

CSX CORP  
Form 10-Q  
April 16, 2013

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

FORM 10-Q

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

For the quarterly period ended March 29, 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  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

Accelerated Filer

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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

There were 1,021,960,630 shares of common stock outstanding on March 29, 2013 (the latest practicable date that is closest to the filing date).

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CSX CORPORATION  
 FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED MARCH 29, 2013  
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## CSX CORPORATION

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	First Quarters		
	2013	2012	
Revenue	\$2,958	\$2,966	
Expense			
Labor and Fringe	767	770	
Materials, Supplies and Other	507	542	
Fuel	444	444	
Depreciation	270	257	
Equipment and Other Rents	95	97	
Total Expense	2,083	2,110	
Operating Income	875	856	
Interest Expense	(147	)(144	)
Other (Expense) Income - Net	(3	)4	)
Earnings Before Income Taxes	725	716	
Income Tax Expense	(266	)(267	)
Net Earnings	\$459	\$449	
Per Common Share (Note 2)			
Net Earnings Per Share, Basic	\$0.45	\$0.43	
Net Earnings Per Share, Assuming Dilution	\$0.45	\$0.43	
Average Shares Outstanding (In millions)	1,022	1,047	
Average Shares Outstanding, Assuming Dilution (In millions)	1,023	1,049	
Cash Dividends Paid Per Common Share	\$0.14	\$0.12	

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Total Comprehensive Earnings (Note 10)	\$476	\$458
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See accompanying notes to consolidated financial statements.



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## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	(Unaudited) March 29, 2013	December 28, 2012	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$705	\$784	
Short-term Investments	367	587	
Accounts Receivable - Net (Note 1)	976	962	
Materials and Supplies	283	274	
Deferred Income Taxes	133	119	
Other Current Assets	103	75	
Total Current Assets	2,567	2,801	
Properties	35,674	35,279	
Accumulated Depreciation	(9,386)	(9,229)	)
Properties - Net	26,288	26,050	
Investment in Conrail	703	695	
Affiliates and Other Companies	512	511	
Other Long-term Assets	516	514	
Total Assets	\$30,586	\$30,571	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Accounts Payable	\$1,043	\$1,014	
Labor and Fringe Benefits Payable	376	468	
Casualty, Environmental and Other Reserves (Note 4)	139	140	
Current Maturities of Long-term Debt (Note 7)	572	780	
Income and Other Taxes Payable	206	85	
Other Current Liabilities	138	140	
Total Current Liabilities	2,474	2,627	
Casualty, Environmental and Other Reserves (Note 4)	323	337	
Long-term Debt (Note 7)	8,846	9,052	
Deferred Income Taxes	8,202	8,096	
Other Long-term Liabilities	1,393	1,457	
Total Liabilities	21,238	21,569	
Shareholders' Equity:			
Common Stock \$1 Par Value	1,022	1,020	
Other Capital	36	28	
Retained Earnings	9,191	8,876	
Accumulated Other Comprehensive Loss (Note 10)	(919)	(936)	)
Noncontrolling Interest	18	14	

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Total Shareholders' Equity	9,348	9,002
Total Liabilities and Shareholders' Equity	\$30,586	\$30,571

See accompanying notes to consolidated financial statements.

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## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

	First Quarters 2013	2012	
<b>OPERATING ACTIVITIES</b>			
Net Earnings	\$459	\$449	
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	270	257	
Deferred Income Taxes	82	195	
Contributions to Qualified Pension Plans	—	(275)	)
Gain on Property Dispositions	(30)	(19)	)
Other Operating Activities	(57)	(37)	)
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(42)	(36)	)
Other Current Assets	(38)	(52)	)
Accounts Payable	48	83	
Income and Other Taxes Payable	127	30	
Other Current Liabilities	(88)	(151)	)
Net Cash Provided by Operating Activities	731	444	
<b>INVESTING ACTIVITIES</b>			
Property Additions	(491)	(469)	)
Purchase of Short-term Investments	(290)	(53)	)
Proceeds from Sales of Short-term Investments	534	437	
Other Investing Activities	(18)	8	
Net Cash Used in Investing Activities	(265)	(77)	)
<b>FINANCING ACTIVITIES</b>			
Long-term Debt Issued (Note 7)	—	300	
Long-term Debt Repaid (Note 7)	(413)	(413)	)
Dividends Paid	(143)	(125)	)
Stock Options Exercised (Note 3)	6	8	
Shares Repurchased	—	(300)	)
Other Financing Activities	5	7	
Net Cash Used in Financing Activities	(545)	(523)	)
Net Decrease in Cash and Cash Equivalents	(79)	(156)	)
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and Cash Equivalents at Beginning of Period	784	783	
Cash and Cash Equivalents at End of Period	\$705	\$627	

