CSX CORP
Form 10-Q
October 15, 2010

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

FORM 10-Q

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

For the quarterly period ended September 24, 2010

OR

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

For the transition period from __________ to __________

Commission File Number 1-8022

CSX CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	62-1051971 (I.R.S. Employer Identification No.)

500 Water Street, 15th Floor, Jacksonville, FL	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 (X) 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 (X) 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 (X) Accelerated Filer ( )
Non-accelerated Filer ( ) Smaller Reporting Company ( )

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 374,184,621 shares of common stock outstanding on September 24, 2010 (the latest practicable date that is closest to the filing date).

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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)

	Third Quarters		Nine Months	
	2010	2009	2010	2009
		(Adjusted) (a)		(Adjusted) (a)
Revenue	$2,666	$2,289	$7,820	$6,721
Expense				
Labor and Fringe	731	653	2,181	1,969
Materials, Supplies and Other (Note 1)	509	500	1,579	1,482
Fuel	279	223	866	599
Depreciation	232	227	690	677
Equipment and Other Rents	90	92	279	303
Total Expense	1,841	1,695	5,595	5,030
Operating Income	825	594	2,225	1,691
Interest Expense	(131)	(140)	(408)	(420)
Other Income - Net (Note 8)	8	6	28	19
Earnings From Continuing Operations				
Before Income Taxes	702	460	1,845	1,290
Income Tax Expense (Note 9)	(288)	(170)	(712)	(465)
Earnings From Continuing Operations	414	290	1,133	825
Discontinued Operations (Note 10)	-	-	-	15
Net Earnings	$414	$290	$1,133	$840
Per Common Share (Note 2)				
Net Earnings Per Share, Basic				
Continuing Operations	$1.09	$0.74	$2.95	$2.10
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.09	$0.74	$2.95	$2.14
Net Earnings Per Share, Assuming Dilution				
Continuing Operations	$1.08	$0.73	$2.92	$2.08
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.08	$0.73	$2.92	$2.12
Average Shares Outstanding (Thousands)	378,050	392,352	384,102	391,847

Average Shares Outstanding,				
Assuming Dilution (Thousands)	381,822	396,333	387,516	395,268
Cash Dividends Paid Per Common Share	$0.24	$0.22	$0.72	$0.66

(a) Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (see Note 1).

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	(Unaudited) September 24, 2010	December 25, 2009 (Adjusted) (a)
ASSETS		
Current Assets		
Cash and Cash Equivalents	$636	$1,029
Short-term Investments	40	61
Accounts Receivable - Net (Note 1)	1,001	995
Materials and Supplies	225	203
Deferred Income Taxes	206	158
Other Current Assets	97	124
Total Current Assets	2,205	2,570
Properties	31,457	30,907
Accumulated Depreciation	(8,123)	(7,843)
Properties - Net	23,334	23,064
Investment in Conrail	660	650
Affiliates and Other Companies	466	438
Other Long-term Assets	364	165
Total Assets	$27,029	$26,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$981	$967
Labor and Fringe Benefits Payable	473	383
Casualty, Environmental and Other Reserves (Note 4)	187	190
Current Maturities of Long-term Debt (Note 7)	605	113
Income and Other Taxes Payable	179	112
Other Current Liabilities	115	100
Total Current Liabilities	2,540	1,865
Casualty, Environmental and Other Reserves (Note 4)	534	547
Long-term Debt (Note 7)	7,297	7,895
Deferred Income Taxes	6,732	6,528
Other Long-term Liabilities	1,288	1,284
Total Liabilities	18,391	18,119
Common Stock $1 Par Value	374	393
Other Capital	-	80

Retained Earnings	9,022	9,090
Accumulated Other Comprehensive Loss (Note 1)	(771)	(809)
Noncontrolling Interest	13	14
Total Shareholders' Equity	8,638	8,768
Total Liabilities and Shareholders' Equity	$27,029	$26,887

(a) Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (see Note 1).

