CSX CORP
Form 10-Q
July 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 June 25, 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 379,647,450 shares of common stock outstanding on June 25, 2010 (the latest practicable date that is closest to the filing date).

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 25, 2010
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CSX CORPORATION

PART I FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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

	Second Quarters		Six Months	
	2010	2009	2010	2009
		(Adjusted)*		(Adjusted)*
Revenue	$2,663	$2,185	$5,154	$4,432
Expense				
Labor and Fringe	721	654	1,450	1,316
Materials, Supplies and Other (Note 1)	551	444	1,070	982
Fuel	304	185	587	376
Depreciation	230	227	458	450
Equipment and Other Rents	89	98	189	211
Total Expense	1,895	1,608	3,754	3,335
Operating Income	768	577	1,400	1,097
Interest Expense	(135)	(139)	(277)	(280)
Other Income - Net (Note 8)	9	10	20	13
Earnings From Continuing Operations				
Before Income Taxes	642	448	1,143	830
Income Tax Expense (Note 9)	(228)	(166)	(424)	(295)
Earnings From Continuing Operations	414	282	719	535
Discontinued Operations (Note 10)	-	23	-	15
Net Earnings	$414	$305	$719	$550
Per Common Share (Note 2)				
Net Earnings Per Share, Basic				
Continuing Operations	$1.08	$0.72	$1.86	$1.36
Discontinued Operations	-	0.06	-	0.04
Net Earnings	$1.08	$0.78	$1.86	$1.40
Net Earnings Per Share, Assuming Dilution				
Continuing Operations	$1.07	$0.71	$1.84	$1.35
Discontinued Operations	-	0.06	-	0.04
Net Earnings	$1.07	$0.77	$1.84	$1.39
Average Shares Outstanding (Thousands)	383,164	392,027	387,121	391,594

Average Shares Outstanding,				
Assuming Dilution (Thousands)	386,391	395,370	390,357	394,735
Cash Dividends Paid Per Common Share	$0.24	$0.22	$0.48	$0.44

(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) June 25, 2010	December 25, 2009 (Adjusted)*
ASSETS		
Current Assets		
Cash and Cash Equivalents	$633	$1,029
Short-term Investments	56	61
Accounts Receivable - Net (Note 1)	938	995
Materials and Supplies	223	203
Deferred Income Taxes	185	158
Other Current Assets	108	124
Total Current Assets	2,143	2,570
Properties	31,191	30,907
Accumulated Depreciation	(8,018)	(7,843)
Properties - Net	23,173	23,064
Investment in Conrail	658	650
Affiliates and Other Companies	451	438
Other Long-term Assets	319	165
Total Assets	$26,744	$26,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$922	$967
Labor and Fringe Benefits Payable	390	383
Casualty, Environmental and Other Reserves (Note 4)	190	190
Current Maturities of Long-term Debt (Note 7)	614	113
Income and Other Taxes Payable	125	112
Other Current Liabilities	113	100
Total Current Liabilities	2,354	1,865
Casualty, Environmental and Other Reserves (Note 4)	544	547
Long-term Debt (Note 7)	7,320	7,895
Deferred Income Taxes	6,650	6,528
Other Long-term Liabilities	1,299	1,284
Total Liabilities	18,167	18,119
Common Stock $1 Par Value	380	393
Other Capital	-	80
Retained Earnings	8,968	9,090

Accumulated Other Comprehensive Loss (Note 1)	(787)	(809)
Noncontrolling Interest	16	14
Total Shareholders' Equity	8,577	8,768
Total Liabilities and Shareholders' Equity	$ 26,744	$ 26,887

* 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.

CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS

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

	Six Months	
	2010	2009 (Adjusted)*
OPERATING ACTIVITIES		
Net Earnings	$719	$550
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	458	451
Deferred Income Taxes	79	209
Other Operating Activities	79	(172)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	57	202
Other Current Assets	(52)	(83)
Accounts Payable	(34)	(56)
Income and Other Taxes Payable	94	(13)
Other Current Liabilities	22	(117)
Net Cash Provided by Operating Activities	1,422	971
INVESTING ACTIVITIES		
Property Additions (Note 1)	(687)	(657)
Other Investing Activities	68	49
Net Cash Used in Investing Activities	(619)	(608)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	-	500
Long-term Debt Repaid (Note 7)	(71)	(83)
Dividends Paid	(184)	(176)
Stock Options Exercised (Note 3)	16	12
Shares Repurchased	(823)	-
Other Financing Activities (Note 1)	(137)	(177)
Net Cash (Used in) Provided by Financing Activities	(1,199)	76
Net (Decrease) Increase in Cash and Cash Equivalents	(396)	439
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	1,029	669
Cash and Cash Equivalents at End of Period	$633	$1,108

* 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.