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





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CSX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

CSX's principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Company's intermodal business, 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 ended March 29, 2013 and March 30, 2012;
- Consolidated comprehensive income statements for the quarters ended March 29, 2013 and March 30, 2012;
- Consolidated balance sheets at March 29, 2013 and December 28, 2012; and
- Consolidated cash flow statements for the quarters ended March 29, 2013 and March 30, 2012.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent annual report on Form 10-K and any 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 first fiscal quarters of 2013 and 2012 consisted of 13 weeks ending on March 29, 2013 and March 30, 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 "first quarter(s)" or "three months" indicate CSX's fiscal periods ending March 29, 2013 and March 30, 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 \$37 million and \$36 million is included in the consolidated balance sheets as of the end of first 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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Other Items

## Share Repurchases and Dividend Increase

In April 2013, the Company announced a 7 percent increase in the quarterly dividends to \$0.15 per common share and announced a new \$1 billion share repurchase program, which is expected to be completed in the next 24 months. There were no share repurchases during first quarter 2013.

## Amortization of Gain from Property Disposition

In November 2011, the Company sold 61 miles of operating rail corridor to the Florida Department of Transportation for a new commuter rail operation known as SunRail. As part of the transaction, the Company received \$173 million in proceeds and will receive up to \$259 million in government grants for a total of \$432 million. This agreement also 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.

In accordance with the Real Estate Sales Topic in the ASC, the sale of real estate resulted in a deferred gain of \$160 million. The deferred gain is recognized into income ratably as the investment obligation is fulfilled. The Company recognized a gain of \$29 million and \$19 million in the first quarters of 2013 and 2012, respectively. This gain is included in materials, supplies and other in the consolidated income statements. The deferred gain balance included in the consolidated balance sheets is presented in the table below.

(Dollars in Millions)	Deferred gain as of	
	March 2013	December 2012
Current portion, included in Other Current Liabilities	\$23	\$43
Long term portion, included in Other Long-Term Liabilities	—	9
Total	\$23	\$52



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share

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

	First Quarters	
	2013	2012
Numerator (Dollars in millions):		
Net Earnings	\$459	\$449
Denominator (Units in millions):		
Average Common Shares Outstanding	1,022	1,047
Other Potentially Dilutive Common Shares <sup>(a)</sup>	1	2
Average Common Shares Outstanding, Assuming Dilution	1,023	1,049
Net Earnings Per Share, Basic	\$0.45	\$0.43
Net Earnings Per Share, Assuming Dilution	\$0.45	\$0.43

(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.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 2. Earnings Per Share, continued

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 first quarters 2013 and 2012. As of the end of first 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.

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

(Dollars in millions)	First Quarters	
	2013	2012
Share-Based Compensation Benefit <sup>(a)</sup>	\$(3	)\$—
Income Tax Expense	1	—

(a) Share-based compensation was a benefit in first quarter 2013 and was zero in first quarter 2012 driven by lower anticipated payouts on long-term incentive compensation.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 3. Share-Based Compensation, continued

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

(In thousands)	First Quarters	
	2013	2012
Number of Stock Options Exercised	1,191	1,299
Number of Stock Options Expired	—	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 first quarter 2013, CSX had approximately 481 thousand stock options outstanding.

## 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:

(Dollars in millions)	March 29, 2013			December 28, 2012		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$75	\$152	\$227	\$75	\$158	\$233
Occupational	5	23	28	5	31	36
Asbestos	8	48	56	8	48	56
Total Casualty	88	223	311	88	237	325
Environmental	33	56	89	33	55	88
Other	18	44	62	19	45	64
Total	\$139	\$323	\$462	\$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.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves of \$311 million for the first 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.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Environmental

Environmental reserves were \$89 million for the first 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 250 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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

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

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Other

Other reserves of \$62 million for the first quarter 2013 include liabilities for various claims, such as longshoremen disability claims, and claims for property, automobile and general liability.