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)

	Nine Months	
	2010	2009 (Adjusted) (a)
OPERATING ACTIVITIES		
Net Earnings	$1,133	$840
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	690	675
Deferred Income Taxes	139	326
Contributions to Qualified Pension Plans	-	(166)
Other Operating Activities	80	(150)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(6)	159
Other Current Assets	(44)	(50)
Accounts Payable	27	(4)
Income and Other Taxes Payable	150	39
Other Current Liabilities	97	(80)
Net Cash Provided by Operating Activities	2,266	1,589
INVESTING ACTIVITIES		
Property Additions (Note 1)	(1,092)	(1,031)
Other Investing Activities	41	51
Net Cash Used in Investing Activities	(1,051)	(980)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	-	500
Long-term Debt Repaid (Note 7)	(103)	(110)
Dividends Paid	(275)	(259)
Stock Options Exercised (Note 3)	21	19
Shares Repurchased	(1,123)	-
Other Financing Activities (Note 1)	(128)	(188)
Net Cash Used in Financing Activities	(1,608)	(38)
Net (Decrease) Increase in Cash and Cash Equivalents	(393)	571
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	1,029	669
Cash and Cash Equivalents at End of Period	$636	$1,240

(a) Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (see Note 1).

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 suppliers. 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.

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 arranges drayage services for certain CSXT intermodal customers. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. CSX Technology and other subsidiaries provide support services for the Company.

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

CSX Intermodal, Inc. ("Intermodal") was a subsidiary of CSX until it merged with CSXT on June 26, 2010 (which was the first day of the third quarter). Prior to the merger, Intermodal was the parent company of CSX Intermodal Terminals, and conducted the sales and marketing activities associated with intermodal transportation service now provided by CSXT, as well as the drayage and trucking dispatch operations now being provided by CSX Intermodal Terminals.

The Company no longer reflects the intermodal business as a separate segment. This change was a result of the strategic business review and change in the Company's intermodal service associated with the start of the UMAX program as well as certain management realignments. The UMAX program, which began in the second quarter, is a domestic interline container program. CSX's president views intermodal similarly to merchandise and coal. Also, inland transportation expense has been reclassified to materials, supplies and other. Intermodal revenue will continue to be viewed as a separate revenue group; however, a separate income statement and operating ratio will no longer be provided and business segment disclosures are no longer required. All prior periods have been revised to reflect this change.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Basis of Presentation

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

- Consolidated income statements for the quarters and nine months ended September 24, 2010 and September 25, 2009;
- Consolidated balance sheets at September 24, 2010 and December 25, 2009; and
- Consolidated cash flow statements for the nine months ended September 24, 2010 and September 25, 2009.

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

Fiscal Year

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

- The third fiscal quarter of 2010 and 2009 consisted of 13 weeks ending on September 24, 2010 and September 25, 2009, respectively.
- The nine month periods of 2010 and 2009 consisted of 39 weeks ending on September 24, 2010 and September 25, 2009, respectively.
- Fiscal year 2009 consisted of 52 weeks ending on December 25, 2009.
- Fiscal year 2010 consists of 53 weeks ending on December 31, 2010. Therefore, fourth quarter 2010 will consist of 14 weeks.

Except as otherwise specified, references to "third quarter(s)" or "nine months" indicate CSX's fiscal periods ending September 24, 2010 and September 25, 2009, and references to year-end indicate the fiscal year ended December 25, 2009.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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 certain reclassifications for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of related tax effects and were $431 million and $297 million for third quarters 2010 and 2009, respectively, and $1.2 billion and $853 million for nine months 2010 and 2009, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement reclassifications. Overall equity was reduced by $771 million and $809 million as of September 2010 and December 2009, respectively, primarily as a result of normal quarterly pension reclassifications. In general, for CSX, AOCI is not materially impacted by other items.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, public project receivables (work done by the Company on behalf of a government agency), claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of $39 million and $47 million is included in the consolidated balance sheets as of September 2010 and December 2009, respectively.

