CSX CORP
Form 10-Q
July 17, 2013

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 28, 2013

OR

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

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

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

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

No Change
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer", "accelerated filer” and "smaller reporting company" 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 1,018,837,313 shares of common stock outstanding on June 28, 2013 (the latest practicable date that is closest to the filing date).

1

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2013
INDEX

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
	Consolidated Income Statements (Unaudited) - Quarters and Six Months Ended June 28, 2013 and June 29, 2012	3
	Consolidated Comprehensive Income Statements (Unaudited) - Quarters and Six Months Ended June 28, 2013 and June 29, 2012	3
	Consolidated Balance Sheets - At June 28, 2013 (Unaudited) and December 28, 2012	4
	Consolidated Cash Flow Statements (Unaudited) - Six Months Ended June 28, 2013 and June 29, 2012	5
	Notes to Consolidated Financial Statements (Unaudited)	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4.	Controls and Procedures	38
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	CSX Purchases of Equity Securities	39
Item 3.	Defaults upon Senior Securities	40
Item 4.	Mine Safety Disclosures	40
Item 5.	Other Information	40
Item 6.	Exhibits	40
Signature		41

Table of Contents

CSX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENTS (Unaudited)
(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2013	2012	2013	2012
Revenue	$3,069	$3,012	$6,027	$5,978
Expense				
Labor and Fringe	777	744	1,544	1,514
Materials, Supplies and Other	560	550	1,067	1,092
Fuel	397	410	841	854
Depreciation	276	263	546	520
Equipment and Other Rents	96	102	191	199
Total Expense	2,106	2,069	4,189	4,179
Operating Income	963	943	1,838	1,799
Interest Expense	(140)	(139)	(287)	(283)
Other Income - Net	9	5	6	9
Earnings Before Income Taxes	832	809	1,557	1,525
Income Tax Expense	(297)	(297)	(563)	(564)
Net Earnings	$535	$512	$994	$961
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	$0.52	$0.49	$0.97	$0.92
Net Earnings Per Share, Assuming Dilution	$0.52	$0.49	$0.97	$0.92
Average Shares Outstanding (In millions)	1,022	1,041	1,022	1,044
Average Shares Outstanding, Assuming Dilution (In millions)	1,023	1,043	1,023	1,046
Cash Dividends Paid Per Common Share	$0.15	$0.14	$0.29	$0.26

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)
(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2013	2012	2013	2012
Total Comprehensive Earnings (Note 10)	$552	$529	$1,028	$987

See accompanying notes to consolidated financial statements.

3

Table of Contents
CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except per share amounts)

	(Unaudited) June 28, 2013	December 28, 2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$614	$784
Short-term Investments	403	587
Accounts Receivable - Net (Note 1)	946	962
Materials and Supplies	264	274
Deferred Income Taxes	144	119
Other Current Assets	118	75
Total Current Assets	2,489	2,801
Properties	36,149	35,279
Accumulated Depreciation	(9,550)	(9,229)
Properties - Net	26,599	26,050
Investment in Conrail	709	695
Affiliates and Other Companies	519	511
Other Long-term Assets	565	514
Total Assets	$30,881	$30,571
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$1,022	$1,014
Labor and Fringe Benefits Payable	452	468
Casualty, Environmental and Other Reserves (Note 4)	150	140
Current Maturities of Long-term Debt (Note 7)	564	780
Income and Other Taxes Payable	111	85
Other Current Liabilities	119	140
Total Current Liabilities	2,418	2,627
Casualty, Environmental and Other Reserves (Note 4)	299	337
Long-term Debt (Note 7)	8,811	9,052
Deferred Income Taxes	8,313	8,096
Other Long-term Liabilities	1,378	1,457
Total Liabilities	21,219	21,569
Shareholders' Equity:		
Common Stock $1 Par Value	1,019	1,020
Other Capital	44	28
Retained Earnings	9,482	8,876
Accumulated Other Comprehensive Loss (Note 10)	(902)	(936)
Noncontrolling Interest	19	14

Total Shareholders' Equity	9,662	9,002
Total Liabilities and Shareholders' Equity	$30,881	$30,571

See accompanying notes to consolidated financial statements.

Table of Contents

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

	Six Months 2013	2012
OPERATING ACTIVITIES		
Net Earnings	$994	$961
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	546	520
Deferred Income Taxes	172	300
Contributions to Qualified Pension Plans	—	(275)
Gain on Property Dispositions	(67)	(39)
Other Operating Activities	(61)	(22)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(14)	(7)
Other Current Assets	(31)	(70)
Accounts Payable	28	(72)
Income and Other Taxes Payable	40	118
Other Current Liabilities	(28)	(123)
Net Cash Provided by Operating Activities	1,579	1,291
INVESTING ACTIVITIES		
Property Additions	(1,085)	(1,223)
Purchase of Short-term Investments	(690)	(58)
Proceeds from Sales of Short-term Investments	904	546
Other Investing Activities	(50)	6
Net Cash Used in Investing Activities	(921)	(729)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	—	300
Long-term Debt Repaid (Note 7)	(455)	(455)
Dividends Paid	(296)	(270)
Stock Options Exercised (Note 3)	9	10
Shares Repurchased	(95)	(300)
Other Financing Activities	9	12
Net Cash Used in Financing Activities	(828)	(703)
Net Decrease in Cash and Cash Equivalents	(170)	(141)
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	784	783
Cash and Cash Equivalents at End of Period	$614	$642

Certain amounts have been reclassified to conform to the current year presentation.
See accompanying notes to consolidated financial statements.

5

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

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

Other entities

In addition to CSXT, the Company’s subsidiaries include CSX Intermodal Terminals, Inc. (“CSX Intermodal Terminals”), Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. CSX Intermodal Terminals owns and operates a system of intermodal terminals, predominantly in the eastern United States and also performs drayage services (the pickup and delivery of intermodal shipments) for certain CSXT customers and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations. Transflo connects non-rail served customers to the many benefits of rail by transferring products from rail to trucks. Today, the biggest Transflo markets are chemicals and agriculture, such as minerals and ethanol. CSX Technology and other subsidiaries provide support services for the Company.