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, Total Distribution Services, Inc. ("TDSI"), Transflo Terminal Services, Inc. ("Transflo"), CSX Technology, Inc. ("CSX Technology") and other subsidiaries. Intermodal provides transportation services linking customers to railroads via trucks and terminals. 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.

Beginning in the second quarter of 2010, the Company is no longer reflecting the intermodal business as a separate segment. This change is a result of the strategic business review and change in CSX's intermodal service associated with the start of the UMAX program as well as certain management realignments. The UMAX program, which began this quarter, is a domestic interline container program. CSX's chairman now 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.

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 six months ended June 25, 2010 and June 26, 2009;
- Consolidated balance sheets at June 25, 2010 and December 25, 2009; and
- Consolidated cash flow statements for the six months ended June 25, 2010 and June 26, 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 second fiscal quarter of 2010 and 2009 consisted of 13 weeks ending on June 25, 2010 and June 26, 2009, respectively.
- The six month periods of 2010 and 2009 consisted of 26 weeks ending on June 25, 2010 and June 26, 2009, respectively.
- Fiscal year 2009 consisted of 52 weeks ending on December 25, 2009.
- Please note that fiscal year 2010 consists of 53 weeks ending on December 31, 2010. Therefore, fourth quarter 2010 will consist of 14 weeks.

Except as otherwise specified, references to "second quarter(s)" or "six months" indicate CSX's fiscal periods ending June 25, 2010 and June 26, 2009, and references to year-end indicate the fiscal year ended December 25, 2009.

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 $424 million and $311 million for second quarters 2010 and 2009, respectively, and $741 million and $556 million for six 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 $787 million and $809 million as of June 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 $43 million and $47 million is included in the consolidated balance sheets as of June 2010 and December 2009, respectively.

Capital Expenditures

Property additions, which are classified as investing activities on the consolidated cash flow statements, consisted of $687 million and $657 million for second quarters 2010 and 2009, respectively. Total capital expenditures for 2009 included purchases of new assets using seller financing of approximately $160 million, for which payments are included in other financing activities on the consolidated cash flow statements. There were no purchases of new assets using seller financing agreements during second quarter 2010. The Company plans to spend $1.7 billion for total capital expenditures in 2010.

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.

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:

	2010								
Consolidated Income Statements	1st Quarter			2nd Quarter			6 months		
Dollars in Millions, Except Per Share Amounts	As Previously Reported	Impact of Adjustment	As Adjusted	Computed under Prior Method	Impact of Adjustment	As Reported	Computed under Prior Method	Impact of Adjustment	As Reported
Materials, Supplies and Other	$ 516	$ 3	$ 519	$ 545	$ 6	$ 551	$ 1,061	$ 9	$ 1,070
Depreciation	229	(1)	228	231	(1)	230	460	(2)	458
Total Expense	1,857	2	1,859	1,890	5	1,895	3,747	7	3,754
Operating Income	634	(2)	632	773	(5)	768	1,407	(7)	1,400
Earnings from Continuing Operations Before Taxes	503	(2)	501	647	(5)	642	1,150	(7)	1,143
Income Tax Expense	(197)	1	(196)	(230)	2	(228)	(427)	3	(424)
Earnings from Continuing Operations	306	(1)	305	417	(3)	414	723	(4)	719
Net Earnings	306	(1)	305	417	(3)	414	723	(4)	719
Earnings Per Share, Basic									
Continuing Operations	$ 0.78	$ -	$ 0.78	$ 1.09	$ (0.01)	$ 1.08	$ 1.87	$ (0.01)	$ 1.86
Net Earnings	$ 0.78	$ -	$ 0.78	$ 1.09	$ (0.01)	$ 1.08	$ 1.87	$ (0.01)	$ 1.86
Net Earnings Per Share, Assuming Dilution									
Continuing Operations	$ 0.78	$ -	$ 0.78	$ 1.08	$ (0.01)	$ 1.07	$ 1.85	$ (0.01)	$ 1.84
	$ 0.78	$ -	$ 0.78	$ 1.08	$ (0.01)	$ 1.07	$ 1.85	$ (0.01)	$ 1.84