Capital Expenditures

Property additions, which are classified as investing activities on the consolidated cash flow statements, consisted of $1.1 billion and $1 billion for nine months 2010 and 2009, respectively. Total capital expenditures for the nine months of 2009 included purchases of new assets using seller financing of approximately $160 million, for which payments are included in other financing activities on the consolidated cash flow statements. There were no purchases of new assets using seller financing agreements during the nine months of 2010. The Company plans to spend approximately $1.8 billion for total capital expenditures in 2010.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

New Accounting Pronouncements and Changes in Accounting Policy

Change in Accounting Principle

Effective in the second quarter of 2010, CSX changed the accounting policy for rail grinding costs from a capitalization method, under which the cost of rail grinding was capitalized and then depreciated, to a direct expense method, under which rail grinding costs are expensed as incurred. This represents a change from an acceptable method under GAAP to a preferable method, and is consistent with recent changes in industry practice.

The direct expense method eliminates the subjectivity in determining the period of benefit over which to depreciate the capitalized costs associated with rail grinding. The application of the change in accounting principle is presented retrospectively to all periods presented.

The balance sheet effects of the adjustments through the beginning of fiscal year 2009 resulted in a decrease in net properties, deferred income taxes, and shareholders' equity by $134 million, $51 million, and $83 million, respectively. The effect of this change is not material to the financial condition, results of operations or liquidity for any of the periods presented.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

The following tables show the effects of the change in policy for rail grinding costs on the consolidated financial statements. The Accounting Changes and Error Corrections Topic in the ASC requires CSX to present both prior period amounts that have been previously reported as well as current period amounts as computed under both the prior method and as reported.

	2010					
Consolidated Income Statements	3rd Quarter			9 months		
Dollars in Millions, Except Per Share Amounts	Computed under Prior Method	Impact of Adjustment	As Reported	Computed under Prior Method	Impact of Adjustment	As Reported
Materials, Supplies and Other	$503	$6	$509	$1,564	$15	$1,579
Depreciation	234	(2)	232	694	(4)	690
Total Expense	1,837	4	1,841	5,584	11	5,595
Operating Income	829	(4)	825	2,236	(11)	2,225
Earnings from Continuing Operations						
Before Taxes	706	(4)	702	1,856	(11)	1,845
Income Tax Expense	(289)	1	(288)	(716)	4	(712)
Earnings from Continuing Operations	417	(3)	414	1,140	(7)	1,133
Net Earnings	417	(3)	414	1,140	(7)	1,133
Net Earnings Per Share, Basic						
Continuing Operations	$1.10	$(0.01)	$1.09	$2.97	$(0.02)	$2.95
Net Earnings	$1.10	$(0.01)	$1.09	$2.97	$(0.02)	$2.95
Net Earnings Per Share, Assuming Dilution						
Continuing Operations	$1.09	$(0.01)	$1.08	$2.94	$(0.02)	$2.92
Net Earnings	$1.09	$(0.01)	$1.08	$2.94	$(0.02)	$2.92

	2009					
Consolidated Income Statements	3rd Quarter			9 months		
Dollars in Millions, Except Per Share Amounts	As Previously Reported	Impact of Adjustment	As Adjusted	As Previously Reported	Impact of Adjustment	As Adjusted
Materials, Supplies and Other	$495	$5	$500	$1,467	$15	$1,482
Depreciation	228	(1)	227	681	(4)	677
Total Expense	1,691	4	1,695	5,019	11	5,030
Operating Income	598	(4)	594	1,702	(11)	1,691
Earnings from Continuing Operations	464	(4)	460	1,301	(11)	1,290
Before Taxes						