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 \$3 million to approximately \$20 million in aggregate at March 29, 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.

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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.

On June 21, 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. On August 28, 2012, the Court of Appeals referred the petition to a merits panel, and directed that the parties to the case submit briefs addressing both the petition and the merits of the appeal. The Court of Appeals set oral arguments on the appeal for May 2013. The District Court stayed dissemination of notice to members of the class certified pending the outcome of the appeal.

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 will continue to be covered by the existing self-insured program. The life insurance plan is non-contributory.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 6. Employee Benefit Plans, continued

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

(Dollars in millions)	Pension Benefits		Other Post-retirement Benefits	
	First Quarters		First Quarters	
	2013	2012	2013	2012
Service Cost	\$12	\$11	\$1	\$1
Interest Cost	27	31	3	4
Expected Return on Plan Assets	(40	)(39	) —	—
Amortization of Net Loss	25	20	3	2
Total Expense	\$24	\$23	\$7	\$7

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 first 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	(413	)—	(413
Reclassifications	205	(205	)—
Discount and premium activity	—	(1	)(1
Long-term debt as of first quarter 2013	\$572	\$8,846	\$9,418

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

## 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 first quarter 2013, CSX was in compliance with all covenant requirements under this facility.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

Receivables Securitization Facility

The Company's \$250 million receivables securitization facility has a 364-day term and expires in December 2013. 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

There have been no material changes to the balance of unrecognized tax benefits during the first quarter 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)

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, corporate bonds, U.S. 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.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

• 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 U.S. 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 calendar plan year.

• 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 \$524 million and \$742 million as of March 29, 2013 and December 28, 2012, respectively.

(Dollars in Millions)	March 2013				December 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	\$—	\$330	\$—	\$330	\$—	\$555	\$—	\$555
Corporate Bonds	—	130	—	130	—	122	—	122
U.S. Government Securities	—	51	—	51	—	51	—	51
Auction Rate Securities	—	—	15	15	—	—	15	15
Total investments at fair value	\$—	\$511	\$15	\$526	\$—	\$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)	March 29, 2013	December 28, 2012
Less than 1 year	\$362	\$587
1 - 2 years	46	61
2 - 5 years	99	76
Greater than 5 years	19	19
Total	\$526	\$743

## 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.



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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

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)	March 29, 2013	December 28, 2012
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 10,940	\$ 11,562
Carrying Value	\$ 9,418	\$ 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 \$476 million and \$458 million for first quarters 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.

(Dollars in millions)	Pension and Other Post-Employment Benefits	Other <sup>(b)</sup>	Accumulated Other Comprehensive Income (Loss)
Balance December 28, 2012, Net of Tax	\$(851	)\$(85	)\$(936
Other Comprehensive Income (Loss)			
Loss (Income) Reclassified to Net Earnings <sup>(a)</sup>	28	(1	)27
Tax Expense	(10	)—	(10
Total Other Comprehensive Income (Loss)	18	(1	)17
Balance March 29, 2013, Net of Tax	\$(833	)\$(86	)\$(919

<sup>(a)</sup> Pension and Other Post-Employment Benefit reclassifications to net earnings primarily relate to the amortization of actuarial losses of \$28 million in first quarter 2013 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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Summarized Consolidating Financial Data

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

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

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

First Quarter 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$2,941	\$17	\$2,958
Expense	(93)	)2,217	(41)	)2,083
Operating Income	93	724	58	875
Equity in Earnings of Subsidiaries	486	(1	)(485	)—
Interest (Expense) / Benefit	(134	)(17	)4	(147 )
Other Income / (Expense) - Net	(1	)2	(4	)(3 )
Earnings Before Income Taxes	444	708	(427	)725
Income Tax Benefit / (Expense)	15	(262	)(19	)(266 )
Net Earnings	\$459	\$446	\$(446	)\$459
Total Comprehensive Earnings	\$476	\$446	\$(446	)\$476
First Quarter 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$2,950	\$16	\$2,966
Expense	(87	)2,229	(32	)2,110
Operating Income	87	721	48	856
Equity in Earnings of Subsidiaries	477	(1	)(476	)—
Interest (Expense) / Benefit	(130	)(19	)5	(144 )
Other Income / (Expense) - Net	(1	)3	2	4
Earnings Before Income Taxes	433	704	(421	)716
Income Tax (Expense) / Benefit	16	(263	)(20	)(267 )
Net Earnings	\$449	\$441	\$(441	)\$449
Total Comprehensive Earnings	\$458	\$438	\$(438	)\$458