Net Earnings

2009 Consolidated Income Statements	1st Quarter			2nd Quarter			6 months		
Dollars in Millions, Except Per Share Amounts	As Previously Reported	Impact of Adjustment	As Adjusted	As Previously Reported	Impact of Adjustment	As Adjusted	As Previously Reported	Impact of Adjustment	As Adjusted
Materials, Supplies and Other	$ 535	$ 3	$ 538	$ 437	$ 7	$ 444	$ 972	$ 10	$ 982
Depreciation	224	(1)	223	229	(2)	227	453	(3)	450
Total Expense	1,725	2	1,727	1,603	5	1,608	3,328	7	3,335
Operating Income	522	(2)	520	582	(5)	577	1,104	(7)	1,097
Earnings from Continuing Operations Before Taxes	384	(2)	382	453	(5)	448	837	(7)	830
Income Tax Expense	(130)	1	(129)	(168)	2	(166)	(298)	3	(295)
Earnings from Continuing Operations	254	(1)	253	285	(3)	282	539	(4)	535
Net Earnings	246	(1)	245	308	(3)	305	554	(4)	550
Net Earnings Per Share, Basic									
Continuing Operations	$ 0.65	$ -	$ 0.65	$ 0.73	$ (0.01)	$ 0.72	$ 1.37	$ (0.01)	$ 1.36
Net Earnings	$ 0.63	$ -	$ 0.63	$ 0.79	$ (0.01)	$ 0.78	$ 1.41	$ (0.01)	$ 1.40
Net Earnings Per Share, Assuming Dilution									
Continuing Operations	$ 0.64	$ -	$ 0.64	$ 0.72	$ (0.01)	$ 0.71	$ 1.36	$ (0.01)	$ 1.35
Net Earnings	$ 0.62	$ -	$ 0.62	$ 0.78	$ (0.01)	$ 0.77	$ 1.40	$ (0.01)	$ 1.39

Consolidated Balance Sheets	June 2010			December 2009		
Dollars in Millions	Computed under Prior	Impact of Adjustment	As Reported	As Previously Reported	Impact of Adjustment	As Adjusted

	Method					
Net Properties	$ 23,329	$ (156)	$ 23,173	$ 23,213	$ (149)	$ 23,064
Total Assets	26,900	(156)	26,744	27,036	(149)	26,887
Deferred Income Taxes	6,710	(60)	6,650	6,585	(57)	6,528
Total Liabilities	18,227	(60)	18,167	18,176	(57)	18,119
Retained Earnings	9,064	(96)	8,968	9,182	(92)	9,090
Total Shareholders' Equity	8,673	(96)	8,577	8,860	(92)	8,768
Total Liabilities and Shareholders' Equity	26,900	(156)	26,744	27,036	(149)	26,887

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

2010

Consolidated Cash Flow Statements	3 months			6 months		
Dollars in Millions	As Previously Reported	Impact of Adjustment	As Adjusted	Computed under Prior Method	Impact of Adjustment	As Reported
Net Earnings	$ 306	$ (1)	$ 305	$ 723	$ (4)	$ 719
Depreciation	229	(1)	228	460	(2)	458
Deferred Income Taxes	47	(1)	46	82	(3)	79
Cash Provided by Operating Activities	747	(3)	744	1,431	(9)	1,422
Property Additions	(331)	3	(328)	(696)	9	(687)
Cash Used in Investing Activities	(313)	3	(310)	(628)	9	(619)

2009

Consolidated Cash Flow Statements	3 months			6 months		
Dollars in Millions	As Previously Reported	Impact of Adjustment	As Adjusted	As Previously Reported	Impact of Adjustment	As Adjusted
Net Earnings	$ 246	$ (1)	$ 245	$ 554	$ (4)	$ 550
Depreciation	224	(1)	223	454	(3)	451
Deferred Income Taxes	79	(1)	78	212	(3)	209
Cash Provided by Operating Activities	449	(3)	446	981	(10)	971
Property Additions	(309)	3	(306)	(667)	10	(657)
Cash Used in Investing Activities	(272)	3	(269)	(618)	10	(608)

Other Items

Retained Earnings

During second 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 $540 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.

Property Transaction

During the second quarter of 2010, the Company closed an operating property transaction with the Commonwealth of Massachusetts. The Company received $50 million of cash related to this transaction and recorded a net book loss of $30 million pre-tax or $0.05 per share. This property is a former Conrail acquired property. This loss is reflected in materials, supplies and other.