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

Basis of Presentation

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

- Consolidated income statements for the quarters and six months ended June 28, 2013 and June 29, 2012;
- Consolidated comprehensive income statements for the quarters and six months ended June 28, 2013 and June 29, 2012;
- Consolidated balance sheets at June 28, 2013 and December 28, 2012; and
- Consolidated cash flow statements for the six months ended June 28, 2013 and June 29, 2012.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“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 subsequently filed 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 quarters of 2013 and 2012 consisted of 13 weeks ending on June 28, 2013 and June 29, 2012, respectively.
- Fiscal year 2013 and 2012 will each consist of 52 weeks ending on December 27, 2013 and December 28, 2012, respectively.

Except as otherwise specified, references to “second quarter(s)” or “six months” indicate CSX's fiscal periods ending June 28, 2013 and June 29, 2012, and references to "year-end" indicate the fiscal year ended December 28, 2012.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of $40 million and $36 million is included in the consolidated balance sheets as of the end of second quarter 2013 and December 2012, respectively.

New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update to the Comprehensive Income Topic in the Accounting Standards Codifications ("ASC"). This update requires separate presentation of the components that are reclassified out of accumulated other comprehensive income either on the face of the financial statements or in the notes to the financial statements. This update also requires companies to disclose the income statement line items impacted by any significant reclassifications, such as the amortization of pension and other post-employment benefits adjustments. These items are required for both interim and annual reporting for public companies and became effective for CSX beginning with the first quarter 2013 Form 10-Q filing.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Other Items

Share Repurchases

In April 2013, the Company announced a new $1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and pertinent facts guide the timing and volume of all repurchases. During second quarter 2013, CSX repurchased $95 million in shares. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

Amortization of Gain from Property Disposition

In November 2011, the Company sold an operating rail corridor to the state of Florida for a new commuter rail operation known as SunRail. This agreement obligated the Company to invest a total of $500 million in routine capital expenditures and maintenance related to transportation capacity, facilities or equipment in Florida, including diversion and relocation costs related to this transaction within the eight year period following the transaction. The Company invested $46 million and $72 million during the second quarters 2013 and 2012, respectively, and $142 million and $146 million for six months 2013 and 2012, respectively. The required investment obligation was fulfilled during the second quarter of 2013.

In accordance with the Real Estate Sales Topic in the ASC, this sale of real estate resulted in a deferred gain of $160 million. The deferred gain is primarily recognized into income ratably as the investment obligation is fulfilled. The Company recognized a gain of $14 million and $20 million in the second quarters of 2013 and 2012, respectively, and $43 million and $39 million for the six months ended 2013 and 2012, respectively. This gain is included in materials, supplies and other in the consolidated income statements. Going forward, the Company expects no further material gains.

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	
	2013	2012	2013	2012
Numerator (Dollars in millions):				
Net Earnings	$535	$512	$994	$961
Denominator (Units in millions):				
Average Common Shares Outstanding	1,022	1,041	1,022	1,044
Other Potentially Dilutive Common Shares [a]	1	2	1	2
Average Common Shares Outstanding, Assuming Dilution	1,023	1,043	1,023	1,046
Net Earnings Per Share, Basic	$0.52	$0.49	$0.97	$0.92
Net Earnings Per Share, Assuming Dilution	$0.52	$0.49	$0.97	$0.92

(a) Other potentially dilutive common shares include convertible debt, stock options, common stock equivalents and performance units granted under a long-term management incentive compensation plan.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, continued

Basic earnings per share is based on the weighted-average number of 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 represent the number of shares that would be issued if all of the above potentially dilutive instruments were converted into CSX common stock.

When calculating diluted earnings per share, 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.

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. An immaterial amount of conversions occurred during second quarters 2013 and 2012. As of the end of second quarter 2013, approximately $2 million of convertible debentures at face value remained outstanding, which are convertible into approximately 245 thousand shares of CSX common stock.

NOTE 3. Share-Based Compensation

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

On May 7, 2013, approximately 1.3 million performance units were granted to certain employees under a new long-term incentive plan ("LTIP") adopted under the CSX Stock and Incentive Award Plan. This LTIP provides for a three-year cycle ending in fiscal year 2015. Payouts of performance units will be based on the achievement of goals related to both operating ratio (operating expense divided by operating revenue) and return on assets (tax-adjusted operating income divided by net property) excluding non-recurring items as disclosed in the Company's financial statements. Operating ratio and return on assets will each comprise 50% of the payout and are measured independently of the other.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, continued

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 target awards depending on Company performance against predetermined goals for the three-year cycle ending with fiscal year 2015. Payouts for certain executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups.

Additionally, as part of the 2013 LTIP, the Company granted approximately 439 thousand restricted stock units to certain employees. The restricted stock units vest three years after the date of grant and participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and 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 the related income tax benefit are as follows:

	Second Quarters		Six Months	
(Dollars in millions)	2013	2012	2013	2012
Share-Based Compensation Expense	$5	$4	$2	$4
Income Tax Benefit	2	1	1	1

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

	Second Quarters		Six Months	
(In thousands)	2013	2012	2013	2012
Number of Stock Options Exercised	472	319	1,663	1,618
Number of Stock Options Expired	9	—	9	15

As of December 2009, all outstanding options were vested, and therefore, there will be no future expense related to these options. As of the end of second quarter 2013, CSX had no stock options outstanding, as all remaining stock options expired in May 2013.

NOTE 4. Casualty, Environmental and Other Reserves

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

	June 28, 2013			December 28, 2012		
(Dollars in millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	$79	$139	$218	$75	$158	$233
Occupational	4	23	27	5	31	36
Asbestos	7	46	53	8	48	56
Total Casualty	90	208	298	88	237	325
Environmental	42	45	87	33	55	88
Other	18	46	64	19	45	64
Total	$150	$299	$449	$140	$337	$477

These liabilities are accrued when estimable and probable in accordance with the Contingencies Topic in the ASC. Actual settlements and claims received could differ. The final outcome of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, they could have a material effect on the Company's financial condition, results of operations or liquidity in that particular period.

