnings Before Income Taxes                                | 792             | 642     | 1,430      | 1,143   |
| Income Tax Expense (Note 9)                                 | (286            | )(228   | )(529      | )(424   |
| Net Earnings  | \$506           | \$414   | \$901      | \$719   |
| Per Common Share (Note 2)                                   |                 |         |            |         |
| Net Earnings Per Share, Basic                               | \$0.46          | \$0.36  | \$0.81     | \$0.62  |
| Net Earnings Per Share, Assuming Dilution                   | \$0.46          | \$0.36  | \$0.81     | \$0.61  |
| Average Shares Outstanding (In millions)                    | 1,102           | 1,149   | 1,105      | 1,161   |
| Average Shares Outstanding, Assuming Dilution (In millions) | 1,109           | 1,159   | 1,112      | 1,171   |
| Cash Dividends Paid Per Common Share                        | \$0.12          | \$0.08  | \$0.21     | \$0.16  |

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

See accompanying notes to consolidated financial statements.

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## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

|   | (Unaudited)     |                      |
|---|-----------------|----------------------|
|   | July 1,<br>2011 | December 31,<br>2010 |
| <b>ASSETS</b>                                       |                 |                      |
| Current Assets                                      |                 |                      |
| Cash and Cash Equivalents                           | \$1,252         | \$1,292              |
| Short-term Investments                              | 43              | 54                   |
| Accounts Receivable - Net (Note 1)                  | 1,112           | 993                  |
| Materials and Supplies                              | 251             | 218                  |
| Deferred Income Taxes                               | 186             | 192                  |
| Other Current Assets                                | 123             | 106                  |
| Total Current Assets                                | 2,967           | 2,855                |
| Properties  | 32,777          | 32,065               |
| Accumulated Depreciation                            | (8,575)         | )(8,266              |
| Properties - Net                                    | 24,202          | 23,799               |
| Investment in Conrail                               | 681             | 673                  |
| Affiliates and Other Companies                      | 477             | 461                  |
| Other Long-term Assets                              | 378             | 353                  |
| Total Assets  | \$28,705        | \$28,141             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                 |                      |
| Current Liabilities                                 |                 |                      |
| Accounts Payable                                    | \$1,076         | \$1,046              |
| Labor and Fringe Benefits Payable                   | 430             | 520                  |
| Casualty, Environmental and Other Reserves (Note 4) | 180             | 176                  |
| Current Maturities of Long-term Debt (Note 7)       | 494             | 613                  |
| Income and Other Taxes Payable                      | 137             | 85                   |
| Other Current Liabilities                           | 168             | 97                   |
| Total Current Liabilities                           | 2,485           | 2,537                |
| Casualty, Environmental and Other Reserves (Note 4) | 468             | 502                  |
| Long-term Debt (Note 7)                             | 8,186           | 8,051                |
| Deferred Income Taxes                               | 7,340           | 7,053                |
| Other Long-term Liabilities                         | 1,285           | 1,298                |
| Total Liabilities                                   | 19,764          | 19,441               |
| Common Stock \$1 Par Value                          | 1,095           | 370                  |
| Other Capital (Note 1)                              | —               | —                    |
| Retained Earnings                                   | 8,582           | 9,087                |
| Accumulated Other Comprehensive Loss (Note 1)       | (747            | )(771                |

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|  |          |          |
|--|----------|----------|
| Noncontrolling Interest                    | 11       | 14       |
| Total Shareholders' Equity                 | 8,941    | 8,700    |
| Total Liabilities and Shareholders' Equity | \$28,705 | \$28,141 |

See accompanying notes to consolidated financial statements.

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## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

|   | Six Months<br>2011 | 2010   |   |
|---|--------------------|--------|---|
| <b>OPERATING ACTIVITIES</b>   |                    |        |   |
| Net Earnings  | \$901              | \$719  |   |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities: |                    |        |   |
| Depreciation  | 489                | 458    |   |
| Deferred Income Taxes   | 280                | 79     |   |
| Other Operating Activities  | (10)               | )79    |   |
| Changes in Operating Assets and Liabilities:  |                    |        |   |
| Accounts Receivable   | (119)              | )57    |   |
| Other Current Assets  | (64)               | )52    | ) |
| Accounts Payable  | 35                 | (34)   | ) |
| Income and Other Taxes Payable  | 76                 | 94     |   |
| Other Current Liabilities   | (1)                | )22    |   |
| Net Cash Provided by Operating Activities   | 1,587              | 1,422  |   |
| <b>INVESTING ACTIVITIES</b>   |                    |        |   |
| Property Additions  | (947)              | )687   | ) |
| Other Investing Activities  | 16                 | 68     |   |
| Net Cash Used in Investing Activities   | (931)              | )619   | ) |
| <b>FINANCING ACTIVITIES</b>   |                    |        |   |
| Long-term Debt Issued (Note 7)  | 600                | —      |   |
| Long-term Debt Repaid (Note 7)  | (570)              | )71    | ) |
| Dividends Paid  | (228)              | )184   | ) |
| Stock Options Exercised (Note 3)  | 24                 | 16     |   |
| Shares Repurchased  | (528)              | )823   | ) |
| Other Financing Activities  | 6                  | (137)  | ) |
| Net Cash Used in Financing Activities   | (696)              | )1,199 | ) |
| Net Decrease in Cash and Cash Equivalents   | (40)               | )396   | ) |
| <b>CASH AND CASH EQUIVALENTS</b>  |                    |        |   |
| Cash and Cash Equivalents at Beginning of Period                                    | 1,292              | 1,029  |   |
| Cash and Cash Equivalents at End of Period  | \$1,252            | \$633  |   |

See accompanying notes to consolidated financial statements.

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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

CSX's principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Company's intermodal business links customers to railroads via trucks and terminals.

Other entities

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

CSX's other holdings include CSX Real Property, Inc., a subsidiary responsible for the Company's real estate sales, leasing, acquisition and management and development activities. These activities are classified in other income - net because they are not considered to be operating activities by the Company. Results of these activities fluctuate with the timing of non-operating real estate transactions.

Basis of Presentation

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

- Consolidated income statements for the quarter and six months ended July 1, 2011 and June 25, 2010;
- Consolidated balance sheets at July 1, 2011 and December 31, 2010; and
- Consolidated cash flow statements for the six months ended July 1, 2011 and June 25, 2010.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent annual report on Form 10-K and any current reports on Form 8-K.

Fiscal Year

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

• The second fiscal quarter of 2011 and 2010 consisted of 13 weeks ending on July 1, 2011 and June 25, 2010, respectively.

• The six month periods of 2011 and 2010 consisted of 26 weeks ending on July 1, 2011 and June 25, 2010, respectively.

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

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

Except as otherwise specified, references to “second quarter(s)” or “six months” indicate CSX's fiscal periods ending July 1, 2011 and June 25, 2010, and references to year-end indicate the fiscal year ended December 31, 2010.