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

As of First Quarter 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	\$445	\$208	\$52	\$705	
Short-term Investments	330	—	37	367	
Accounts Receivable - Net	—	383	593	976	
Receivable from Affiliates	1,113	1,939	(3,052)	)—	
Materials and Supplies	—	283	—	283	
Deferred Income Taxes	57	71	5	133	
Other Current Assets	12	89	2	103	
Total Current Assets	1,957	2,973	(2,363)	)2,567	
Properties	8	33,690	1,976	35,674	
Accumulated Depreciation	(8	) (8,353	) (1,025	) (9,386	)
Properties - Net	—	25,337	951	26,288	
Investments in Conrail	—	—	703	703	
Affiliates and Other Companies	(39	) 594	(43	) 512	
Investments in Consolidated Subsidiaries	19,093	—	(19,093	)—	
Other Long-term Assets	185	367	(36	) 516	
Total Assets	\$21,196	\$29,271	\$(19,881	) \$30,586	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$163	\$855	\$25	\$1,043	
Labor and Fringe Benefits Payable	33	315	28	376	
Payable to Affiliates	2,801	473	(3,274	)—	
Casualty, Environmental and Other Reserves	—	123	16	139	
Current Maturities of Long-term Debt	500	72	—	572	
Income and Other Taxes Payable	(181	) 377	10	206	
Other Current Liabilities	—	135	3	138	
Total Current Liabilities	3,316	2,350	(3,192	) 2,474	
Casualty, Environmental and Other Reserves	—	250	73	323	
Long-term Debt	7,806	1,040	—	8,846	
Deferred Income Taxes	(154	) 8,224	132	8,202	
Other Long-term Liabilities	898	625	(130	) 1,393	
Total Liabilities	\$11,866	\$12,489	\$(3,117	) \$21,238	
<b>Shareholders' Equity</b>					

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Common Stock, \$1 Par Value	\$1,022	\$181	\$(181	)\$1,022
Other Capital	36	5,074	(5,074	)36
Retained Earnings	9,191	11,607	(11,607	)9,191
Accumulated Other Comprehensive Loss	(919	)(102	)102	(919 )
Noncontrolling Interest	—	22	(4	)18
Total Shareholders' Equity	\$9,330	\$16,782	\$(16,764	)\$9,348
Total Liabilities and Shareholders' Equity	\$21,196	\$29,271	\$(19,881	)\$30,586

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

As of December 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>ASSETS</b>				
<b>Current Assets</b>				
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
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
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
<b>Shareholders' Equity</b>				
Common Stock, \$1 Par Value	\$1,020	\$181	\$(181	) \$1,020
Other Capital	28	5,672	(5,672	) 28

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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

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

First Quarter 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	\$272	\$689	\$(230)	)\$731
Investing Activities				
Property Additions	—	(458)	)(33	)(491)
Purchases of Short-term Investments	(285)	)—	(5	)(290)
Proceeds from Sales of Short-term Investments	510	—	24	534
Other Investing Activities	—	(63)	)45	(18)
Net Cash Provided by (Used in) Investing Activities	225	(521)	)31	(265)
Financing Activities				
Long-term Debt Repaid	(400)	)(13	)—	(413)
Dividends Paid	(143)	)(182	)182	(143)
Stock Options Exercised	6	—	—	6
Other Financing Activities	4	—	1	5
Net Cash Provided by (Used in) Financing Activities	(533)	)(195	)183	(545)
Net Increase (Decrease) in Cash and Cash Equivalents	(36)	)(27	)(16	)(79)
Cash and Cash Equivalents at Beginning of Period	481	235	68	784
Cash and Cash Equivalents at End of Period	\$445	\$208	\$52	\$705