Income Tax Expense	(171)	1	(170)	(469)	4	(465)
Earnings from Continuing Operations	293	(3)	290	832	(7)	825
Net Earnings	293	(3)	290	847	(7)	840
Net Earnings Per Share, Basic						
Continuing Operations	$0.75	$(0.01)	$0.74	$2.12	$(0.02)	$2.10
Net Earnings	$0.75	$(0.01)	$0.74	$2.16	$(0.02)	$2.14
Net Earnings Per Share, Assuming Dilution						
Continuing Operations	$0.74	$(0.01)	$0.73	$2.10	$(0.02)	$2.08
Net Earnings	$0.74	$(0.01)	$0.73	$2.14	$(0.02)	$2.12

Certain prior year data has been reclassified to conform to the current presentation.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Consolidated Balance Sheets	September 2010			December 2009		
Dollars in Millions	Computed under Prior Method	Impact of Adjustment	As Reported	As Previously Reported	Impact of Adjustment	As Adjusted
Properties - Net	$23,494	$(160)	$23,334	$23,213	$(149)	$23,064
Total Assets	27,189	(160)	27,029	27,036	(149)	26,887
Deferred Income Taxes	6,793	(61)	6,732	6,585	(57)	6,528
Total Liabilities	18,452	(61)	18,391	18,176	(57)	18,119
Retained Earnings	9,121	(99)	9,022	9,182	(92)	9,090
Total Shareholders' Equity	8,737	(99)	8,638	8,860	(92)	8,768
Total Liabilities and Shareholders' Equity	27,189	(160)	27,029	27,036	(149)	26,887

	2010		
Consolidated Cash Flow Statements	9 months		
Dollars in Millions	Computed under Prior Method	Impact of Adjustment	As Reported
Net Earnings	$1,140	$(7)	$1,133
Depreciation	694	(4)	690
Deferred Income Taxes	143	(4)	139
Net Cash Provided by Operating Activities	2,281	(15)	2,266
Property Additions	(1,107)	15	(1,092)
Net Cash Used in Investing Activities	(1,066)	15	(1,051)

			2009
Consolidated Cash Flow Statements	9 months		
Dollars in Millions	As Previously Reported	Impact of Adjustment	As Adjusted
Net Earnings	$847	$(7)	$840
Depreciation	679	(4)	675
Deferred Income Taxes	330	(4)	326
Net Cash Provided by Operating Activities	1,604	(15)	1,589
Property Additions	(1,046)	15	(1,031)
	(995)	15	(980)

Net Cash Used in Investing Activities

Other Items

Retained Earnings

During third quarter 2010, CSX's other capital balance was reduced to zero as a result of share repurchases. In accordance with the Equity Topic in the ASC, other capital cannot be negative. Therefore, a reclassification of $272 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.

Dividend Increase

On September 29, 2010, CSX announced an 8 percent increase to its quarterly cash dividend to 26 cents per share payable on December 15, 2010 to shareholders of record on November 30, 2010. This is the eighth dividend increase which represents a 35 percent compounded annual growth rate over a five-year period.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share

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

	Third Quarters		Nine Months	
	2010	2009 (Adjusted) (a)	2010	2009 (Adjusted) (a)
Numerator (Dollars in millions):				
Earnings from Continuing Operations	$414	$290	$1,133	$825
Discontinued Operations - Net of Tax (b)	-	-	-	15
Net Earnings	$414	$290	$1,133	$840
Denominator (Units in thousands):				
Average Common Shares Outstanding	378,050	392,352	384,102	391,847
Convertible Debt	987	1,116	1,008	1,117
Stock Option Common Stock Equivalents (c)	1,865	2,417	2,018	2,076
Other Potentially Dilutive Common Shares	920	448	388	228
Average Common Shares Outstanding, Assuming Dilution	381,822	396,333	387,516	395,268
Net Earnings Per Share, Basic:				
Continuing Operations	$1.09	$0.74	$2.95	$2.10
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.09	$0.74	$2.95	$2.14
Net Earnings Per Share, Assuming Dilution:				
Continuing Operations	$1.08	$0.73	$2.92	$2.08
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.08	$0.73	$2.92	$2.12

(a) Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 1).