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:

	Second Quarters		Six Months	
	2010	2009	2010	2009
		(Adjusted)*		(Adjusted)*
Numerator (Dollars in millions):				
Earnings from Continuing Operations	$414	$282	$719	$535
Discontinued Operations - Net of Tax (a)	-	23	-	15
Net Earnings	$414	$305	$719	$550
Denominator (Units in thousands):				
Average Common Shares Outstanding	383,164	392,027	387,121	391,594
Convertible Debt	997	1,118	1,019	1,118
Stock Option Common Stock Equivalents (b)	2,056	1,989	2,094	1,906
Other Potentially Dilutive Common Shares	174	236	123	117
Average Common Shares Outstanding, Assuming Dilution	386,391	395,370	390,357	394,735
Net Earnings Per Share, Basic:				
Continuing Operations	$1.08	$0.72	$1.86	$1.36
Discontinued Operations	-	0.06	-	0.04
Net Earnings	$1.08	$0.78	$1.86	$1.40
Net Earnings Per Share, Assuming Dilution:				
Continuing Operations	$1.07	$0.71	$1.84	$1.35
Discontinued Operations	-	0.06	-	0.04
Net Earnings	$1.07	$0.77	$1.84	$1.39

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

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

(b) When calculating diluted earnings per share for stock option common stock equivalents, the Earnings Per Share Topic in the ASC requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. This number is different from outstanding stock options, which is included in Note 3, Share-Based Compensation. All stock options were dilutive for the periods presented; therefore, no stock options were excluded from the diluted earnings per share calculation.

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 second quarter 2010, $200,000 of face value of convertible debentures were converted into 7,000 shares of CSX common stock. There were no conversions of convertible debentures during second quarter 2009. As of June 2010, approximately $28 million of convertible debentures at face value remained outstanding, which are convertible into approximately 1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, continued

On May 4, 2010, 402,000 target performance units were granted to key members of management under a new long-term incentive plan adopted under the CSX Omnibus Incentive Plan. This 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. Target 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 target grant based upon CSX's attainments 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.

As part of this plan, 134,000 time-based restricted stock units were granted 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 plans, 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:

	Second Quarters		Six Months	
(Dollars in millions)	2010	2009	2010	2009
Share-Based Compensation Expense (a)	$9	$11	32	3
Income Tax Benefit	3	4	12	1

(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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, continued

The following table provides information about stock options exercised.

	Second Quarters		Six Months	
(In thousands)	2010	2009	2010	2009
Number of Stock Options Exercised	554	492	913	566

As of December 2009, all outstanding options are vested, and therefore, there will be no future expense related to these options. As of June 2010, CSX had approximately 5 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).

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:

	June 2010			December 2009		
(Dollars in millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	$ 78	$ 199	$ 277	$ 85	$ 215	$ 300
Occupational	31	128	159	27	132	159
Total Casualty	109	327	436	112	347	459
Separation	15	51	66	16	57	73
Environmental	37	61	98	37	60	97
Other	29	105	134	25	83	108
Total	$ 190	$ 544	$ 734	$ 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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.

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.

Casualty

Casualty reserves represent accruals for personal injury and occupational injury claims. During the quarter 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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.

Occupational

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

An analysis of occupational claims is performed semi-annually by an independent third party and reviewed by management. The methodology used includes 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 1,500 claims that were deemed to have no medical merit and, therefore, have been determined to have no value. Asbestos reserves were not adjusted during 2010 as a result of the semi-annual review by the independent third party.

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.

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

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

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

- 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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

Currently, the Company does not possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, 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.

Other

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

NOTE 5. Commitments and Contingencies

Insurance

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Guarantees

As of June 2010, the Company was 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

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

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

NOTE 6. Employee Benefit Plans

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

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

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Employee Benefit Plans, continued

	Pension Benefits			
(Dollars in millions)	Second Quarters		Six Months	
	2010	2009	2010	2009
Service Cost	$11	$8	$21	$16
Interest Cost	30	32	61	62
Expected Return on Plan Assets	(41)	(36)	(82)	(71)
Amortization of Prior Service Cost	(1)	-	-	1
Amortization of Net Loss	14	7	29	13
Net Periodic Benefit Cost	$13	$11	$29	$21

	Other Post-retirement Benefits			
(Dollars in millions)	Second Quarters		Six Months	
	2010	2009	2010	2009
Service Cost	$1	$1	$2	$2
Interest Cost	4	6	9	12
Amortization of Net Loss	2	1	4	2
Net Periodic Benefit Cost	$7	$8	$15	$16

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 June 2010 was as follows:

(Dollars in millions)	Current Portion	Long-term Portion	Total Long-term Debt Activity
Total long-term debt at December 2009	$113	$7,895	$8,008
2010 activity:			
Issued	-	-	-
Repaid	(71)	-	(71)
Reclassifications	575	(575)	-
Converted into CSX stock	(3)	-	(3)
Total long-term debt at June 2010	$614	$7,320	$7,934

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 an average annual rate of 6.22% and due April 30, 2040. In addition, CSX paid approximately $141 million to the debtholders as cash consideration. CSX also paid the debtholders any accrued and unpaid interest on the Existing Notes. In accordance with the Debt Topic in the ASC, this transaction has been accounted for as a debt exchange. As such, the $141 million of cash consideration paid to the debtholders is included in other long-term assets. This cash consideration and the unamortized discount and issue costs from the Existing Notes will be amortized as an adjustment of interest expense over the term of the New Notes. There 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. There were no additional costs incurred during second quarter 2010.

In June 2010, CSX offered to exchange 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. This offer will expire at 5:00 p.m. eastern standard time on July 15, 2010, unless otherwise extended.

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 June 2010, this facility was not drawn on, and CSX was in compliance with all covenant requirements under the facility. This facility expires in 2012.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

Receivables Securitization Facility

On June 16, 2010, the Company renewed its $250 million receivables securitization facility. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. This facility has a 364-day term and expires on June 15, 2011. As of the date of this filing, the Company has not drawn on this facility. Under the terms of this facility, CSX Transportation and CSX Intermodal transferred 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:

	Second Quarters		Six Months	
(Dollars in millions)	2010	2009	2010	2009
Interest Income	$2	$3	$3	$7
Income from Real Estate	8	6	15	7
Miscellaneous Income (Expense)	(1)	1	2	(1)
Total Other Income - Net	$9	$10	$20	$13

NOTE 9. Income Taxes

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. As a result of this resolution, the Company recorded a tax and interest benefit of $19 million. Additionally, there were other tax expense items that partially offset this resulting in a net benefit of $15 million or $0.04 per share in the second quarter of 2010. In addition, the Company has reduced gross unrecognized tax benefits by $32 million. As of June 2010 and December 2009, the Company had approximately $25 million and $50 million, respectively, of total unrecognized tax benefits. Of these total unrecognized tax benefits and after consideration of the impact of federal tax benefits, as of June 2010 and December 2009, $17 million and $41 million, respectively, could favorably affect the effective income tax rate.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. Discontinued Operations

The Greenbrier

In the second quarter of 2009, CSX sold the stock of a subsidiary that indirectly owned Greenbrier Hotel Corporation ("The Greenbrier") to Justice Family Group, LLC for approximately $21 million in cash. CSX recognized a gain on the sale of $25 million which includes a tax benefit of $3 million. In addition, the Greenbrier incurred $2 million of losses from operations in the second quarter of 2009.

Previously, all amounts associated with the operations of The Greenbrier were included in other income – net. All prior periods have been reclassified to reflect discontinued operations. The Greenbrier had revenue of $26 million and $33 million and pre-tax income, including the gain on sale, of $17 million and $5 million during second quarter and six months 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. In addition, disclosure of the fair value of pension plan assets is only required annually.

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

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

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

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

The valuation methods described below may produce a fair value calculation that 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.

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Fair Value Measurements, continued

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)	June 2010	December 2009
Fair Value	$ 91	$96
Amortized Cost	$ 87	$91

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 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 are as follows:

(Dollars in Millions)	June 2010	December 2009
Long-term Debt Including Current Maturities:		
Fair Value	$ 8,993	$8,780
Carrying Value	$ 7,934	$8,008

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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:

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in Millions)

Quarter Ended June 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$ -	$ 2,337	$ 352	$ (26)	$ 2,663
Expense	(46)	1,672	295	(26)	1,895
Operating Income	46	665	57	-	768
Equity in Earnings of Subsidiaries	492	-	-	(492)	-
Interest Expense	(122)	(27)	(6)	20	(135)
Other Income - Net	4	20	5	(20)	9
Earnings From Continuing Operations Before Income Taxes	420	658	56	(492)	642
Income Tax Benefit (Expense)	(6)	(236)	14	-	(228)
Earnings From Continuing Operations	414	422	70	(492)	414
Discontinued Operations	-	-	-	-	-
Net Earnings	$ 414	$ 422	$ 70	$ (492)	$ 414