Casualty

Casualty reserves of $298 million for the second quarter 2013 represent accruals for personal injury, occupational injury and asbestos claims. The Company's self-insured retention amount for these claims is $50 million per occurrence. 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. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

Personal Injury

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

NOTE 4. Casualty, Environmental and Other Reserves, continued

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

Occupational & Asbestos

Occupational claims arise from allegations of exposures to certain materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as “irritants”) and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries, carpal tunnel syndrome and hearing loss. The Company is also party to a number of asbestos claims by current or former employees alleging exposure to asbestos in the workplace.

An analysis of occupational claims is performed quarterly by an independent third-party actuarial firm and reviewed by management. Management performs a quarterly review of asserted asbestos claims, and an analysis is performed annually by an independent third-party specialist and reviewed by management. The objective of the occupational and asbestos claims analyses performed by the third-party actuarial firm and specialist (the "third-party specialists") is to determine the number of incurred but not reported (“IBNR”) claims. The third-party specialists analyze CSXT's historical claim filings, settlement amounts, and dismissal rates to determine future anticipated claim filing rates and average settlement values for occupational and asbestos claims reserves. The potentially exposed population is estimated by using CSX's employment records and industry data. From this analysis, the third-party specialists provide an estimate of the IBNR claims liability.

Environmental

Environmental reserves were $87 million for the second quarter 2013. 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 245 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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:

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

Based on the review process, the Company has recorded amounts to cover contingent anticipated 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.

Currently, the Company does not possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, conditions that are currently unknown could, at any given location, result in additional exposure, the amount and materiality of which cannot presently be reasonably estimated. Based upon information currently available, however, the Company believes its environmental reserves accurately reflect the cost of remedial actions currently required.

Other

Other reserves of $64 million for the second quarter 2013 include liabilities for various claims, such as longshoremen disability claims, and claims for property, automobile and general liability.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies

Insurance

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the liability and property programs. The Company has a $25 million retention per occurrence for the non-catastrophic property program (such as a derailment) and a $50 million retention per occurrence for the liability and catastrophic property programs (such as hurricanes and floods).

While the Company believes its current insurance coverage is adequate to cover its damages, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

Legal

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 fuel surcharge, environmental and hazardous material exposure matters, FELA claims by employees, other personal injury or property 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 reasonably determined, 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 pending 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 that particular period.
The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be $4 million to $24 million in aggregate at June 28, 2013. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Fuel Surcharge Antitrust Litigation

In May 2007, class action lawsuits were filed against CSXT and three other U.S.-based Class I railroads alleging that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. In November 2007, the class action lawsuits were consolidated and are now pending in federal court in the District of Columbia. The suit seeks treble damages allegedly sustained by purported class members as well as attorneys' fees and other relief. Plaintiffs are expected to allege damages at least equal to the fuel surcharges at issue.

In June 2012, the court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2012, the Court of Appeals referred the petition to a merits panel, and directed the parties to submit briefs addressing both the petition and the merits of the appeal. The Court of Appeals heard oral arguments on May 3, 2013 but has not issued a ruling as of the date of this filing. Although the District Court issued an order to delay dissemination of notice to members of the certified class pending the outcome of the appeal, all other aspects of the underlying case are moving forward. Expert reports have been filed and motions for summary judgment and expert exclusions are due October 2, 2013.

CSXT believes that its fuel surcharge practices were arrived at and applied lawfully and that the case is without merit. Accordingly, the Company intends to defend itself vigorously. However, penalties for violating antitrust laws can be severe, and an unexpected adverse decision on the merits could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period or for the full year.

NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired on or before December 31, 2002, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation.

In addition to these plans, the Company sponsors a self-insured, post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Medicare-eligible retirees are covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Non-Medicare eligible retirees are covered by a self-insured program. The life insurance plan is non-contributory.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6. Employee Benefit Plans, continued

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

	Pension Benefits			
(Dollars in millions)	Second Quarters		Six Months	
	2013	2012	2013	2012
Service Cost	$13	$11	$25	$22
Interest Cost	27	30	54	61
Expected Return on Plan Assets	(41)	(42)	(81)	(81)
Amortization of Net Loss	25	21	50	41
Total Expense	$24	$20	$48	$43

	Other Post-retirement Benefits			
(Dollars in millions)	Second Quarters		Six Months	
	2013	2012	2013	2012
Service Cost	$1	$1	$2	$2
Interest Cost	3	4	6	8
Amortization of Net Loss	4	3	7	5
Amortization of Prior Service Costs	(1)	(1)	(1)	(1)
Total Expense	$7	$7	$14	$14

Qualified pension plan obligations are funded in accordance with prescribed regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. At this time, the Company anticipates that no contributions to its qualified pension plans will be required in 2013.

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of second quarter 2013 was as follows:

(Dollars in millions)	Current Portion	Long-term Portion	Total
Long-term debt as of December 2012	$780	$9,052	$9,832
2013 activity:			
Long-term debt repaid	(455)	—	(455)
Reclassifications	239	(239)	—
Discount and premium activity	—	(2)	(2)
Long-term debt as of second quarter 2013	$564	$8,811	$9,375

For fair value information related to the Company's long-term debt, see Note 9, Fair Value Measurements.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

Credit Facility

CSX has a $1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016, and as of the date of this filing, the Company has no outstanding balances under this facility. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. As of second quarter 2013, CSX was in compliance with all covenant requirements under this facility.

Receivables Securitization Facility

The Company's $250 million receivables securitization facility has a 364-day term and expires in June 2014. The Company's intention is to continue to renew this facility prior to its expiration. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 8. Income Taxes

During second quarter 2013, the Company recorded an income tax benefit of $17 million, or $0.02 per share, as a result of a deferred tax adjustment, the resolution of certain tax matters and a change in state tax legislation. During second quarter 2012, the Company recorded an income tax benefit of $9 million, or $0.01 per share, as a result of the resolution of certain tax matters as well as changes in state tax legislation. There have been no material changes to the balance of unrecognized tax benefits during second quarters 2013 and 2012.

NOTE 9. 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. Also, this rule clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

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)

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Fair Value Measurements, continued

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

Investments

The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds, government securities and auction rate securities and are carried at fair value on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. There are several valuation methodologies used for those assets as described below.