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

(c) 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

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.

As a result, diluted shares outstanding are not impacted when debentures are converted into CSX common stock because those shares were already included in the diluted shares calculation. Shares outstanding for basic earnings per share, however, are impacted on a weighted-average basis when conversions occur. During third quarter 2010, approximately $300 thousand of face value of convertible debentures were converted into 10 thousand shares of CSX common stock. During third quarter 2009, $275 thousand of face value of convertible debentures were converted into approximately 10 thousand shares of CSX common stock. As of September 2010, approximately $28 million of convertible debentures at face value remained outstanding, which are convertible into approximately 1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

CSX share-based compensation plans primarily include performance grants, restricted stock awards, stock options and stock plans for directors. CSX has not granted stock options since 2003. Awards 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 of the Board of Directors.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, continued

On May 5, 2010, 402,000 performance units 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 2012. 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 2012. 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, on May 5, 2010, as part of its overall long-term incentive compensation program, the Company granted 134,000 time-based restricted stock units 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 not based upon CSX's attainment of operational targets.

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:

	Third Quarters		Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Share-Based Compensation Expense (a)	$13	$9	$46	$12
Income Tax Benefit	5	3	17	4

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

The following table provides information about stock options exercised.

	Third Quarters		Nine Months	
(In thousands)	2010	2009	2010	2009
Number of Stock Options Exercised	280	386	1,193	952

As of December 2009, all outstanding options were vested, and therefore, there will be no future expense related to these options. As of September 2010, CSX had approximately 4 million stock options outstanding. However, the impact of options to diluted earnings per share is much smaller (see note (b) to the table in Note 2, Earnings Per Share for more information).

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves

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

	September 2010			December 2009		
(Dollars in millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	$78	$191	$269	$85	$215	$300
Occupational	31	116	147	27	132	159
Total Casualty	109	307	416	112	347	459
Separation	15	48	63	16	57	73
Environmental	37	70	107	37	60	97
Other	26	109	135	25	83	108
Total	$187	$534	$721	$190	$547	$737

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

During the second quarter of 2010, the Company reduced casualty reserves by a net $9 million, most of which is related to the reduction in CSXT personal injury reserves of $13 million as noted below. There were no significant adjustments to casualty reserves in the third quarter of 2010.

During the second quarter of 2009, the Company reduced casualty reserves by a net $85 million, or $0.22 per share. The majority of this reduction is related to personal injury and asbestos and is described below. Also included in the net reduction is a write-off of $11 million of reinsurance receivables (expected receivables from outside insurance companies). This receivable write-off is not included in the reserve amounts disclosed above.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves represent accruals for personal injury and occupational injury claims. During the second quarter of 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. The claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

Personal Injury

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

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

During second quarters of 2010 and 2009, the Company reduced personal injury reserves by $13 million and $78 million, respectively, based on management's review of the actuarial analysis performed by an independent actuarial firm. These reductions are a direct result of the Company's improvement in safety. Claims have shown a continued downward trend in the number of injuries, resulting in a continual reduction of the Company's FRA personal injury frequency index. Additionally, the trend in the severity of injuries has significantly declined. There were no significant adjustments to personal injury reserves in the third quarter of 2010.

Occupational

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

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CSX CORPORATION
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NOTE 4. Casualty, Environmental and Other Reserves, continued

An analysis of occupational claims is performed semi-annually by an independent third party 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. 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.

During second quarter 2009, the Company reduced its asbestos reserves by $18 million. This reserve reduction is related to approximately 1500 claims that were deemed to have no medical merit and, therefore, have been determined to have no value. There were no significant adjustments to asbestos reserves in 2010.

Separation

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

Environmental

The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings, involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 265 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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CSX CORPORATION
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NOTE 4. Casualty, Environmental and Other Reserves, continued

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:

- the type of clean-up required;
- the 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);
- the extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- the 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, related to some sites, and will not possess such information until completion of future environmental studies. In addition, conditions that are currently unknown could, at any given location, result in liabilities, 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.