Quarter Ended June 2009 (Adjusted)*	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$ -	$ 1,879	$ 332	$ (26)	$ 2,185
Expense	(63)	1,400	294	(23)	1,608
Operating Income	63	479	38	(3)	577
Equity in Earnings of Subsidiaries	305	-	-	(305)	-
Interest Expense	(125)	(28)	(3)	17	(139)
Other Income - Net	(22)	(3)	49	(14)	10
Earnings From Continuing Operations Before Income Taxes	221	448	84	(305)	448
Income Tax Benefit (Expense)	52	(177)	(41)	-	(166)
Earnings From Continuing Operations	273	271	43	(305)	282

Discontinued Operations	32	-	(9)	-	23
Net Earnings	$ 305	$ 271	$ 34	$ (305)	$ 305

* 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)

Six Months Ended June 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$ -	$ 4,489	$ 717	$ (52)	$ 5,154
Expense	(83)	3,279	610	(52)	3,754
Operating Income	83	1,210	107	-	1,400
Equity in Earnings of Subsidiaries	889	-	-	(889)	-
Interest Expense	(248)	(55)	(12)	38	(277)
Other Income - Net	10	38	10	(38)	20
Earnings From Continuing Operations Before Income Taxes	734	1,193	105	(889)	1,143
Income Tax Benefit (Expense)	(15)	(445)	36	-	(424)
Earnings From Continuing Operations	719	748	141	(889)	719
Discontinued Operations	-	-	-	-	-
Net Earnings	$ 719	$ 748	$ 141	$ (889)	$ 719

Six Months Ended June 2009 (Adjusted)*	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$ -	$ 3,839	$ 645	$ (52)	$ 4,432
Expense	(142)	2,965	559	(47)	3,335
Operating Income	142	874	86	(5)	1,097
Equity in Earnings of Subsidiaries	559	-	-	(559)	-
Interest Expense	(249)	(59)	(4)	32	(280)
Other Income - Net	280	3	(243)	(27)	13
Earnings From Continuing Operations Before Income Taxes	732	818	(161)	(559)	830
Income Tax Benefit (Expense)	(214)	(316)	235	-	(295)
Earnings From Continuing Operations	518	502	74	(559)	535

Discontinued Operations	32	-	(17)	-	15
Net Earnings	$ 550	$ 502	$ 57	$ (559)	$ 550

* 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
(Unaudited)

Consolidating Balance Sheet
(Dollars in Millions)

As of June 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and Cash Equivalents	$ 435	$ 97	$ 101	$ -	$ 633
Short-term Investments	-	-	56	-	56
Accounts Receivable - Net	4	877	607	(550)	938
Materials and Supplies	-	223	-	-	223
Deferred Income Taxes	15	153	17	-	185
Other Current Assets	56	64	29	(41)	108
Total Current Assets	510	1,414	810	(591)	2,143
Properties	8	29,857	1,326	-	31,191
Accumulated Depreciation	(8)	(7,196)	(814)	-	(8,018)
Properties - Net	-	22,661	512	-	23,173
Investments in Conrail	-	-	658	-	658
Affiliates and Other Companies	-	581	(130)	-	451
Investments in Consolidated Subsidiaries	15,920	-	48	(15,968)	-
Other Long-term Assets	181	82	100	(44)	319
Total Assets	$ 16,611	$ 24,738	$ 1,998	$ (16,603)	$ 26,744
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	$ 117	$ 761	$ 44	$ -	$ 922
Labor and Fringe Benefits Payable	39	314	37	-	390
Payable to Affiliates	1,027	310	(787)	(550)	-
Casualty, Environmental and Other Reserves	-	172	18	-	190
Current Maturities of Long-term Debt	507	104	3	-	614
Income and Other Taxes Payable	86	307	(268)	-	125
Other Current Liabilities	3	100	51	(41)	113
Total Current Liabilities	1,779	2,068	(902)	(591)	2,354

Casualty, Environmental and Other Reserves	-	442	102	-	544
Long-term Debt	6,049	1,268	3	-	7,320
Deferred Income Taxes	(302)	6,897	55	-	6,650
Long-term Payable to Affiliates	-	-	44	(44)	-
Other Long-term Liabilities	524	513	262	-	1,299
Total Liabilities	8,050	11,188	(436)	(635)	18,167
Shareholders' Equity					
Common Stock, $1 Par Value	380	181	-	(181)	380
Other Capital	-	5,575	1,968	(7,543)	-
Retained Earnings	8,968	7,844	485	(8,329)	8,968
Accumulated Other Comprehensive Loss	(787)	(74)	(63)	137	(787)
Noncontrolling Interest	-	24	44	(52)	16
Total Shareholders' Equity	8,561	13,550	2,434	(15,968)	8,577
Total Liabilities and Shareholders' Equity	$ 16,611	$ 24,738	$ 1,998	$ (16,603)	$ 26,744