Comprehensive Earnings

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the Accounting Standards Codification (“ASC”) in the Consolidated Statement of Changes in Shareholders' Equity. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g., issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$519 million and \$424 million for second quarters 2011 and 2010, respectively, and \$925 million and \$741 million for six months 2011 and 2010, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss (“AOCI”) represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement adjustments and reduced overall equity by \$747 million and \$771 million as of the end of second quarter 2011 and December 2010, respectively.

Beginning in first quarter 2012, the Comprehensive Income Topic in the ASC will require comprehensive income to be presented in a single continuous statement following net income or in two consecutive statements reporting net income and other comprehensive income. See the New Accounting Pronouncements section of Note 1, Nature of Operations and Significant Accounting Policies for further information.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$43 million and \$38 million is included in the consolidated balance sheets as of the end of second quarter 2011 and December 2010, respectively.

New Accounting Pronouncements

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

Other Items

Stock Split

In May 2011, CSX announced a three-for-one split of its common stock. All shareholders of record on May 31, 2011 received two additional shares of CSX common stock that were distributed on June 15, 2011. See Note 2, Earnings Per Share.

Dividend Increase and Share Repurchases

During the quarter, the Company increased its quarterly cash dividend 38% to \$0.12 per share on a post-split basis. In addition, CSX announced a new \$2 billion share repurchase program expected to be completed by the end of 2012.

Other Capital

During second quarter 2011, CSX's other capital balance was reduced to zero as a result of share repurchases and the stock split. In accordance with the Equity Topic in the ASC, other capital cannot be negative. Therefore, a reclassification of \$929 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.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share

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

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

|   | Second Quarters |        | Six Months |        |
|---|-----------------|--------|------------|--------|
|   | 2011            | 2010   | 2011       | 2010   |
| Numerator (Dollars in millions):                        |                 |        |            |        |
| Net Earnings  | \$506           | \$414  | \$901      | \$719  |
| Denominator (Units in millions):                        |                 |        |            |        |
| Average Common Shares Outstanding                       | 1,102           | 1,149  | 1,105      | 1,161  |
| Other Potentially Dilutive Common Shares <sup>(a)</sup> | 7               | 10     | 7          | 10     |
| Average Common Shares Outstanding, Assuming Dilution    | 1,109           | 1,159  | 1,112      | 1,171  |
| Net Earnings Per Share, Basic                           | \$0.46          | \$0.36 | \$0.81     | \$0.62 |
| Net Earnings Per Share, Assuming Dilution               | \$0.46          | \$0.36 | \$0.81     | \$0.61 |

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

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

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

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

Other potentially dilutive common shares include convertible debt, stock options, stock option common stock equivalents and performance units granted under a management incentive compensation plan. 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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share, continued

As a result, diluted shares outstanding are not impacted when debentures are converted into CSX common stock because those shares were already included in the diluted shares calculation. Shares outstanding for basic earnings per share, however, are impacted on a weighted-average basis when conversions occur. During second quarters 2011 and 2010, approximately \$5 million and \$200 thousand of face value of convertible debentures were converted into 178 thousand and 7 thousand shares of CSX common stock, respectively. As of the end of the second quarter 2011, approximately \$5 million of convertible debentures at face value remained outstanding, which are convertible into approximately 542 thousand shares of CSX common stock.

## NOTE 3. Share-Based Compensation

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

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

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

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

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

| (Dollars in millions)            | Second Quarters |      | Six Months |      |
|----------------------------------|-----------------|------|------------|------|
|                                  | 2011            | 2010 | 2011       | 2010 |
| Share-Based Compensation Expense | \$11            | \$9  | \$22       | \$32 |
| Income Tax Benefit               | 4               | 3    | 8          | 12   |





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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 3. Share-Based Compensation, continued

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

| (In thousands)                    | Second Quarters |       | Six Months |       |
|-----------------------------------|-----------------|-------|------------|-------|
|                                   | 2011            | 2010  | 2011       | 2010  |
| Number of Stock Options Exercised | 675             | 1,662 | 3,954      | 2,739 |
| Number of Stock Options Expired   | 21              | —     | 21         | —     |

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

## NOTE 4. Casualty, Environmental and Other Reserves

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

| (Dollars in millions) | July 1, 2011 |           |       | December 31, 2010 |           |       |
|-----------------------|--------------|-----------|-------|-------------------|-----------|-------|
|                       | Current      | Long-term | Total | Current           | Long-term | Total |
| Casualty:             |              |           |       |                   |           |       |
| Personal Injury       | \$78         | \$178     | \$256 | \$78              | \$176     | \$254 |
| Occupational          | 10           | 32        | 42    | 10                | 30        | 40    |
| Asbestos              | 9            | 61        | 70    | 9                 | 72        | 81    |
| Total Casualty        | 97           | 271       | 368   | 97                | 278       | 375   |
| Separation            | 16           | 38        | 54    | 16                | 44        | 60    |
| Environmental         | 37           | 56        | 93    | 37                | 70        | 107   |
| Other                 | 30           | 103       | 133   | 26                | 110       | 136   |
| Total                 | \$180        | \$468     | \$648 | \$176             | \$502     | \$678 |

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 Company's financial condition, results of operations or liquidity in that particular period.

## Casualty

Casualty reserves represent accruals for personal injury, occupational injury claims and asbestos. During 2010 the Company increased its self-insured retention amount for these claims from \$25 million to \$50 million per injury for claims occurring on or after June 1, 2010. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount; the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well

as changes in independent third-party estimates, which are reviewed by management. 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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Personal Injury

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

CSXT retains an independent actuarial firm to assist management in assessing the value of personal injury claims. An analysis is performed by the independent actuarial firm quarterly and is reviewed by management. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims. It is based largely on CSXT's historical claims and settlement experience. 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 & Asbestos

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

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

Asbestos claims are reviewed quarterly by management, and analyzed annually by a third party expert. The methodology used includes estimates of future anticipated incurred but not reported claims based on the Company's trends in average historical claim filing rates, future anticipated dismissal rates and future settlement rates. For both occupational and asbestos, actual claims may vary from these estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation.

Separation

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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 258 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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

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

Based on the review process, the Company has recorded amounts to cover anticipated contingent future environmental remediation costs with respect to each site to the extent such costs are estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. Payments related to these liabilities are expected to be made over the next several years. Environmental remediation costs are included in materials, supplies and other on the consolidated income statement.

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



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Other

Other reserves include liabilities for various claims, such as longshoremen disability claims, 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 property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the liability and property programs. The Company has a \$25 million retention per occurrence for the non-catastrophic property program and a \$50 million retention per occurrence for the liability and catastrophic property programs.

While the Company'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.

Legal Proceedings

For information related to the Company's legal proceedings, see Item 1, Legal proceedings in Part II of this quarterly report on Form 10-Q.

NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. The plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired after December 31, 2002, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pays credits based upon age, service and compensation. In addition to these plans, the Company sponsors a self-insured post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Prior to 2011, the post-retirement medical plan was partially funded by all participating retirees, with retiree contributions adjusted annually. Beginning in 2011, Medicare-eligible retirees will be covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Non-Medicare eligible retirees will continue to be covered by the existing self-insured program. The life insurance plan is non-contributory.