- Certificates of Deposit and Commercial Paper (Level 2): Valued by discounting the related cash flows based on current yields of similar instruments with comparable durations.
- Corporate Bonds and Government Securities (Level 2): Valued using price evaluations reflecting the bid and/or ask sides of the market for a similar investment as of the last day of the period.
- Auction Rate Securities (Level 3): Valued using a discounted cash flow model, because there is currently no active market for trading.

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. Additionally, the amortized cost basis of these investments was $595 million and $742 million as of June 28, 2013 and December 28, 2012, respectively.

	June 28, 2013				December 28, 2012			
(Dollars in Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	$—	$400	$—	$400	$—	$555	$—	$555
Corporate Bonds	—	131	—	131	—	122	—	122
Government Securities	—	51	—	51	—	51	—	51
Auction Rate Securities	—	—	15	15	—	—	15	15
Total investments at fair value	$—	$582	$15	$597	$—	$728	$15	$743

Certain prior year amounts have been reclassified to conform to the current year presentation.

These investments have the following maturities:

(Dollars in millions)	June 28, 2013	December 28, 2012
Less than 1 year	$403	$587
1 - 2 years	36	61
2 - 5 years	139	76
Greater than 5 years	19	19
Total	$597	$743

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9. Fair Value Measurements, continued

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

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

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

(Dollars in millions)	June 28, 2013	December 28, 2012
Long-term Debt (Including Current Maturities):		
Fair Value	$ 10,417	$ 11,562
Carrying Value	$ 9,375	$ 9,832

NOTE 10. Other Comprehensive Income

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the ASC in the Consolidated Comprehensive Income Statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were $552 million and $529 million for second quarters 2013 and 2012, respectively, and $1,028 million and $987 million for six months 2013 and 2012, 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 benefit adjustments and CSX's share of AOCI of equity method investees. Changes in the AOCI balance by component are shown in the table below.

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10. Other Comprehensive Income, continued

(Dollars in millions)	Pension and Other Post-Employment Benefits	Other [b]	Accumulated Other Comprehensive Income (Loss)
Balance December 28, 2012, Net of Tax	$(851)	$(85)	$(936)
Other Comprehensive Income (Loss)			
Amounts Reclassified to Net Earnings [a]	56	(2)	54
Tax Expense	(21)	1	(20)
Total Other Comprehensive Income (Loss)	35	(1)	34
Balance June 28, 2013, Net of Tax	$(816)	$(86)	$(902)

[a] Amounts reclassified to net earnings primarily relate to the amortization of actuarial losses and are included in labor and fringe on the consolidated income statements. See Note 6. Employee Benefit Plans for further information.

[b] Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified to net earnings are included in other income - net on the consolidated income statements.

NOTE 11. Summarized Consolidating Financial Data

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

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Second Quarter 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	$—	$3,050	$19	$3,069
Expense	(92)	2,213	(15)	2,106
Operating Income	92	837	34	963
Equity in Earnings of Subsidiaries	550	—	(550)	—
Interest (Expense) / Benefit	(128)	(15)	3	(140)
Other Income / (Expense) - Net	(2)	(3)	14	9
Earnings Before Income Taxes	512	819	(499)	832
Income Tax Benefit / (Expense)	23	(303)	(17)	(297)
Net Earnings	$535	$516	$(516)	$535
Total Comprehensive Earnings	$552	$518	$(518)	$552

Second Quarter 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	$—	$2,995	$17	$3,012
Expense	(89)	2,192	(34)	2,069
Operating Income	89	803	51	943
Equity in Earnings of Subsidiaries	557	—	(557)	—
Interest (Expense) / Benefit	(125)	(17)	3	(139)
Other Income / (Expense) - Net	(1)	1	5	5
Earnings Before Income Taxes	520	787	(498)	809
Income Tax (Expense) / Benefit	(8)	(270)	(19)	(297)
Net Earnings	$512	$517	$(517)	$512
Total Comprehensive Earnings	$529	$518	$(518)	$529

Table of Contents

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Six Months Ended June 28, 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	$—	$5,991	$36	$6,027
Expense	(185)	4,430	(56)	4,189
Operating Income	185	1,561	92	1,838
Equity in Earnings of Subsidiaries	1,036	(1)	(1,035)	—
Interest (Expense) / Benefit	(262)	(32)	7	(287)
Other Income / (Expense) - Net	(3)	(1)	10	6
Earnings Before Income Taxes	956	1,527	(926)	1,557
Income Tax (Expense) / Benefit	38	(565)	(36)	(563)
Net Earnings	$994	$962	$(962)	$994
Total Comprehensive Earnings	$1,028	$964	$(964)	$1,028

Six Months Ended June 29, 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	$—	$5,945	$33	$5,978
Expense	(176)	4,421	(66)	4,179
Operating Income	176	1,524	99	1,799
Equity in Earnings of Subsidiaries	1,034	(1)	(1,033)	—
Interest (Expense) / Benefit	(255)	(36)	8	(283)
Other Income / (Expense) - Net	(2)	4	7	9
Earnings Before Income Taxes	953	1,491	(919)	1,525
Income Tax (Expense) / Benefit	8	(533)	(39)	(564)
Net Earnings	$961	$958	$(958)	$961
Total Comprehensive Earnings	$987	$956	$(956)	$987

22

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in millions)