See Item 1, Legal proceedings in Part II of this quarterly report on Form 10-Q for information related to an environmental settlement.

Other

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

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CSX CORPORATION
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NOTE 5. Commitments and Contingencies

Insurance

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

Guarantees

As of June 2010, the Company is no longer liable for the guarantee related to CSX Energy. Additionally, the guarantee for A.P. Moller-Maersk is currently less than $1 million.

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

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

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(Unaudited)

NOTE 6. Employee Benefit Plans, continued

	Pension Benefits			
(Dollars in millions)	Third Quarters		Nine Months	
	2010	2009	2010	2009
Service Cost	$10	$8	$31	$24
Interest Cost	30	32	91	94
Expected Return on Plan Assets	(42)	(37)	(124)	(108)
Amortization of Prior Service Cost	-	1	-	2
Amortization of Net Loss	15	6	44	19
Net Periodic Benefit Cost	$13	$10	$42	$31

	Other Post-retirement Benefits			
(Dollars in millions)	Third Quarters		Nine Months	
	2010	2009	2010	2009
Service Cost	$2	$2	$4	$4
Interest Cost	5	5	14	17
Amortization of Net Loss	1	1	5	3
Net Periodic Benefit Cost	$8	$8	$23	$24

Qualified pension plan obligations are funded in accordance with prescribed regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. The Company made pension plan contributions of $250 million to its qualified defined benefit pension plans in 2009. At this time, the Company anticipates that no contributions to its qualified pension plans will be required in 2010. For further details, see Note 8, Employee Benefit Plans, in CSX's most recent Annual Report on Form 10-K.

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of September 2010 was as follows:

(Dollars in millions)	Current Portion	Long-term Portion	Total Long-term Debt Activity
Total long-term debt at December 2009	$113	$7,895	$8,008
2010 activity:			
Long-term Debt Issued	-	-	-
Long-term Debt Repaid	(103)	-	(103)
Reclassifications	598	(598)	-
Converted into CSX stock	(3)	-	(3)
Discount and premium activity	-	-	-
Total long-term debt at September 2010	$605	$7,297	$7,902

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7. Debt and Credit Agreements, continued

Debt Exchange

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

In July 2010, CSX exchanged the New Notes for substantially identical notes registered under the Securities Act of 1933, as amended, pursuant to a registration rights agreement entered into in connection with the exchange offer.

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

Revolving Credit Facility

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

Receivables Securitization Facility

The Company’s $250 million receivables securitization facility has a 364-day term and expires in June 2011. 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 not drawn on 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.

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NOTE 8. Other Income - Net

The Company derives income from items that are not considered operating activities. Income from these items is reported net of related expense. Other income – net consisted of the following:

	Third Quarters		Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Interest Income	$1	$2	$4	$9
Income from Real Estate	5	11	20	18
Miscellaneous Income (Expense)	2	(7)	4	(8)
Total Other Income - Net	$8	$6	$28	$19

NOTE 9. Income Taxes

During the third quarter of 2010, the Company recorded an income tax charge of $22 million or $0.06 per share primarily related to the merger of the Company's former Intermodal subsidiary with CSXT. As a result of this merger, CSXT's effective state tax rate has increased and resulted in a revaluation of the deferred tax liabilities. There were no material changes to the Company's uncertain tax positions during the quarter.

NOTE 10. Discontinued Operations

The Greenbrier

In 2009, CSX sold the stock of a subsidiary that indirectly owned Greenbrier Hotel Corporation ("The Greenbrier") to Justice Family Group, LLC. CSX recognized a gain on the sale of $25 million. In addition, The Greenbrier incurred $10 million of losses from operations during nine months 2009.

Previously, all amounts associated with the operations of The Greenbrier were included in other income – net. All prior periods have been reclassified to reflect discontinued operations. The Greenbrier had revenue of $33 million and pre-tax income (including the gain on sale) of $5 million during 2009 through the date of sale, respectively. There was no activity in 2010.