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 6. Employee Benefit Plans, continued

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

| (Dollars in millions)              | Pension Benefits |       |            |       |   |
|------------------------------------|------------------|-------|------------|-------|---|
|                                    | Second Quarters  |       | Six Months |       |   |
|                                    | 2011             | 2010  | 2011       | 2010  |   |
| Service Cost                       | \$10             | \$11  | \$20       | \$21  |   |
| Interest Cost                      | 30               | 30    | 60         | 61    |   |
| Expected Return on Plan Assets     | (40              | ) (41 | ) (79      | ) (82 | ) |
| Amortization of Net Loss           | 18               | 14    | 36         | 29    |   |
| Amortization of Prior Service Cost | —                | (1    | ) —        | —     |   |
| Total Expense                      | \$18             | \$13  | \$37       | \$29  |   |

| (Dollars in millions)              | Other Post-retirement Benefits |      |            |      |
|------------------------------------|--------------------------------|------|------------|------|
|                                    | Second Quarters                |      | Six Months |      |
|                                    | 2011                           | 2010 | 2011       | 2010 |
| Service Cost                       | \$1                            | \$1  | \$2        | \$2  |
| Interest Cost                      | 3                              | 4    | 6          | 9    |
| Amortization of Net Loss           | 2                              | 2    | 3          | 4    |
| Amortization of Prior Service Cost | (1                             | ) —  | (1         | ) —  |
| Total Expense                      | \$5                            | \$7  | \$10       | \$15 |

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

## NOTE 7. Debt and Credit Agreements

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

| (Dollars in millions)                               | Current Portion | Long-term Portion | Total   |   |
|---|-----------------|-------------------|---------|---|
| Long-term debt as of December 2010                  | \$613           | \$8,051           | \$8,664 |   |
| 2011 activity:                                      |                 |                   |         |   |
| Long-term debt issued                               | —               | 600               | 600     |   |
| Long-term debt repaid                               | (570            | ) —               | (570    | ) |
| Reclassifications                                   | 456             | (456              | ) —     |   |
| Debt conversions to CSX stock                       | (5              | ) —               | (5      | ) |
| Discount and premium activity                       | —               | (9                | ) (9    | ) |
| Long-term debt as of the end of second quarter 2011 | \$494           | \$8,186           | \$8,680 |   |

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



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 7. Debt and Credit Agreements, continued

## Debt Issuance

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

## Revolving Credit Facility

CSX has a \$1.25 billion unsecured revolving credit facility with a syndicate of banks. With the approval of the lending banks, CSX may increase its total borrowing capacity under the \$1.25 billion facility by \$500 million, or up to \$1.75 billion. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. As of the end of second quarter 2011, this facility was not drawn on, and CSX was in compliance with all covenant requirements under the facility. The current facility expires in May 2012 and the Company plans to renew or replace this facility prior to its expiration.

## Receivables Securitization Facility

During the quarter, the Company renewed its \$250 million receivables securitization facility through June 2012. This facility has a 364-day term. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility. Under the terms of this facility, CSX Transportation transfers 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. Other income - net consisted of the following:

| (Dollars in millions)          | Second Quarters |      | Six Months |      |
|--------------------------------|-----------------|------|------------|------|
|                                | 2011            | 2010 | 2011       | 2010 |
| Interest Income                | \$1             | \$2  | \$2        | \$3  |
| Income from Real Estate        | 5               | 8    | 8          | 15   |
| Miscellaneous Income (Expense) | (6)             | )(1  | ) (5       | )2   |
| Total Other Income - Net       | \$—             | \$9  | \$5        | \$20 |



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 9. Income Taxes

During the second quarter of 2011, several state legislative changes resulted in the recognition of a net income tax benefit of \$14 million, or \$0.01 per share. This benefit is primarily attributable to Indiana legislation reducing the corporate income tax rate.

During the second quarter of 2010, the Joint Committee of Taxation, which is a committee of the United States Congress, approved the refund related to the resolution of the 2004-2006 federal income tax audit. The final issue for this audit cycle related to a dispute over the value of the donation of appreciated property. The Company recorded a net tax and interest benefit of \$15 million, or \$0.01 per share, primarily related to the resolution of this audit in the second quarter of 2010.

There have been no material changes to the balance of unrecognized tax benefits during second quarter 2011.

NOTE 10. Fair Value Measurements

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

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

Level 1 - observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets

Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)

Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The valuation methods described below may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Fair Value Measurements, continued

## Investments

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

| (Dollars in millions) | July 1,<br>2011 | December 31, 2010 |
|-----------------------|-----------------|-------------------|
| Fair Value            | \$151           | \$123             |
| Amortized Cost        | \$150           | \$121             |

These investments have the following maturities:

| (Dollars in millions)      | July 1,<br>2011 | December 31, 2010 |
|----------------------------|-----------------|-------------------|
| Less than 1 year           | \$30            | \$44              |
| 1 - 2 years <sup>(a)</sup> | 59              | 45                |
| 2 - 5 years <sup>(a)</sup> | 62              | 31                |
| Greater than 5 years       | —               | 3                 |
| Total                      | \$151           | \$123             |

<sup>(a)</sup> The 1-2 year category and the 2-5 year category include callable bonds of approximately \$5 million for both 2011 and 2010, which are classified as short-term investments on the consolidated balance sheet.

## Long-term Debt

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

The fair value of outstanding debt fluctuates with changes in a number of factors. Such factors include, but are not limited to, interest rates, market conditions, values of similar financial instruments, size of the transaction, cash flow projections and comparable trades. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value of a company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Fair Value Measurements, continued

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

| (Dollars in millions)    | July 1,<br>2011 | December<br>31, 2010 |
|--------------------------|-----------------|----------------------|
| Long-term Debt Including |                 |                      |
| Current Maturities:      |                 |                      |
| Fair Value               | \$9,632         | \$9,624              |
| Carrying Value           | \$8,680         | \$8,664              |

## NOTE 11. Summarized Consolidating Financial Data

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

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

| Second Quarter 2011                | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|------------------------------------|--------------------|-----------------------|---------------------------|--------------|
| Revenue                            | \$—                | \$3,003               | \$16                      | \$3,019      |
| Expense                            | (67)               | )2,222                | (62)                      | )2,093       |
| Operating Income                   | 67                 | 781                   | 78                        | 926          |
| Equity in Earnings of Subsidiaries | 540                | 2                     | (542)                     | )—           |
| Interest (Expense) / Benefit       | (121)              | )22                   | )9                        | (134)        |
| Other Income - Net                 | 4                  | —                     | (4)                       | )—           |
| Earnings Before Income Taxes       | 490                | 761                   | (459)                     | )792         |
| Income Tax (Expense) / Benefit     | 16                 | (275)                 | )27                       | )286         |
| Net Earnings                       | \$506              | \$486                 | \$(486)                   | )\$506       |
| Second Quarter 2010                | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
| Revenue                            | \$—                | \$2,337               | \$326                     | \$2,663      |
| Expense                            | (46)               | )1,672                | 269                       | 1,895        |
| Operating Income                   | 46                 | 665                   | 57                        | 768          |
| Equity in Earnings of Subsidiaries | 492                | —                     | (492)                     | )—           |
| Interest (Expense) / Benefit       | (122)              | )27                   | )14                       | (135)        |
| Other Income - Net                 | 4                  | 20                    | (15)                      | )9           |
| Earnings Before Income Taxes       | 420                | 658                   | (436)                     | )642         |
| Income Tax (Expense) / Benefit     | (6)                | )236                  | )14                       | (228)        |
| Net Earnings                       | \$414              | \$422                 | \$(422)                   | )\$414       |