As of June 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	$441	$115	$58	$614
Short-term Investments	400	—	3	403
Accounts Receivable - Net	3	371	572	946
Receivable from Affiliates	1,060	2,219	(3,279)	—
Materials and Supplies	—	264	—	264
Deferred Income Taxes	64	79	1	144
Other Current Assets	12	96	10	118
Total Current Assets	1,980	3,144	(2,635)	2,489
Properties	8	34,109	2,032	36,149
Accumulated Depreciation	(8)	(8,489)	(1,053)	(9,550)
Properties - Net	—	25,620	979	26,599
Investments in Conrail	—	—	709	709
Affiliates and Other Companies	(39)	601	(43)	519
Investments in Consolidated Subsidiaries	19,455	—	(19,455)	—
Other Long-term Assets	182	385	(2)	565
Total Assets	$21,578	$29,750	$(20,447)	$30,881
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$123	$871	$28	$1,022
Labor and Fringe Benefits Payable	34	395	23	452
Payable to Affiliates	3,075	429	(3,504)	—
Casualty, Environmental and Other Reserves	—	134	16	150
Current Maturities of Long-term Debt	500	64	—	564
Income and Other Taxes Payable	(350)	450	11	111
Other Current Liabilities	—	117	2	119
Total Current Liabilities	3,382	2,460	(3,424)	2,418
Casualty, Environmental and Other Reserves	—	231	68	299
Long-term Debt	7,806	1,005	—	8,811
Deferred Income Taxes	(146)	8,320	139	8,313
Other Long-term Liabilities	893	612	(127)	1,378
Total Liabilities	$11,935	$12,628	$(3,344)	$21,219
Shareholders' Equity				

Common Stock, $1 Par Value	$1,019	$181	$(181)	$1,019
Other Capital	44	5,077	(5,077)	44
Retained Earnings	9,482	11,941	(11,941)	9,482
Accumulated Other Comprehensive Loss	(902)	(100)	100	(902)
Noncontrolling Interest	—	23	(4)	19
Total Shareholders' Equity	$9,643	$17,122	$(17,103)	$9,662
Total Liabilities and Shareholders' Equity	$21,578	$29,750	$(20,447)	$30,881

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Balance Sheet
(Dollars in millions)

As of December 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	$481	$235	$68	$784
Short-term Investments	555	—	32	587
Accounts Receivable - Net	3	427	532	962
Receivable from Affiliates	993	1,798	(2,791)	—
Materials and Supplies	—	274	—	274
Deferred Income Taxes	52	62	5	119
Other Current Assets	11	64	—	75
Total Current Assets	2,095	2,860	(2,154)	2,801
Properties	8	33,333	1,938	35,279
Accumulated Depreciation	(8)	(8,225)	(996)	(9,229)
Properties - Net	—	25,108	942	26,050
Investments in Conrail	—	—	695	695
Affiliates and Other Companies	(39)	593	(43)	511
Investment in Consolidated Subsidiaries	18,783	—	(18,783)	—
Other Long-term Assets	186	368	(40)	514
Total Assets	$21,025	$28,929	$(19,383)	$30,571
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$133	$846	$35	$1,014
Labor and Fringe Benefits Payable	35	391	42	468
Payable to Affiliates	2,679	411	(3,090)	—
Casualty, Environmental and Other Reserves	—	124	16	140
Current Maturities of Long-term Debt	700	80	—	780
Income and Other Taxes Payable	(262)	334	13	85
Other Current Liabilities	(1)	139	2	140
Total Current Liabilities	3,284	2,325	(2,982)	2,627
Casualty, Environmental and Other Reserves	—	256	81	337
Long-term Debt	8,005	1,047	—	9,052
Deferred Income Taxes	(153)	8,131	118	8,096
Other Long-term Liabilities	901	656	(100)	1,457
Total Liabilities	$12,037	$12,415	$(2,883)	$21,569
Shareholders' Equity				
Common Stock, $1 Par Value	$1,020	$181	$(181)	$1,020
Other Capital	28	5,672	(5,672)	28

Retained Earnings	8,876	10,740	(10,740)	8,876
Accumulated Other Comprehensive Loss	(936)	(102)	102	(936)
Noncontrolling Minority Interest	—	23	(9)	14
Total Shareholders' Equity	$8,988	$16,514	$(16,500)	$9,002
Total Liabilities and Shareholders' Equity	$21,025	$28,929	$(19,383)	$30,571

24

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Cash Flow Statements
(Dollars in millions)

Six months ended June 28, 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$582	$1,319	$(322)	$1,579
Investing Activities				
Property Additions	—	(988)	(97)	(1,085)
Purchases of Short-term Investments	(685)	—	(5)	(690)
Proceeds from Sales of Short-term Investments	840	—	64	904
Other Investing Activities	(2)	(35)	(13)	(50)
Net Cash Provided by (Used in) Investing Activities	153	(1,023)	(51)	(921)
Financing Activities				
Long-term Debt Repaid	(400)	(55)	—	(455)
Dividends Paid	(296)	(365)	365	(296)
Stock Options Exercised	9	—	—	9
Shares Repurchased	(95)	—	—	(95)
Other Financing Activities	7	4	(2)	9
Net Cash Provided by (Used in) Financing Activities	(775)	(416)	363	(828)
Net Increase (Decrease) in Cash and Cash Equivalents	(40)	(120)	(10)	(170)
Cash and Cash Equivalents at Beginning of Period	481	235	68	784
Cash and Cash Equivalents at End of Period	$441	$115	$58	$614

Table of Contents
CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued
Consolidating Cash Flow Statements
(Dollars in millions)

Six months ended June 29, 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$37	$1,445	$(191)	$1,291
Investing Activities				
Property Additions	—	(1,130)	(93)	(1,223)
Purchases of Short-term Investments	(50)	—	(8)	(58)
Proceeds from Sales of Short-term Investments	525	—	21	546
Other Investing Activities	(3)	97	(88)	6
Net Cash Provided by (Used in) Investing Activities	472	(1,033)	(168)	(729)
Financing Activities				
Long-term Debt Issued	300	—	—	300
Long-term Debt Repaid	(400)	(54)	(1)	(455)
Dividends Paid	(270)	(357)	357	(270)
Stock Options Exercised	10	—	—	10
Shares Repurchased	(300)	—	—	(300)
Other Financing Activities	7	5	—	12
Net Cash Provided by (Used in) Financing Activities	(653)	(406)	356	(703)
Net Increase (Decrease) in Cash and Cash Equivalents	(144)	6	(3)	(141)
Cash and Cash Equivalents at Beginning of Period	549	154	80	783
Cash and Cash Equivalents at End of Period	$405	$160	$77	$642

Table of Contents

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

SECOND QUARTER 2013 HIGHLIGHTS

- Record revenue of $3.1 billion increased $57 million or 2%.

- Expenses increased $37 million or 2% to $2.1 billion.

- Record operating income of $963 million increased $20 million or 2%.