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

First Quarter 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>Operating Activities</b>				
Net Cash Provided by (Used in) Operating Activities	\$(23	)\$641	\$(174	)\$444
<b>Investing Activities</b>				
Property Additions	—	(435	)(34	)(469
Purchases of Short-term Investments	(50	)—	(3	)(53
Proceeds from Sales of Short-term Investments	425	—	12	437
Other Investing Activities	1	(13	)20	8
Net Cash Provided by (Used in) Investing Activities	376	(448	)(5	)(77
<b>Financing Activities</b>				
Long-term Debt Issued	300	—	—	300
Long-term Debt Repaid	(400	)(13	)—	(413
Dividends Paid	(125	)(179	)179	(125
Stock Options Exercised	8	—	—	8
Shares Repurchased	(300	)—	—	(300
Other Financing Activities	—	4	3	7
Net Cash Provided by (Used in) Financing Activities	(517	)(188	)182	(523
Net Increase (Decrease) in Cash and Cash Equivalents	(164	)5	3	(156
Cash and Cash Equivalents at Beginning of Period	549	154	80	783
Cash and Cash Equivalents at End of Period	\$385	\$159	\$83	\$627

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CSX CORPORATION

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

STRATEGIC OVERVIEW

CSX provides rail-based freight transportation services including traditional rail service and the transport of intermodal containers and trailers with its approximately 32,000 dedicated employees. The Company and the rail industry provide customers with access to an expansive and interconnected transportation network that plays a key role in North American commerce and is critical to the economic success and global competitiveness of the United States. This global competitiveness and the expected continued growth in manufacturing is beneficial to the rail industry. Over the long-term, the U.S. demand to move more goods by rail is expected to rise along with the need to reduce highway congestion and greenhouse gas emissions. CSX and freight railroads provide the most environmentally-efficient and economical means to meet this growing demand. CSX can move a ton of freight approximately 450 miles on one gallon of diesel fuel. Shipping freight by rail also alleviates highway congestion. On average, trains are more fuel efficient than trucks as one rail car can move the equivalent of three truckloads.

CSX's network is positioned to reach nearly two-thirds of Americans, who account for the majority of the nation's consumption of goods. Through this network, the Company transports a diverse portfolio of commodities and products to meet the country's needs. These products range from agricultural goods, such as grains, to chemicals, automobiles, metals, building materials, paper, consumer products, and energy sources like coal, ethanol and crude oil. The Company categorizes these products into three primary lines of business: merchandise, intermodal and coal. CSX's transportation solutions connect industries across the United States with each other and with global markets by meeting the transportation needs of port facilities, energy producers, manufacturers, industrial producers, construction companies, farmers and feed mills, wholesalers and retailers and the United States armed forces.

The rebirth of the U.S. automotive industry and the development of new domestic energy sources have led to increased volume in some of CSX's merchandise markets, specifically in shipments of automobiles, frac sand, crude oil and pipe. The increase in foreign labor costs, as well as lower domestic energy prices resulting from the increase in the supply of natural gas, helped to contribute to the recent growth in U.S. manufacturing. These, among other economic and supply chain factors are encouraging manufacturers to expand or move production back to the U.S. The Company continues to position itself to secure volume related to growth in these markets.

Strategic Growth Initiatives

The Company is focusing on three key strategic growth initiatives related to intermodal, export coal and an initiative to enhance customer service quality also known as Total Service Integration. The Company believes these opportunities will allow it to gain additional domestic and international volume, while improving service offerings to its customers in a cost-effective manner.

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CSX CORPORATION

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

Intermodal

The Company's intermodal business is an economical, environmentally-friendly alternative to transporting freight on highways via truck. CSX is capitalizing on this opportunity by building new terminals and increasing network capacity to broaden its market presence in key growth areas. The Company's Northwest Ohio intermodal terminal, which became operational in 2011, is part of CSX's National Gateway initiative discussed below. This high-capacity terminal expands service offerings to customers, improves market access to and from east coast ports and consumption centers and enhances the fluidity of the network. During 2012, the Company completed construction of new intermodal terminals in Louisville, Kentucky and Worcester, Massachusetts and completed major terminal expansion projects in Charlotte, North Carolina and Columbus, Ohio. In addition, the Company began construction on a new intermodal terminal in Winter Haven, Florida in 2012. These projects further enhance the Company's intermodal offering and support the growth the Company experienced over the last few years.