NOTE 11. Fair Value Measurements

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

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NOTE 11. Fair Value Measurements, continued

- 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.

Investments

The Company's investment assets consist primarily of corporate bonds and are carried at fair value, as determined with the assistance of a third party trustee, on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. Level 2 inputs were used to determine fair value of the Company's investment assets. The fair value and amortized cost of these bonds are as follows:

(Dollars in millions)	September 2010	December 2009
Fair Value	$125	$96
Amortized Cost	$122	$91

These investments have the following maturities:

(Dollars in millions)	September 2010
Less than 1 year	$22
1 - 2 years (a)	81
2 - 5 years	17
Greater than 5 years	5
Total	$125

(a) This amount includes approximately $18 million of callable bonds which mature in 1 – 2 years, but are classified as short-term investments on the consolidated balance sheet.

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CSX CORPORATION
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NOTE 11. Fair Value Measurements, continued

Long-term Debt

Long-term debt is reported at carrying amount on the consolidated balance sheet and encompasses the Company's only financial instrument with fair values significantly different from its carrying amounts. The majority of the Company's long-term debt is valued with the assistance of an independent third party. For those instruments not valued with the assistance of a third party, the fair value has been estimated using discounted cash flow analysis based upon the yields provided by the same independent third party. All inputs used to determine the fair value of the Company's long-term debt qualify as level 2 inputs.

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

(Dollars in millions)	September 2010	December 2009
Long-term Debt Including Current Maturities:		
Fair Value	$9,226	$8,780
Carrying Value	$7,902	$8,008

NOTE 12. Summarized Consolidating Financial Data

In 2007 and 2008, CSXT sold, in registered public offerings, secured equipment notes maturing in 2023 and 2014, respectively. 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 the parent guarantor, CSX, is as follows:

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Quarter Ended September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$2,650	$41	$(25)	$2,666
Expense	(46)	1,841	71	(25)	1,841
Operating Income	46	809	(30)	-	825
Equity in Earnings of Subsidiaries	492	-	-	(492)	-
Interest Expense	(119)	(22)	(6)	16	(131)
Other Income - Net	3	17	4	(16)	8
Earnings From Continuing Operations Before Income Taxes	422	804	(32)	(492)	702
Income Tax Benefit (Expense)	(9)	(327)	48	-	(288)
Earnings From Continuing Operations	413	477	16	(492)	414
Discontinued Operations	-	-	-	-	-
Net Earnings	$413	$477	$16	$(492)	$414

Quarter Ended September 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$1,971	$344	$(26)	$2,289
Expense	(69)	1,496	291	(23)	1,695
Operating Income	69	475	53	(3)	594
Equity in Earnings of Subsidiaries	340	-	-	(340)	-
Interest Expense	(126)	(29)	(2)	17	(140)
Other Income - Net	24	10	(14)	(14)	6
Earnings From Continuing Operations Before Income Taxes	307	456	37	(340)	460
Income Tax Benefit (Expense)	(17)	(168)	15	-	(170)
Earnings From Continuing Operations	290	288	52	(340)	290
Discontinued Operations	-	-	-	-	-
Net Earnings	$290	$288	$52	$(340)	$290

(a) Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 1).

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Nine Months Ended September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$7,139	$758	$(77)	$7,820
Expense	(129)	5,120	681	(77)	5,595
Operating Income	129	2,019	77	-	2,225
Equity in Earnings of Subsidiaries	1,381	-	-	(1,381)	-
Interest Expense	(367)	(77)	(18)	54	(408)
Other Income - Net	13	55	14	(54)	28
Earnings From Continuing Operations Before Income Taxes	1,156	1,997	73	(1,381)	1,845
Income Tax Benefit (Expense)	(23)	(772)	83	-	(712)
Earnings From Continuing Operations	1,133	1,225	156	(1,381)	1,133
Discontinued Operations	-	-	-	-	-
Net Earnings	$1,133	$1,225	$156	$(1,381)	$1,133