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

| Six Months Ended July 1, 2011      | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|------------------------------------|--------------------|-----------------------|---------------------------|--------------|
| Revenue                            | \$—                | \$5,797               | \$32                      | \$5,829      |
| Expense                            | (133)              | )4,364                | (101)                     | )4,130       |
| Operating Income                   | 133                | 1,433                 | 133                       | 1,699        |
| Equity in Earnings of Subsidiaries | 972                | 3                     | (975)                     | )—           |
| Interest (Expense) / Benefit       | (247)              | ) (45)                | ) 18                      | (274 )       |
| Other Income - Net                 | 8                  | 2                     | (5)                       | ) 5          |
| Earnings Before Income Taxes       | 866                | 1,393                 | (829)                     | ) 1,430      |
| Income Tax (Expense) / Benefit     | 35                 | (516)                 | ) (48)                    | ) (529 )     |
| Net Earnings                       | \$901              | \$877                 | \$(877)                   | ) \$901      |
| Six Months Ended June 25, 2010     | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
| Revenue                            | \$—                | \$4,489               | \$665                     | \$5,154      |
| Expense                            | (83)               | )3,279                | 558                       | 3,754        |
| Operating Income                   | 83                 | 1,210                 | 107                       | 1,400        |
| Equity in Earnings of Subsidiaries | 889                | —                     | (889)                     | )—           |
| Interest (Expense) / Benefit       | (248)              | ) (55)                | ) 26                      | (277 )       |
| Other Income - Net                 | 10                 | 38                    | (28)                      | ) 20         |
| Earnings Before Income Taxes       | 734                | 1,193                 | (784)                     | ) 1,143      |
| Income Tax (Expense) / Benefit     | (15)               | ) (445)               | ) 36                      | (424 )       |
| Net Earnings                       | \$719              | \$748                 | \$(748)                   | ) \$719      |

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

| As of July 1, 2011                          | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|---|--------------------|-----------------------|---------------------------|--------------|
| <b>ASSETS</b>                               |                    |                       |                           |              |
| Current Assets                              |                    |                       |                           |              |
| Cash and Cash Equivalents                   | \$988              | \$190                 | \$74                      | \$1,252      |
| Short-term Investments                      | —                  | —                     | 43                        | 43           |
| Accounts Receivable - Net                   | 5                  | 428                   | 679                       | 1,112        |
| Receivable from Affiliates                  | 1,158              | 1,443                 | (2,601)                   | )—           |
| Materials and Supplies                      | —                  | 251                   | —                         | 251          |
| Deferred Income Taxes                       | —                  | 181                   | 5                         | 186          |
| Other Current Assets                        | 76                 | 67                    | (20)                      | )123         |
| Total Current Assets                        | 2,227              | 2,560                 | (1,820)                   | )2,967       |
| Properties                                  | 8                  | 31,206                | 1,563                     | 32,777       |
| Accumulated Depreciation                    | (8                 | )(7,683               | )(884                     | )(8,575      |
| Properties - Net                            | —                  | 23,523                | 679                       | 24,202       |
| Investments in Conrail                      | —                  | —                     | 681                       | 681          |
| Affiliates and Other Companies              | —                  | 558                   | (81                       | )477         |
| Investments in Consolidated Subsidiaries    | 16,926             | —                     | (16,926                   | )—           |
| Other Long-term Assets                      | 167                | 108                   | 103                       | 378          |
| Total Assets                                | \$19,320           | \$26,749              | \$(17,364                 | )\$28,705    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                    |                       |                           |              |
| Current Liabilities                         |                    |                       |                           |              |
| Accounts Payable                            | \$107              | \$938                 | \$31                      | \$1,076      |
| Labor and Fringe Benefits Payable           | 34                 | 373                   | 23                        | 430          |
| Payable to Affiliates                       | 2,251              | 568                   | (2,819                    | )—           |
| Casualty, Environmental and Other Reserves  | —                  | 165                   | 15                        | 180          |
| Current Maturities of Long-term Debt        | 405                | 87                    | 2                         | 494          |
| Income and Other Taxes Payable              | 465                | 126                   | (454                      | )137         |
| Other Current Liabilities                   | —                  | 167                   | 1                         | 168          |
| Total Current Liabilities                   | 3,262              | 2,424                 | (3,201                    | )2,485       |
| Casualty, Environmental and Other Reserves  | —                  | 383                   | 85                        | 468          |
| Long-term Debt                              | 7,008              | 1,178                 | —                         | 8,186        |
| Deferred Income Taxes                       | (572               | )(7,485               | 427                       | 7,340        |
| Other Long-term Liabilities                 | 693                | 515                   | 77                        | 1,285        |
| Total Liabilities                           | \$10,391           | \$11,985              | \$(2,612                  | )\$19,764    |



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|  |           |           |           |             |   |
|--|-----------|-----------|-----------|-------------|---|
| Shareholders' Equity                       |           |           |           |             |   |
| Common Stock, \$1 Par Value                | 1,095     | 181       | (181      | ) 1,095     |   |
| Other Capital                              | —         | 5,648     | (5,648    | )—          |   |
| Retained Earnings                          | 8,582     | 8,980     | (8,980    | ) 8,582     |   |
| Accumulated Other Comprehensive Loss       | (748      | )(64      | ) 65      | (747        | ) |
| Noncontrolling Interest                    | —         | 19        | (8        | ) 11        |   |
| Total Shareholders' Equity                 | 8,929     | 14,764    | (14,752   | ) 8,941     |   |
| Total Liabilities and Shareholders' Equity | \$ 19,320 | \$ 26,749 | \$(17,364 | ) \$ 28,705 |   |