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in Millions)

As of December 2009 (Adjusted)*	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)
Properties - Net	(2)	22,554	512	-	23,064
Investments in Conrail	-	-	650	-	650
Affiliates and Other Companies	-	566	(128)	-	438
Investments in Consolidated Subsidiaries	15,382	-	139	(15,521)	-
Other Long-term Assets	46	75	87	(43)	165
Total Assets	$ 16,380	$ 24,485	$ 2,046	$ (16,024)	$ 26,887
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	$ 111	$ 628	$ 228	$ -	$ 967
Labor and Fringe Benefits Payable	37	307	39	-	383
Payable to Affiliates	625	786	(962)	(449)	-
Casualty, Environmental and Other Reserves	-	168	22	-	190
Current Maturities of Long-term Debt	-	110	3	-	113
Income and Other Taxes Payable	32	182	(102)	-	112
Other Current Liabilities	1	97	13	(11)	100

Total Current Liabilities	806	2,278	(759)	(460)	1,865
Casualty, Environmental and Other Reserves	-	449	98	-	547
Long-term Debt	6,557	1,334	4	-	7,895
Deferred Income Taxes	(337)	6,814	51	-	6,528
Long-term Payable to Affiliates	-	-	44	(44)	-
Other Long-term Liabilities	600	522	162	-	1,284
Total Liabilities	7,626	11,397	(400)	(504)	18,119
Shareholders' Equity					
Common Stock, $1 Par Value	393	181	-	(181)	393
Other Capital	80	5,569	1,951	(7,520)	80
Retained Earnings	9,090	7,393	507	(7,900)	9,090
Accumulated Other Comprehensive Loss	(809)	(77)	(54)	131	(809)
Noncontrolling Interest	-	22	42	(50)	14
Total Shareholders' Equity	8,754	13,088	2,446	(15,520)	8,768
Total Liabilities and Shareholders' Equity	$ 16,380	$ 24,485	$ 2,046	$ (16,024)	$ 26,887

* 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
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

Six Months Ended June 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by Operating Activities	$ 283	$ 1,421	$ 13	$ (295)	$ 1,422
Investing Activities					
Property Additions	-	(648)	(39)	-	(687)
Other Investing Activities	(4)	(47)	12	107	68
Net Cash Provided by (Used in) Investing Activities	(4)	(695)	(27)	107	(619)
Financing Activities					
Long-term Debt Repaid	-	(69)	(2)	-	(71)
Dividends Paid	(188)	(295)	4	295	(184)
Stock Options Exercised	16	-	-	-	16
Shares Repurchased	(823)	-	-	-	(823)
Other Financing Activities	233	(295)	32	(107)	(137)
Net Cash Used in Financing Activities	(762)	(659)	34	188	(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

Six Months Ended June 2009 (Adjusted)*	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					

Net Cash Provided by (Used in) Operating Activities	$ 53	$ 1,016	$ 148	$ (246)	$ 971
Investing Activities					
Property Additions	-	(634)	(23)	-	(657)
Other Investing Activities	(87)	27	23	86	49
Net Cash Provided by (Used in) Investing Activities	(87)	(607)	-	86	(608)
Financing Activities					
Long-term Debt Issued	500	-	-	-	500
Long-term Debt Repaid	-	(81)	(2)	-	(83)
Dividends Paid	(176)	(238)	(8)	246	(176)
Stock Options Exercised	12	-	-	-	12
Other Financing Activities	107	(69)	(129)	(86)	(177)
Net Cash Provided by (Used in) Financing Activities	443	(388)	(139)	160	76
Net Increase (Decrease) in Cash and Cash Equivalents	409	21	9	-	439
Cash and Cash Equivalents at Beginning of Period	559	63	47	-	669
Cash and Cash Equivalents at End of Period	$ 968	$ 84	$ 56	$ -	$ 1,108

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

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

STRATEGIC OVERVIEW

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

In 2010, CSX expects to deliver strong double-digit earnings per share growth. This expectation is supported by strong volume and revenue growth, including export coal shipments of about 30 million tons this year, and strong operating ratio improvement as well. Our expectations are based on continued, gradual economic growth and can be impacted by the strength and sustainability of the economic recovery.