- Record operating ratio of 68.6%.

	Second Quarters				Six Months			
	2013	2012	Change	% Change	2013	2012	Change	% Change
(in thousands)								
Volume	1,656	1,640	16	1%	3,234	3,242	(8)	—%
(in millions)								
Revenue	$3,069	$3,012	$57	2%	$6,027	$5,978	$49	1%
Expense	2,106	2,069	(37)	(2)	4,189	4,179	(10)	—
Operating Income	$963	$943	$20	2%	$1,838	$1,799	$39	2%
Operating Ratio	68.6%	68.7%	10	bps	69.5%	69.9%	40	bps
Earnings Per Diluted Share	$0.52	$0.49	$0.03	6%	$0.97	$0.92	$0.05	5%

Total revenue increased 2% year-over-year driven by volume growth and higher revenue per unit resulting from pricing gains across most markets. Expenses also increased 2% versus the prior year primarily as a result of inflation and higher incentive compensation. These increases in expenses were partially offset by efficiency-related cost savings, gains on operating properties and reduced fuel expense.

For additional information, refer to Results of Operations discussed on pages 28 through 32.

27

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

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		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
Agricultural									
Agricultural Products	95	101	(7)%	$248	$261	(5)%	$2,611	$2,584	2 %
Phosphates and Fertilizers	86	79	9	135	125	8	1,570	1,582	(1)
Food and Consumer	25	25	(1)	69	68	1	2,760	2,720	2
Industrial									
Chemicals	133	120	11	476	430	11	3,579	3,583	—
Automotive	113	111	2	318	302	5	2,814	2,721	3
Metals	66	67	(2)	163	163	—	2,470	2,433	2
Housing and Construction									
Forest Products	74	71	3	195	184	6	2,635	2,592	3
Minerals [(a)]	75	70	7	115	107	7	1,533	1,529	—
Waste and Equipment [(a)]	35	36	(2)	63	71	(11)	1,800	1,972	(10)
Total Merchandise	702	680	3	1,782	1,711	4	2,538	2,516	1
Coal	310	331	(6)	770	820	(6)	2,484	2,477	—
Intermodal	644	629	2	425	408	4	660	649	2
Other	—	—	—	92	73	25	—	—	—
Total	1,656	1,640	1 %	$3,069	$3,012	2 %	$1,853	$1,837	1 %

Six Months

	Volume			Revenue			Revenue Per Unit		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
Agricultural									
Agricultural Products	190	209	(10)%	$489	$536	(9)%	$2,574	$2,565	1 %
Phosphates and Fertilizers	170	159	7	279	256	9	1,641	1,610	2
Food and Consumer	49	50	(2)	137	135	1	2,796	2,700	3
Industrial									
Chemicals	263	237	11	944	845	12	3,589	3,565	1
Automotive	218	216	1	611	583	5	2,803	2,699	4
Metals	132	139	(5)	324	334	(3)	2,455	2,403	2
Housing and Construction									
Forest Products	147	144	2	384	365	5	2,612	2,535	3
Minerals [(a)]	132	127	4	211	201	5	1,598	1,583	1
Waste and Equipment [(a)]	67	70	(4)	120	131	(9)	1,791	1,871	(5)
Total Merchandise	1,368	1,351	1	3,499	3,386	3	2,558	2,506	2

Coal	607	662	(8	)	1,496	1,652	(9	)	2,465	2,495	(1	)
Intermodal	1,259	1,229	2		829	797	4		658	648	2	
Other	—	—	—		203	143	42		—	—	—	
Total	3,234	3,242	—	%	$6,027	$5,978	1	%	$1,864	$1,844	1	%

[a] Prior periods have been reclassified to conform to current presentation.

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

Second Quarter 2013
Revenue

Volume increased 1% year-over-year as growth in merchandise and intermodal more than offset lower coal volume. Total revenue increased by 2% year-over-year driven by volume growth and higher revenue per unit resulting from pricing gains across most markets.

Merchandise

Agricultural Sector

Agricultural Products - Volume decreased due to lower shipments of feed grain, soybeans and ethanol. Feed grain and soybean shipments were impacted by low supplier inventories caused by last year's drought and increased competition from imports. Ethanol shipments declined as a result of lower gasoline demand in the U.S. and reduced production.

Phosphates and Fertilizers - Volume increased as the reopening of a customer mine and higher demand led to more short haul phosphate rock shipments to fertilizer production facilities. Fertilizer volume also grew as low crop inventories and strong crop prices led to an increase in application by farms to improve crop yields.

Food and Consumer - Volume declined due to a reduction in alcoholic beverage shipments. This reduction was primarily driven by consolidation within a customer's distribution network that resulted in lower shipments for CSX.

Industrial Sector

Chemicals - Volume growth was driven by an increase in energy-related shipments that include crude oil, liquefied petroleum gas (LPG) and frac sand. The rise in crude oil shipments was due to increased supply of low-cost crude from shale drilling activity, resulting in new shipments to east coast refineries.

Automotive - Automotive volume grew as North American light vehicle production increased 5% year-over-year. This increase was partially offset by competitive losses that occurred earlier this year in both automotive parts and finished vehicles.

Metals - Volume decreased due to lower shipments of sheet steel that were negatively impacted by competitive losses that occurred earlier this year and capacity reductions from mill closures.

Housing and Construction Sector

Forest Products - Volume growth was led by an increase in building product shipments due to the continued recovery of the residential housing market.

Minerals - Volume increased in aggregates (which include crushed stone, sand and gravel) due to the continued recovery in construction activity and modal conversion growth with an existing customer.

Waste and Equipment - Volume decreased as military and machinery shipments were negatively impacted by government budget constraints and the expiration of the federal tax credit on the production of wind energy machinery. Partially offsetting these decreases was growth in waste shipments which was driven by an increase in construction debris due to the continued recovery in construction activity and environmental remediation projects.

Coal

Export declines were driven by decreased shipments of U.S. thermal coal, primarily to Europe, and increased competition from other countries due to global oversupply. Partially offsetting this decrease, shipments of domestic coal increased due to higher coal generation as natural gas prices increased.