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

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

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

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

| Six months ended July 1, 2011                       | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|---|--------------------|-----------------------|---------------------------|--------------|
| Operating Activities                                |                    |                       |                           |              |
| Net Cash Provided by (Used in) Operating Activities | \$300              | \$1,662               | \$(375)                   | )\$1,587     |
| Investing Activities                                |                    |                       |                           |              |
| Property Additions                                  | —                  | (866)                 | )(81)                     | )(947)       |
| Other Investing Activities                          | (16)               | )(95)                 | )(127)                    | 16           |
| Net Cash Used in Investing Activities               | (16)               | )(961)                | )(46)                     | (931)        |
| Financing Activities                                |                    |                       |                           |              |
| Long-term Debt Issued                               | 600                | —                     | —                         | 600          |
| Long-term Debt Repaid                               | (507)              | )(61)                 | )(2)                      | )(570)       |
| Dividends Paid                                      | (233)              | )(170)                | )(175)                    | (228)        |
| Stock Options Exercised                             | 24                 | —                     | —                         | 24           |
| Shares Repurchased                                  | (528)              | )(—)                  | —                         | (528)        |
| Other Financing Activities                          | 248                | (398)                 | )(156)                    | 6            |
| Net Cash (Used in) Provided by Financing Activities | (396)              | )(629)                | )(329)                    | (696)        |
| Net Decrease in Cash and Cash Equivalents           | (112)              | )(72)                 | —                         | (40)         |
| Cash and Cash Equivalents at Beginning of Period    | 1,100              | 118                   | 74                        | 1,292        |
| Cash and Cash Equivalents at End of Period          | \$988              | \$190                 | \$74                      | \$1,252      |
| Six months ended June 25, 2010                      |                    |                       |                           |              |
| Operating Activities                                |                    |                       |                           |              |
| Net Cash Provided by Operating Activities           | \$283              | \$1,421               | \$(282)                   | )\$1,422     |
| Investing Activities                                |                    |                       |                           |              |
| Property Additions                                  | —                  | (648)                 | )(39)                     | )(687)       |
| Other Investing Activities                          | (4)                | )(47)                 | )(119)                    | 68           |
| Net Cash Used in Investing Activities               | (4)                | )(695)                | )(80)                     | (619)        |
| Financing Activities                                |                    |                       |                           |              |
| Long-term Debt Repaid                               | —                  | (69)                  | )(2)                      | )(71)        |
| Dividends Paid                                      | (188)              | )(295)                | )(299)                    | (184)        |
| Stock Options Exercised                             | 16                 | —                     | —                         | 16           |
| Shares Repurchased                                  | (823)              | )(—)                  | —                         | (823)        |

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|  |       |       |       |        |   |
|--|-------|-------|-------|--------|---|
| Other Financing Activities                           | 233   | (295  | )(75  | )(137  | ) |
| Net Cash (Used in) Provided by Financing Activities  | (762  | )(659 | )222  | (1,199 | ) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (483  | )67   | 20    | (396   | ) |
| Cash and Cash Equivalents at Beginning of Period     | 918   | 30    | 81    | 1,029  |   |
| Cash and Cash Equivalents at End of Period           | \$435 | \$97  | \$101 | \$633  |   |

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CSX CORPORATION

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

STRATEGIC OVERVIEW

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

Balanced Approach to Capital Deployment

CSX remains highly committed to delivering value to shareholders through a balanced approach to deploying capital that includes investments in infrastructure, dividend improvements and share repurchases. In 2011, the Company plans to invest approximately \$2.2 billion, up from the previously announced \$2 billion, to further enhance the capacity, quality and flexibility of its rail network. In addition, CSX continues to return value to its shareholders in the form of dividends and share repurchases. The Company has increased its quarterly cash dividend nine times over the last five years including the recently announced 38% increase to \$0.12 per share on a post-split basis. During the quarter, CSX also announced a new \$2 billion share repurchase authority expected to be completed by the end of 2012 based on market and business conditions. CSX completed its previous \$3 billion share repurchase program in first quarter 2011. These actual repurchases along with the new authorization of \$2 billion equal \$5 billion expected to be repurchased through 2012.

Public-Private Partnerships

Key terminal expansions and infrastructure projects are important components of CSX's investment strategy. Strategic investments through public-private partnerships, including the National Gateway initiative, will provide enhanced transit times and improved service for customers. The National Gateway is a multi-year infrastructure initiative which will increase intermodal capacity on key corridors between Mid-Atlantic ports and the Midwest. Total project costs are approximately \$850 million, of which the Company has already committed approximately \$575 million. A key component of this initiative is the Company's new Northwest Ohio intermodal terminal that became operational during first quarter 2011. This high-capacity terminal expands service offerings to customers as well as improves market access to and from east coast ports. In addition, this terminal utilizes environmentally-friendly technology to further enhance the benefits freight rail provides. Other related projects include the expansion of the Virginia Avenue Tunnel in Washington, D.C. and construction for double-stack train clearances in Maryland, West Virginia and the District of Columbia.

CSX has entered into a transaction with the state of Florida to help alleviate congestion through a new commuter rail operation known as SunRail. CSX will sell the state a portion of its track for the new commuter rail and will invest all these funds for additional freight rail capacity and infrastructure within the state. This includes a new automotive and intermodal facility in central Florida. This transaction is projected to be cash neutral.

These long-term investments provide a foundation for volume growth and productivity improvement, enhanced customer service and safe and reliable operations. To continue these types of investments, the Company must be able to operate in an environment in which it can generate adequate returns and drive shareholder value. CSX will continue to advocate for a fair and balanced regulatory environment to ensure that the value of the Company's rail service would be reflected in any potential new legislation or policies.



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## CSX CORPORATION

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

## SECOND QUARTER 2011 HIGHLIGHTS

Revenue increased \$356 million or 13% to \$3 billion, an all-time quarterly record, primarily driven by pricing above rail inflation, higher fuel recovery and increases in volume.

Expenses increased \$198 million or 10% to \$2.1 billion driven mostly by higher fuel prices and also labor-related costs.

Operating income increased \$158 million or 21% to \$926 million, an all-time quarterly record, and operating ratio improved to 69.3%, a second quarter record.

|                  | Second Quarters |         | Six Months |         |   |
|------------------|-----------------|---------|------------|---------|---|
| (In thousands)   | 2011            | 2010    | 2011       | 2010    |   |
| Volume           | 1,646           | 1,598   | 3,238      | 3,084   |   |
| (In millions)    |                 |         |            |         |   |
| Revenue          | \$3,019         | \$2,663 | \$5,829    | \$5,154 |   |
| Expense          | 2,093           | 1,895   | 4,130      | 3,754   |   |
| Operating Income | \$926           | \$768   | \$1,699    | \$1,400 |   |
| Operating Ratio  | 69.3            | %71.2   | % 70.9     | %72.8   | % |

CSX second quarter results reflect continued year-over-year volume and revenue growth as demand for rail service increased in the markets CSX serves. Revenue increased 13% from the prior year with volume higher in almost all markets with the greatest increases in intermodal, forest products, food & consumer and metals. Overall coal volume decreased due to weakness in utility coal partially offset by strong export demand. The volume gain of 3% along with ongoing emphasis on pricing above rail inflation and higher fuel recovery associated with the increase in fuel prices drove revenue-per-unit increases in all markets.

While revenue grew 13%, expenses increased only 10%, versus the prior year quarter. Total fuel costs increased \$127 million primarily due to higher fuel prices. Labor-related costs increased primarily due to inflation and volume-related expenses. Included in these costs are hiring and training costs for new train and engine employees. Excluding the rise in total fuel costs, total expenses only increased 4% year over year.

For additional information, refer to Results of Operations discussed on pages 30 through 33.