Additionally, the Company continues to invest in its network to further enhance safety and improve service and reliability for its customers. The Company plans to spend $1.7 billion for total capital expenditures in 2010. To continue these investments adequately, the Company must be able to operate in an environment in which it can generate adequate returns and drive shareholder value. CSX will continue to advocate for a fair and balanced regulatory environment to ensure that the value of the Company's rail service will be reflected in new legislation and policy.

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

In 2008, Congress enacted the Rail Safety Improvement Act. The legislation includes a mandate that all Class I freight railroads implement Positive Train Control ("PTC") by December 31, 2015. PTC must be installed on all lines with passenger or commuter operations as well as all main lines with over 5 million annual gross tons which transport toxic-by-inhalation hazardous materials. Significant capital costs are anticipated with the implementation of PTC as well as ongoing operating expenses. Currently, CSX estimates that the total multi-year cost of PTC implementation will be at least $1.2 billion for the Company.

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

SECOND QUARTER 2010 HIGHLIGHTS

- Revenue increased $478 million or 22% to $2.7 billion driven by increases in volume and core pricing gains.
- Expenses increased $287 million or 18% to $1.9 billion driven primarily by higher fuel prices and a lower year over year favorable adjustment in casualty reserves.
- Operating income increased $191 million or 33% to $768 million and operating ratio improved to 71.2%, an all time record.

	Second Quarters		Six Months	
(thousands)	2010	2009	2010	2009
Carloads	1,598	1,411	3,084	2,830
(millions)				
Revenue	$2,663	$2,185	$5,154	$4,432
Expense	1,895	1,608	3,754	3,335
Operating Income	$768	$577	$1,400	$1,097

CSX second quarter results reflect strong year-over-year volume and revenue growth as compared to the level of economic activity last year. Revenue increased 22% from the prior year, to nearly $2.7 billion, with gains across most of the Company's markets. These gains were driven by a 13% increase in volume, pricing gains, and higher fuel recovery associated with the increase in fuel prices.

While revenue increased 22%, expenses increased by $287 million, or 18%, versus the prior year. This increase was driven by a rise in fuel costs due to higher fuel prices, a lower year-over-year favorable adjustment in casualty reserves, an operating property transaction loss and higher labor-related costs.

Beginning in the second quarter of 2010, the Company is no longer reflecting the intermodal business as a separate segment. This change is a result of the strategic business review and change in CSX's intermodal service associated with the start of the UMAX program as well as certain management realignments. The UMAX program, which began this quarter, is a domestic interline container program. CSX's chairman now 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.

For additional information, refer to Results of Operations discussed on pages 36 through 38.

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

During second quarter 2010, the Company continued to advance its efforts on safety and operating performance. CSXT delivered the fifth consecutive quarterly year-over-year improvement in Federal Railroad Administration ("FRA") personal injuries in second quarter 2010. The FRA personal injuries frequency index improved to 1.13, a 14% improvement over 2009. Reported FRA train accident frequency rate increased 7% to 2.78, but remained at relatively low historical levels.

Key service metrics in second quarter improved from first quarter levels, but were mixed compared to 2009. On-time train originations and arrivals both declined to 78% and 71%, respectively. Dwell time improved to 23.7 hours from 24.1 hours in same quarter of 2009. Average train velocity declined 4% to 20.9 miles per hour. The Company strives to sustain key operating measures and service reliability at high levels, while increasing operational efficiency.

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

Operating Statistics (Estimated)

		Second Quarters		
		2010	2009	Improvement/ (Decline) %
Safety and Service Measurements	FRA Personal Injury Frequency Index	1.13	1.32	14%
	FRA Train Accident Rate	2.78	2.59	(7)%
	On-Time Train Originations	78%	83%	(6)%
	On-Time Destination Arrivals	71%	81%	(12)%
	Dwell	23.7	24.1	2%
	Cars-On-Line	210,106	218,313	4%
	Train Velocity	20.9	21.7	(4)%
				(Decrease)
Resources	Route Miles	21,123	21,190	-%
	Locomotives (owned and long-term leased)	4,067	4,108	(1)%
	Freight Cars (owned and long-term leased)	80,471	86,300	(7)%

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

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

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

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

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 AND RESULTS OF OPERATIONS

Volume and Revenue (Unaudited)
Volume (Thousands of units); Revenue (Dollars in millions); Revenue Per Unit (Dollars)
Second Quarters

	Volume		Revenue	Revenue Per Unit
	2010	2009		