Export Coal

Economic expansion in China, India and Brazil and other developing countries has generated a growth cycle in export coal demand. Over the long term, demand for coal in these countries is expected to remain high due to rising consumption as they become more urbanized, which is increasing the need for electric power generation and steel production. These increases in global coal demand are likely to be met by shipments from coal producing countries, including the U.S., which has abundant coal deposits. In addition to the Company's ready access to large U.S. coal suppliers and multiple port facilities, CSX continues to enhance the capacity and operating efficiency of its export coal network, which favorably positions the Company to capitalize on this growth opportunity. In the long term, this export coal demand is expected to partially offset declines in domestic utility coal volume that has resulted from low natural gas prices and environmental regulation. Although the Company expects long-term growth in the export coal market, CSX export traffic volume and pricing will be subject to a high degree of volatility as a result of changes in the global economy and competition from foreign coal producers.

Total Service Integration

CSX's Total Service Integration ("TSI") initiative supports growth through improved service, optimized train size, and increased asset utilization for unit train shipments from origin to destination. Building on this momentum, CSX is now focusing on another initiative to enhance service quality for customers who ship by the carload. This program, TSI Carload, focuses where the customer is impacted most - during the first and last mile of service. These enhancements aim to improve service levels and reliability of rail transportation over other modes of transportation. These improvements to operational processes, customer communication and service are better aligning CSX's operating capabilities with customers' needs and enabling the Company to capitalize on the growth opportunities described above. During 2012, CSX implemented new technology and processes to provide customers with proactive and transparent communications. These tools include real time notifications of departures and work to be completed, proactive alerts for cars that may be delayed and notices for work that will not be performed.

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CSX CORPORATION

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

Public-Private Partnerships

Expanding capacity on U.S. rail networks provides substantial public benefits including job creation, increased business activity at U.S. ports, reduced highway congestion and lower air emissions. Therefore, CSX and its government partners are working jointly to invest in multi-year rail infrastructure projects such as the National Gateway. This initiative is a public-private partnership which will increase intermodal capacity and create substantial environmental and efficiency advantages by clearing key corridors between Mid-Atlantic ports and the Midwest for double-stack intermodal trains.

CSX is engaged in another major partnership initiative with the Commonwealth of Massachusetts to expand freight and commuter rail service. This partnership provided an expanded intermodal terminal footprint, relocation of bulk commodity operations and double-stack intermodal clearance from Worcester to the New York state line. In 2012, CSX sold its corridor between Boston and Worcester to the Commonwealth to allow increased commuter rail service while retaining the right to utilize this corridor for freight service.

CSX entered into a transaction with the state of Florida in 2011 to help alleviate highway congestion through a new commuter rail operation, known as SunRail. CSX sold a portion of its track to the state of Florida for its new commuter rail and will invest the proceeds in additional freight rail capacity and infrastructure within the state.

Balanced Approach to Cash Deployment

CSX remains highly committed to delivering value to shareholders through a balanced approach to deploying cash that includes investments in the business, dividend growth and share repurchases. In 2012, the Company invested \$2.3 billion to further enhance the capacity, quality, safety and flexibility of its network. Included in this amount is \$166 million of investments related to reimbursable public-private partnerships where reimbursements may not be fully received in a given year. In addition, CSX continues to return value to its shareholders in the form of dividends and share repurchases. In 2012, CSX completed a \$2 billion share repurchase program that was announced in 2011.

In April 2013, the Company announced a 7 percent increase in the quarterly cash dividend to \$0.15 per common share and announced a new \$1 billion share repurchase program which is expected to be completed in the next 24 months. The Company has increased its quarterly cash dividend 11 times over the last eight years, including the recently announced increase, which represents a 29 percent compounded annual growth rate. While delivering shareholder value through this balanced approach to cash deployment, the Company remains committed to an improving investment grade credit profile.

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



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CSX CORPORATION

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## First Quarter 2013 Highlights

Revenue of \$3.0 billion was essentially flat.

Expenses decreased \$27 million or 1% to \$2.1 billion.

Operating income increased \$19 million or 2% to \$875 million, a first quarter record.