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CSX CORPORATION

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

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

The Company continued to advance its efforts on safety during second quarter 2011. The FRA reportable personal injuries frequency index improved to a company second quarter best of 0.89, a 22% improvement over 2010. The reported FRA train accident frequency rate improved 16% to 2.37.

Overall, network reliability and service improved from first quarter lows during the second quarter of 2011. However, key service measures in second quarter 2011 declined versus 2010. On-time train originations and arrivals declined to 68% and 56%, respectively. Dwell time increased to 26.0 hours from 23.7 hours in second quarter 2010. Average train velocity declined 5% to 19.8 miles per hour.

The Company has taken steps to improve this performance, including increasing its workforce and adding locomotive resources to the system. These efforts have had favorable results as seen sequentially from the end of first quarter to the end of second quarter 2011. On-time train originations improved 15% to 68%, on-time arrivals improved 11% to 56%, train velocity improved 1% to 19.7 miles per hour, and dwell decreased 7% to 25.3 hours.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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## Operating Statistics (Estimated)

|                                    |   | Second Quarters |         |                           |
|------------------------------------|---|-----------------|---------|---------------------------|
|                                    |   | 2011            | 2010    | Improvement/<br>(Decline) |
| Safety and Service<br>Measurements | FRA Personal Injury Frequency Index       | 0.89            | 1.14    | 22%                       |
|                                    | FRA Train Accident Rate                   | 2.37            | 2.83    | 16%                       |
|                                    | On-Time Train Originations                | 68              | %78     | %(13)%                    |
|                                    | On-Time Destination Arrivals              | 56              | %71     | %(21)%                    |
|                                    | Dwell                                     | 26              | 23.7    | (10)%                     |
|                                    | Cars-On-Line                              | 208,572         | 210,106 | 1%                        |
|                                    | Train Velocity                            | 19.8            | 20.9    | (5)%                      |
| Resources                          | Route Miles                               | 21,046          | 21,123  | Increase/(Decrease)<br>—% |
|                                    | Locomotives (owned and long-term leased)  | 4,073           | 4,067   | —%                        |
|                                    | Freight Cars (owned and long-term leased) | 77,599          | 80,471  | (4)%                      |
|                                    |   |                 |         |                           |

## Key Performance Measures Definitions

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

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

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

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

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

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

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



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## CSX CORPORATION

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

|   | Second Quarters |         |           |          | Six Months |         |           |          |   |
|---|-----------------|---------|-----------|----------|------------|---------|-----------|----------|---|
|   | 2011            | 2010    | \$ Change | % Change | 2011       | 2010    | \$ Change | % Change |   |
| Revenue                                   | \$3,019         | \$2,663 | \$356     | 13       | % \$5,829  | \$5,154 | \$675     | 13       | % |
| Expense                                   |                 |         |           |          |            |         |           |          |   |
| Labor and Fringe                          | 764             | 721     | 43        | 6        | % 1,529    | 1,450   | 79        | 5        | % |
| Materials, Supplies and Other             | 557             | 551     | 6         | 1        | % 1,087    | 1,070   | 17        | 2        | % |
| Fuel                                      | 431             | 304     | 127       | 42       | % 833      | 587     | 246       | 42       | % |
| Depreciation                              | 246             | 230     | 16        | 7        | % 489      | 458     | 31        | 7        | % |
| Equipment and Other Rents                 | 95              | 89      | 6         | 7        | % 192      | 189     | 3         | 2        | % |
| Total Expense                             | 2,093           | 1,895   | 198       | 10       | % 4,130    | 3,754   | 376       | 10       | % |
| Operating Income                          | \$926           | \$768   | \$158     | 21       | % \$1,699  | \$1,400 | \$299     | 21       | % |
| Interest Expense                          | (134)           | (135)   | 1         | (1)      | % (274)    | (277)   | 3         | (1)      | % |
| Other Income - Net                        | —               | 9       | (9)       | (100)    | % 5        | 20      | (15)      | (75)     | % |
| Income Tax Expense                        | (286)           | (228)   | (58)      | 25       | % (529)    | (424)   | (105)     | 25       | % |
| Net Earnings                              | \$506           | \$414   | \$92      | 22       | % \$901    | \$719   | \$182     | 25       | % |
| Earnings Per Diluted Share <sup>(a)</sup> | 0.46            | \$0.36  | \$0.10    | 28       | % 0.81     | \$0.61  | \$0.20    | 33       | % |
| Operating Ratio                           | 69.3%           | 71.2    | % 190     | bps      | 70.9%      | 72.8    | % 190     | bps      |   |

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

## Volume and Revenue (Unaudited)

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

## Second Quarters

|                            | Volume |      |          | Revenue |       |          | Revenue Per Unit |         |          |
|----------------------------|--------|------|----------|---------|-------|----------|------------------|---------|----------|
|                            | 2011   | 2010 | % Change | 2011    | 2010  | % Change | 2011             | 2010    | % Change |
| Agricultural               |        |      |          |         |       |          |                  |         |          |
| Agricultural Products      | 109    | 107  | 2        | % \$273 | \$255 | 7        | % \$2,505        | \$2,383 | 5%       |
| Phosphates and Fertilizers | 80     | 80   | —        | % 119   | 109   | 9        | % 1,488          | 1,363   | 9%       |
| Food and Consumer          | 27     | 25   | 8        | % 70    | 59    | 19       | % 2,593          | 2,360   | 10%      |
| Industrial                 |        |      |          |         |       |          |                  |         |          |
| Chemicals                  | 119    | 116  | 3        | % 413   | 372   | 11       | % 3,471          | 3,207   | 8%       |
| Automotive                 | 87     | 88   | (1)      | % 226   | 204   | 11       | % 2,598          | 2,318   | 12%      |
| Metals                     | 68     | 65   | 5        | % 158   | 140   | 13       | % 2,324          | 2,154   | 8%       |
| Housing and Construction   |        |      |          |         |       |          |                  |         |          |
| Emerging Markets           | 117    | 113  | 4        | % 179   | 167   | 7        | % 1,530          | 1,478   | 4%       |
| Forest Products            | 70     | 65   | 8        | % 174   | 150   | 16       | % 2,486          | 2,308   | 8%       |
| Total Merchandise          | 677    | 659  | 3        | % 1,612 | 1,456 | 11       | % 2,381          | 2,209   | 8%       |

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|            |       |       |    |    |         |         |    |   |         |         |     |   |
|------------|-------|-------|----|----|---------|---------|----|---|---------|---------|-----|---|
| Coal       | 388   | 401   | (3 | )% | 958     | 835     | 15 | % | 2,469   | 2,082   | 19% |   |
| Intermodal | 581   | 538   | 8  | %  | 376     | 304     | 24 | % | 647     | 565     | 15% |   |
| Other      | —     | —     | —  | %  | 73      | 68      | 7  | % | —       | —       | —   | % |
| Total      | 1,646 | 1,598 | 3  | %  | \$3,019 | \$2,663 | 13 | % | \$1,834 | \$1,666 | 10% |   |

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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Second Quarter 2011 Results of Operations

The Company achieved year-over-year volume and revenue growth as demand for rail service increased with the improving performance of the markets CSX serves. Volume was higher in most markets with the greatest volume increases in intermodal, forest products, food & consumer and metals. Overall coal volume decreased due to weakness in utility coal partially offset by strong export demand. Ongoing emphasis on pricing above rail inflation, along with higher fuel recovery associated with the increase in fuel prices drove revenue-per-unit increases in all markets.