Intermodal

Domestic volume growth was driven by highway-to-rail conversions, expanded service offerings and growth with existing customers. International volume was up slightly as new services were partially offset by volume lost as a result of carrier port shifts.

Other

Other revenue increased year over year primarily due to higher revenue of $16 million from customers who did not meet minimum contractual volumes.

Table of Contents

Expenses

Expenses in the second quarter 2013 increased $37 million from the prior year's second quarter. Significant variances are described below.

Labor and Fringe expense increased $33 million due to the following:

- Incentive compensation costs were $24 million higher reflecting higher expected award payouts.

- Efficiencies, despite volume growth, reduced labor costs $19 million due to the year-over-year improvement in crew starts and overtime, reduced headcount, as well as training savings due to lower hiring.

- Wage expense increased $18 million as a result of inflation.

- Various other costs increased $10 million during the quarter.

Materials, Supplies and Other expense increased $10 million due to the following:

- Gains on operating rail properties increased year-over-year by $16 million. During the quarter, a gain of $22 million was recognized due to a non-monetary exchange of easements and rail assets. Additionally, the recognition of the deferred gain from the 2011 sale of an operating rail corridor to the state of Florida decreased $6 million year-over-year.

- Inflation increased $10 million.

- Train accidents and various other costs increased $16 million during the quarter, primarily driven by costs related to derailments, despite the improvement of the FRA train accident frequency rate.

Fuel expense decreased $13 million due to improved efficiency and a lower average price per gallon of 2% for locomotive fuel.

Depreciation expense increased $13 million due to larger asset base.

Interest expense increased $1 million primarily due to higher average debt balances during second quarter 2013 partially offset by lower average interest rates.

Other income - net increased $4 million primarily due to higher non-operating income.

Income tax expense was flat year over year primarily due higher earnings offset by a deferred tax adjustment, the resolution of certain tax matters and a change in state tax legislation.

Six Months Results of Operations

Revenue increased $49 million to $6,027 million as a result of volume growth in many of the markets CSX serves along with higher yields resulting from pricing gains across most markets. Other revenue also increased primarily due to higher revenue from customers who did not meet minimum contractual volumes.

Operating income increased $39 million to $1,838 million primarily due to higher revenue, lower labor costs as a result of efficiency and gains on operating properties partially offset by inflation, higher incentive compensation and depreciation costs.

Interest expense increased $4 million primarily due to higher average debt balances during six months 2013 partially offset by lower average interest rates.

Other income-net decreased $3 million primarily due to higher non-operating expenses.

Income tax expense decreased $1 million primarily due to the extension of certain prior year tax credits, a deferred tax adjustment, the resolution of certain tax matters as well as changes in state tax legislation partially offset by higher earnings.

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

Operating Statistics (Estimated)

	Second Quarters			Six Months		
	2013	2012	Improvement (Decline)	2013	2012	Improvement (Decline)
Safety and Service Measurements						
FRA Personal Injury Frequency Index	0.93	0.65	(43)%	0.81	0.72	(13)%
FRA Train Accident Rate	1.81	1.95	7%	1.71	2.10	19%
On-Time Train Originations	91%	89%	2%	91%	89%	2%
On-Time Destination Arrivals	82%	78%	5%	84%	77%	9%
Train Velocity	23.0	22.4	3%	23.3	22.4	4%
Dwell	21.9	23.2	6%	22.1	23.6	6%
Cars-On-Line	181,929	189,974	4%	182,572	192,214	5%
Resources			Increase (Decrease)			
Route Miles	20,777	20,830	—%			
Locomotives (owned and long-term leased)	4,212	4,177	1%			
Freight Cars (owned and long-term leased)	68,983	70,000	(1)%			

The Company measures and reports safety and service performance. The Company strives for continuous improvement in these measures through training, innovation and investment. For example, the Company's safety and train accident prevention programs rely on the latest tools, programs and employee participation that strengthen the safety culture in a supportive environment that allows each employee to be successful at CSX. Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance. CSX safety programs are designed to prevent incidents that can impact employees, customers and the communities we serve.

The Company routinely collaborates with the Federal Railroad Administration ("FRA") and industry organizations as well as federal, state and local governments on the development and implementation of safety programs and initiatives. For example, CSX, Operation Lifesaver, Inc., the U.S. Department of Transportation and other major railroads from across the country have partnered in the Common Sense campaign to reduce the number of injuries and deaths around tracks and trains. In addition to these initiatives, CSXT also has an ongoing public safety program to clear-cut trees and vegetation at public passive highway-rail intersections (crossings with no flashing lights or gates) to improve the public's ability to discern rail hazards.

At CSX, operational success is built on employee commitment to maintaining a constant focus on safety. During second quarter 2013, the FRA reportable personal injury frequency index increased 43 percent to 0.93; however, CSX remains a leader in a very safe industry. The reported FRA train accident frequency rate improved 7 percent year over year to 1.81 reflecting continued momentum in accident reduction.

Network reliability and service metrics showed strong improvements during second quarter 2013. On-time originations improved 2 percent to 0.91 percent, and on-time arrivals improved 5 percent to 0.82 percent. Average train velocity increased 3 percent to 23 miles per hour, and dwell improved 6 percent to 21.9 hours.

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

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).

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

LIQUIDITY AND CAPITAL RESOURCES

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

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

Consolidated Balance Sheets

Total assets increased $310 million from year end primarily due to the increase in net properties of$549 million resulting from capital investments. This increase was partially offset by the decline in cash (including short-term investment activity) of $354 million.

Total liabilities and shareholders' equity combined increased $310 million from year end which was primarily due to net earnings of $994 million and deferred income taxes of $217 million. Partially offsetting these increases were debt repayments of $455 million, dividends paid of $296 million and share repurchases of $95 million.