Nine Months Ended September 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$5,810	$989	$(78)	$6,721
Expense	(211)	4,461	850	(70)	5,030
Operating Income	211	1,349	139	(8)	1,691
Equity in Earnings of Subsidiaries	899	-	-	(899)	-
Interest Expense	(375)	(88)	(6)	49	(420)
Other Income - Net	304	13	(257)	(41)	19
Earnings From Continuing Operations Before Income Taxes	1,039	1,274	(124)	(899)	1,290
Income Tax Benefit (Expense)	(231)	(484)	250	-	(465)
Earnings From Continuing Operations	808	790	126	(899)	825
Discontinued Operations	32	-	(17)	-	15
Net Earnings	$840	$790	$109	$(899)	$840

(a) Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 1).

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Consolidating Balance Sheet
(Dollars in millions)

As of September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and Cash Equivalents	$463	$111	$62	$-	$636
Short-term Investments	-	-	40	-	40
Accounts Receivable - Net	4	952	677	(632)	1,001
Materials and Supplies	-	225	-	-	225
Deferred Income Taxes	15	184	7	-	206
Other Current Assets	110	54	(41)	(26)	97
Total Current Assets	592	1,526	745	(658)	2,205
Properties	8	30,136	1,313	-	31,457
Accumulated Depreciation	(8)	(7,284)	(831)	-	(8,123)
Properties - Net	-	22,852	482	-	23,334
Investments in Conrail	-	-	660	-	660
Affiliates and Other Companies	-	598	(132)	-	466
Investments in Consolidated Subsidiaries	16,245	-	50	(16,295)	-
Other Long-term Assets	176	104	127	(43)	364
Total Assets	$17,013	$25,080	$1,932	$(16,996)	$27,029
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	$118	$840	$23	$-	$981
Labor and Fringe Benefits Payable	39	395	39	-	473
Payable to (from) Affiliates	1,482	(188)	(662)	(632)	-
Casualty, Environmental and Other Reserves	-	172	15	-	187
Current Maturities of Long-term Debt	507	95	3	-	605
Income and Other Taxes Payable	(2)	600	(419)	-	179
Other Current Liabilities	4	112	25	(26)	115
Total Current Liabilities	2,148	2,026	(976)	(658)	2,540
Casualty, Environmental and Other Reserves	-	438	96	-	534
Long-term Debt	6,049	1,245	3	-	7,297
Deferred Income Taxes	(296)	6,939	89	-	6,732
Long-term Payable to Affiliates	-	-	44	(44)	-
Other Long-term Liabilities	487	545	256	-	1,288
Total Liabilities	8,388	11,193	(488)	(702)	18,391
Shareholders' Equity					

Common Stock, $1 Par Value	374	181	-	(181)	374
Other Capital	-	5,627	2,312	(7,939)	-
Retained Earnings	9,022	8,127	125	(8,252)	9,022
Accumulated Other Comprehensive Loss	(771)	(69)	(63)	132	(771)
Noncontrolling Interest	-	21	46	(54)	13
Total Shareholders' Equity	8,625	13,887	2,420	(16,294)	8,638
Total Liabilities and Shareholders' Equity	$17,013	$25,080	$1,932	$(16,996)	$27,029

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CSX CORPORATION
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NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in millions)

As of December 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and Cash Equivalents	$918	$30	$81	$-	$1,029
Short-term Investments	-	-	61	-	61
Accounts Receivable - Net	4	888	103	-	995
Materials and Supplies	-	203	-	-	203
Deferred Income Taxes	13	137	8	-	158
Other Current Assets	19	32	533	(460)	124
Total Current Assets	954	1,290	786	(460)	2,570
Properties	4	29,565	1,338	-	30,907
Accumulated Depreciation	(6)	(7,011)	(826)	-	(7,843)