Merchandise

Agricultural

Agricultural Products - Volume increased primarily due to more shipments of soybeans from the Midwest into the Southeast.

Phosphates and Fertilizers - Overall volume was flat, however, shipments of fertilizers grew as farmers domestically and abroad used more fertilizer to improve crop yields and replenished inventories. These increases were offset by reduced shipments of phosphate rock due to supply shortages.

Food and Consumer - Volume improved with increased consumer demand for alcoholic beverages. In addition, beer imports also improved with suppliers building inventory to meet expected demand.

Industrial

Chemicals - Growth occurred across most chemicals markets reflecting improvement in demand for intermediate products used in manufacturing consumer goods and automobiles. These products are key inputs in the production of both durable and nondurable goods as well as packaging.

Automotive - Automotive volume declined slightly as Japanese auto manufacturers producing cars in the U.S. were impacted by a lack of parts from suppliers affected by the disaster in Japan. This decrease was partially offset by increased production from the Big Three domestic automakers.

Metals - Volume growth was driven by continued increased shipments of sheet steel for domestic auto production and increased scrap shipments due to strong export demand and higher domestic steel production.

Housing and Construction

Emerging Markets - Volume increased due to improved shipments of cement, aggregates (which include crushed stone, sand and gravel) and waste as a result of overall growth in these markets.

Forest Products - Volume increased despite the weakness in housing-related markets with strength in shipments of pulp board and paper used in packaging for consumer products.



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CSX CORPORATION

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

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

Intermodal

Strength in volume was primarily driven by the improving domestic and international markets CSX serves and new international gains as a result of the intermodal portfolio of service and network offerings. The increase in revenue per unit was driven by yield improvement and higher fuel recovery due to rising fuel prices.

Expense

Expenses increased \$198 million from last year's second quarter. Variances are described below.

Labor and Fringe expense increased \$43 million due to the following:

• Inflation-related expenses were \$27 million higher during the quarter.

• Volume-related, new employee training and other expenses were \$16 million higher during the quarter.

Materials, Supplies and Other expense increased \$6 million due to the following:

• Volume-related (including increased expenses at coal piers and intermodal terminals), inflation and other expenses were collectively \$36 million higher during the quarter.

• Offsetting these increases was a prior year net book loss on the sale of an operating property of \$30 million.

Fuel expense increased \$127 million primarily due to a 39% increase in average price per gallon as well as higher volume.

Depreciation increased \$16 million primarily due to a higher asset base.

Equipment and Other Rents increased \$6 million primarily related to volume growth.



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## CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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## Consolidated Results of Operations

## Interest Expense

Interest expense decreased \$1 million to \$134 million primarily due to lower interest rates partially offset by higher average debt balances.

## Other Income

Other income-net decreased \$9 million primarily due to the reduction of expenses on non operating properties.

## Income Tax Expense

Income tax expense increased \$58 million to \$286 million due to higher earnings. In addition, both years had a net favorable income tax benefit of approximately \$14 million, or \$0.01 per share. In 2011, this benefit was a result of several state legislative changes. In 2010, the benefit was attributable to the resolution of prior years' federal income tax audits.

## Net Earnings

Net earnings increased \$92 million to \$506 million and earnings per diluted share increased \$0.10 to \$0.46 driven by the after-tax impact of business results due to revenue growth offset mainly by higher fuel expense.

## Volume and Revenue (Unaudited)

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

## Six Months

|                                 | Volume |       |          | Revenue |       |          | Revenue Per Unit |         |          |   |
|---------------------------------|--------|-------|----------|---------|-------|----------|------------------|---------|----------|---|
|                                 | 2011   | 2010  | % Change | 2011    | 2010  | % Change | 2011             | 2010    | % Change |   |
| <b>Agricultural</b>             |        |       |          |         |       |          |                  |         |          |   |
| Agricultural Products           | 218    | 221   | (1)      | \$533   | \$522 | 2        | \$2,445          | \$2,362 | 4        | % |
| Phosphates and Fertilizers      | 163    | 159   | 3        | 255     | 232   | 10       | 1,564            | 1,459   | 7        | % |
| Food and Consumer               | 52     | 50    | 4        | 133     | 118   | 13       | 2,558            | 2,360   | 8        | % |
| <b>Industrial</b>               |        |       |          |         |       |          |                  |         |          |   |
| Chemicals                       | 236    | 228   | 4        | 807     | 723   | 12       | 3,419            | 3,171   | 8        | % |
| Automotive                      | 176    | 162   | 9        | 445     | 374   | 19       | 2,528            | 2,309   | 10       | % |
| Metals                          | 135    | 126   | 7        | 306     | 268   | 14       | 2,267            | 2,127   | 7        | % |
| <b>Housing and Construction</b> |        |       |          |         |       |          |                  |         |          |   |
| Emerging Markets                | 212    | 198   | 7        | 324     | 297   | 9        | 1,528            | 1,500   | 2        | % |
| Forest Products                 | 139    | 128   | 9        | 335     | 290   | 16       | 2,410            | 2,266   | 6        | % |
| Total Merchandise               | 1,331  | 1,272 | 5        | 3,138   | 2,824 | 11       | 2,358            | 2,220   | 6        | % |
| Coal                            | 773    | 774   | —        | 1,837   | 1,571 | 17       | 2,376            | 2,030   | 17       | % |
| Intermodal                      | 1,134  | 1,038 | 9        | 708     | 623   | 14       | 624              | 600     | 4        | % |

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|       |       |       |   |   |         |         |    |   |         |         |   |   |
|-------|-------|-------|---|---|---------|---------|----|---|---------|---------|---|---|
| Other | —     | —     | — | % | 146     | 136     | 7  | % | —       | —       | — | % |
| Total | 3,238 | 3,084 | 5 | % | \$5,829 | \$5,154 | 13 | % | \$1,800 | \$1,671 | 8 | % |

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CSX CORPORATION

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

Six Month Results of Operations

Consolidated Results of Operations

Revenue

Revenue increased \$675 million to \$5.8 billion as a result of volume increases in the markets CSX serves, emphasis on pricing above rail inflation, and higher fuel recovery due to an increase in fuel prices.

Operating Income

Operating income increased \$299 million to \$1.7 billion primarily due to higher revenue partially offset by increased fuel and labor related costs.

Interest Expense

Interest expense decreased \$3 million to \$274 million primarily due to lower interest rates partially offset by higher average debt balances.

Other Income - Net

Other income - net decreased \$15 million to \$5 million primarily due to the reduction of expenses on non operating properties.