Significant Cash Flows

Cash decreased in both years, however, the decrease was $29 million more for the six months ended 2013 primarily due to the following:

- No debt issued versus $300 million in the prior year

- Lower proceeds from net sales of short-term investments of $274 million

The above decreases were partially offset by the following increases in cash:

- No pension plan contribution versus $275 million in the prior year
- Lower share repurchases of $205 million

Planned capital investments for 2013 are $2.3 billion, including expected spending of approximately $325 million for Positive Train Control ("PTC"). This amount excludes investments related to partially or wholly reimbursable public-private partnerships where reimbursements may not be fully received in a given year. Over half of the 2013 investment will be used to sustain the core infrastructure. The remaining amounts will be allocated to locomotives, freight cars, high return projects that drive growth and productivity such as intermodal terminal capacity and major track expansion along the River Line between northern New Jersey and the Albany, N.Y., region. CSX intends to fund capital investments through cash generated from operations.

Over the long term, the Company expects to incur significant capital costs in connection with the implementation of PTC. CSX estimates that the total multi-year cost of PTC implementation will be at least $1.7 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending life-to-date through June 2013 was $713 million.

Liquidity and Working Capital

As of the end of second quarter 2013, CSX had $1,017 million of cash, cash equivalents and short-term investments. CSX has a $1 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016 and as of the date of this filing, the Company has no outstanding balances under this facility. CSX uses current cash balances for general corporate purposes, which may include reduction or refinancing of outstanding indebtedness, capital expenditures, working capital requirements, contributions to the Company's qualified pension plan, redemptions and repurchases of CSX common stock and dividends to shareholders. See Note 7, Debt and Credit Agreements.

The Company's $250 million receivables securitization facility has a 364-day term and expires in June 2014. The Company's intention is to continue to renew this facility prior to its expiration. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of $71 million and $174 million as of June 2013 and December 2012, respectively. This decline since year end is primarily due to cash used for capital investments, long-term debt repaid and dividends paid which more than offset cash from operations.

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

35

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

CRITICAL ACCOUNTING ESTIMATES

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

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

For further discussion of CSX's critical accounting estimates, see the Company's most recent annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

Certain statements in this report and in other materials filed with the SEC, as well as information included in oral statements or other written statements made by the Company, are forward-looking statements. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements within the meaning of the Private Securities Litigation Reform Act may contain, among others, statements regarding:

- projections and estimates of earnings, revenues, margins, volumes, rates, cost-savings, expenses, taxes or other financial items;
- expectations as to results of operations and operational initiatives;
- expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition, results of operations or liquidity;
- management's plans, strategies and objectives for future operations, capital expenditures, dividends, share repurchases, safety and service performance, proposed new services and other matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and
- future economic, industry or market conditions or performance and their effect on the Company's financial condition, results of operations or liquidity.

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

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

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, and initiatives to further regulate the rail industry;
- the outcome of litigation, claims and other contingent liabilities, including, but not limited to, those related to fuel surcharge, environmental matters, taxes, shipper and rate claims subject to adjudication, personal injuries and occupational illnesses;
- changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation) and the level of demand for products carried by CSXT;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property or equipment;
- competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;
- the cost of compliance with laws and regulations that differ from expectations (including those associated with Positive Train Control implementation) and costs, penalties and operational impacts associated with noncompliance with applicable laws or regulations;
- the impact of increased passenger activities in capacity-constrained areas, including potential effects of high speed rail initiatives, or regulatory changes affecting when CSXT can transport freight or service routes;
- unanticipated conditions in the financial markets that may affect timely access to capital markets and the cost of capital, as well as management's decisions regarding share repurchases;
- changes in fuel prices, surcharges for fuel and the availability of fuel;
- the impact of natural gas prices on coal-fired electricity generation;

- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;
- the inherent business risks associated with safety and security, including a cybersecurity attack which would threaten the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- labor and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or customers' ability to deliver goods to the Company for shipment;
- the Company's success in implementing its strategic, financial and operational initiatives;
- changes in operating conditions and costs or commodity concentrations; and
- the inherent uncertainty associated with projecting economic and business conditions.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

As of June 28, 2013, under the supervision and with the participation of CSX's Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of June 28, 2013, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the second quarter of 2013 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Table of Contents

CSX CORPORATION
PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Fuel Surcharge Antitrust Litigation

For further details, please refer to Note 5. Commitments and Contingencies of this quarterly report on Form 10-Q.

Item 1A. Risk Factors

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

Item 2. CSX Purchases of Equity Securities

CSX is required to disclose any purchases of its own common stock for the most recent quarter. CSX purchases its own shares for two primary reasons: to further its goals under its share repurchase program and to fund the Company’s contribution required to be paid in CSX common stock under a 401(k) plan which covers certain union employees.
In April 2013, CSX announced a new $1 billion share repurchase program which is expected to be completed by April 2015. Management's assessment of market conditions and pertinent facts guide the timing and volume of all repurchases.
Share repurchase activity of $95 million for the second quarter 2013 was as follows:

	CSX Purchases of Equity Securities for the Quarter			
Second Quarter [a]	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				$1,000,000,000
April	174,300	$23.80	174,300	995,851,785
May	1,651,900	25.12	1,651,900	954,361,436
June	2,004,900	24.84	2,004,900	904,565,098
Ending Balance	3,831,100	$24.91	3,831,100	$904,565,098

(a) Second quarter 2013 consisted of the following fiscal periods: April (March 30, 2013 - April 26, 2013), May (April 27, 2013 - May 24, 2013), June (May 25, 2013 - June 28, 2013).

39

Table of Contents
CSX CORPORATION
PART II

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

3.2 Bylaws of CSX Corporation, amended and restated effective as of July 10, 2013 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on July 10, 2013)

10.1 CSX 2013-2015 Long-term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on May 13, 2013)

31* Rule 13a-14(a) Certifications

32* Section 1350 Certifications

101* The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended June 28, 2013 filed with the SEC on July 17, 2013, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended June 28, 2013 and June 29, 2012, (ii) consolidated comprehensive income statements for the fiscal periods ended June 28, 2013 and June 29, 2012, (iii) consolidated balance sheets at June 28, 2013 and December 28, 2012, (iv) consolidated cash flow statements for the fiscal periods ended June 28, 2013 and June 29, 2012, and (v) the notes to consolidated financial statements.

* Filed herewith

Signature

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

CSX CORPORATION
(Registrant)

By: /s/ Carolyn T. Sizemore
Carolyn T. Sizemore
Vice President and Controller
(Principal Accounting Officer)

Dated: July 17, 2013