Income Tax Expense

Income tax expense increased \$105 million to \$529 million primarily due to higher earnings in 2011.

Net Earnings

Net earnings increased \$182 million to \$901 million and earnings per diluted share increased \$0.20 to \$0.81 primarily due to higher revenue partially offset by increased fuel and labor related costs as well as increased tax expense.

LIQUIDITY AND CAPITAL RESOURCES

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

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

Consolidated Balance Sheets

Total assets and liabilities plus shareholders' equity increased \$564 million from year end. On the asset side, net properties increased \$403 million. Deferred income tax liabilities also increased \$287 million due to the net impact of bonus depreciation on tax accruals. Shareholders' equity was increased by net earnings of \$901 million and partially

offset by share repurchases of \$528 million and dividends of \$233 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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Consolidated Cash Flow Statements

Cash and cash equivalents as of the end of the second quarter 2011 increased \$619 million to \$1.3 billion compared to year end primarily as a result of:

Operating activities - Cash provided by operating activities increased \$165 million due to higher earnings and the net impact of bonus depreciation on tax accruals. This increase was partially offset by higher accounts receivable related to higher revenue as well as larger incentive compensation payouts.

Investing activities - Cash used for investing increased mainly due to an increase in property additions of \$260 million compared to last year.

Financing activities - Cash used for financing decreased \$503 million primarily as a result of fewer share repurchases compared to last year. In addition, during 2010, CSX paid approximately \$141 million to the debtholders as cash consideration in the exchange of debt securities.

Liquidity and Working Capital

As of the end of six months 2011, CSX had approximately \$1.3 billion of cash and cash equivalents. CSX also has a \$1.25 billion credit facility with a diverse syndicate of banks that was not drawn on. The current facility expires in May 2012 and the Company plans to renew or replace this facility prior to its expiration. CSX uses current cash balances for general corporate purposes, which may include capital expenditures, working capital requirements, improvements in productivity, dividend payments to shareholders and repurchases of CSX common stock. Additionally, in May 2011, CSX issued \$600 million of new debt. See Note 7, Debt and Credit Agreements.

The Company's \$250 million receivables securitization facility has a 364-day term and expires in June 2012. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility. Under the terms of this facility, CSXT transfers eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX 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.

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 \$482 million as of the end of second quarter 2011 and \$318 million as of December 2010. The increase since December 2010 is primarily due to higher accounts receivable as a result of higher revenue generated in 2011.

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. The Company continues to maintain adequate current assets to satisfy current liabilities and maturing obligations when they come due. Furthermore, CSX has sufficient financial capacity, including its revolving credit facility, trade receivable facility and shelf registration statement to manage its day-to-day cash requirements and any anticipated obligations. The Company from time to time accesses the credit markets for additional liquidity.



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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.

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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. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements within the meaning of the Private Securities Litigation Reform Act may contain, among others, statements regarding: projections and estimates of earnings, revenues, volumes, rates, cost-savings, expenses, taxes or other financial items; expectations as to results of operations and operational initiatives; expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition, results of operations or liquidity; management's plans, strategies and objectives for future operations, capital expenditures, dividends, share repurchases, safety and service performance, proposed new services and other matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and future economic, industry or market conditions or performance and their effect on the Company's financial condition, results of operations or liquidity.

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



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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 any forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement. If the Company does update any forward-looking statement, no inference should be drawn that the Company will make additional updates with respect to that statement or any other forward-looking statements. The following important factors, in addition to those discussed in Part II, Item 1A (Risk Factors) of CSX's most recent annual report on Form 10-K and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

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

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

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

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

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

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

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

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

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

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

the inherent business risks associated with safety and security, including the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;

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

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

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and the Company's website at [www.csx.com](http://www.csx.com). The information on the CSX website is not part of this quarterly report on Form 10-Q.

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CSX CORPORATION

PART I

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

As of July 1, 2011, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of July 1, 2011, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the second quarter of 2011 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Fuel Surcharge Antitrust Litigation

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

ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed under Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of CSX's most recent annual report on Form 10-K. See also Part I, Item 2 (Forward-Looking Statements) of this quarterly report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in CSX's most recent annual report on Form 10-K.

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PART II

## ITEM 2. CSX Purchases of Equity Securities

CSX is required to disclose any purchases of its own common stock for the most recent quarter. CSX purchases its own shares for two primary reasons: to further its goals under its share repurchase program and to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan which covers certain union employees. In May 2011, CSX announced a new \$2 billion share repurchase program. Under this program, the Company may purchase shares from time to time on the open market, through block trades or otherwise. CSX expects to complete these repurchases by the end of 2012 based on market and business conditions.

Share repurchase activity of \$228 million for the second quarter 2011 was as follows:

CSX Purchases of Equity Securities  
for the Quarter

| Second Quarter <sup>(a)</sup> | Total Number of<br>Shares Purchased | Average Price<br>Paid per Share | Total Number of Shares<br>Purchased as Part of<br>Publicly Announced Plans<br>or Programs <sup>(b)</sup> | Approximate Dollar Value<br>of Shares that May Yet Be<br>Purchased Under the Plans<br>or Programs |
|-------------------------------|-------------------------------------|---------------------------------|--|---|
| Beginning Balance             |                                     |                                 |  | \$—   |
| April repurchases             | 240                                 | 25.40                           | —  | —   |
| May                           |                                     |                                 |  |   |
| Authority granted             | —                                   | —                               | —  | 2,000,000,000   |
| May repurchases               | 120                                 | 25.09                           | —  | 2,000,000,000   |
| June repurchases              | 9,085,677                           | 25.04                           | 9,085,677  | 1,772,524,393   |
| Ending Balance                | 9,086,037                           | 25.04                           | 9,085,677  | \$1,772,524,393   |

(a) Second quarter 2011 consisted of the following fiscal periods: April (April 2, 2011 - April 29, 2011), May (April 30, 2011 - May 27, 2011), June (May 28, 2011 - July 1, 2011).

(b) The difference of 360 shares between the "Total Number of Shares Purchased" and the "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" for the quarter represents shares purchased to fund the Company's contribution to a 401(k) plan that covers certain union employees.

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Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and reserved)

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

3 Articles of Amendment to CSX Corporation's Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on May 4, 2011).

10.1 CSX 2011-2013 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on May 5, 2011).

10.2 Amendment to Employment Agreement with David A. Brown (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on May 5, 2011).

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

32\* Section 1350 Certifications.

101\* The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended July 1, 2011 filed with the SEC on July 21, 2011, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended July 1, 2011 and June 25, 2010, (ii) consolidated balance sheets at July 1, 2011 and December 31, 2010, (iii) consolidated cash flow statements for the fiscal periods ended July 1, 2011 and June 25, 2010, and (iv) the notes to consolidated financial statements.

\* Filed herewith

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CSX CORPORATION

PART II

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CSX CORPORATION

(Registrant)

By: /s/ Carolyn T. Sizemore\_\_\_\_

Carolyn T. Sizemore

Vice President and Controller

(Principal Accounting Officer)

Dated: July 21, 2011