Operating ratio decreased to 70.4%, a first quarter record.

(In thousands)	First Quarters		
	2013	2012	
Volume	1,578	1,602	
(In millions)			
Revenue	\$2,958	\$2,966	
Expense	2,083	2,110	
Operating Income	\$875	\$856	
Operating Ratio	70.4	%71.1	%

Total revenue was essentially flat year-over-year due to lower volume partially offset by pricing gains. Expenses decreased 1% versus the prior year as a result of efficiency and volume-related savings as well as recognition of gains. These decreases were partially offset by inflation and depreciation.

For additional information, refer to Results of Operations discussed on pages 32 through 35.

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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, 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 first quarter 2013, key safety measures improved versus the previous year. The FRA reportable personal injury frequency index improved by 18 percent year over year to 0.66, showing extraordinary employee dedication to the Company's safety initiative. The reported FRA train accident frequency rate also improved 31 percent year over year to 1.54.

Employees also showed a high commitment to customer service by setting new records for all network reliability and service metrics during this quarter. On-time originations improved 2 percent to 91 percent, and on-time arrivals improved 10 percent to 85 percent. Average train velocity increased 5 percent to 23.4 miles per hour, and dwell improved 8 percent to 22.2 hours.



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

		First Quarters		
		2013	2012	Improvement
Safety and Service Measurements	FRA Personal Injury Frequency Index	0.66	0.80	18%
	FRA Train Accident Rate	1.54	2.24	31%
	On-Time Train Originations	91	% 89	% 2%
	On-Time Destination Arrivals	85	% 77	% 10%
	Dwell	22.2	24.0	8%
	Cars-On-Line	183,223	194,454	6%
	Train Velocity	23.4	22.3	5%
				Increase
Resources	Route Miles	20,752	20,823	—%
	Locomotives (owned and long-term leased)	4,192	4,128	2%
	Freight Cars (owned and long-term leased)	69,057	68,635	1%

## 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

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## FINANCIAL RESULTS OF OPERATIONS

	First Quarters			
	2013	2012	\$ Change	% Change
Revenue	\$2,958	\$2,966	\$(8	)—%
Expense				
Labor and Fringe	767	770	3	—
Materials, Supplies and Other	507	542	35	6
Fuel	444	444	—	—
Depreciation	270	257	(13	)(5)
Equipment and Other Rents	95	97	2	2
Total Expense	2,083	2,110	27	1
Operating Income	875	856	19	2
Interest Expense	(147	) (144	) (3	)(2)
Other (Expense) Income - Net	(3	) 4	(7	)(175)
Income Tax Expense	(266	) (267	) 1	—
Net Earnings	\$459	\$449	\$10	2
Earnings Per Diluted Share	\$0.45	\$0.43	\$0.02	5%
Operating Ratio	70.4	%71.1	%70	bps

## Volume and Revenue (Unaudited)

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

## First Quarters

	Volume			Revenue			Revenue Per Unit					
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change			
Agricultural												
Agricultural Products	95	108	(12	)%	\$241	\$275	(12	)%	\$2,537	\$2,546	—	%
Phosphates and Fertilizers	84	80	5		144	131	10		1,714	1,638	6	
Food and Consumer	24	25	(3	)	68	67	1		2,833	2,680	4	
Industrial												
Chemicals	130	117	11		468	415	13		3,600	3,547	1	
Automotive	105	105	—		293	281	4		2,790	2,676	4	
Metals	66	72	(8	)	161	171	(5	)	2,439	2,375	3	
Housing and Construction												
Forest Products	73	73	1		189	181	4		2,589	2,479	3	
Minerals <sup>(a)</sup>	57	57	—		96	94	2		1,684	1,649	2	
Waste and Equipment <sup>(a)</sup>	32	34	(7	)	57	60	(5	)	1,781	1,765	2	
Total Merchandise	666	671	(1	)	1,717	1,675	2		2,578	2,496	3	
Coal	297	331	(10	)	726	832	(13	)	2,444	2,514	(3	)
Intermodal	615	600	3		404	389	4		657	648	1	

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Other	—	—	—	111	70	60	—	—	—			
Total	1,578	1,602	(2	)%	\$2,958	\$2,966	—	%	\$1,875	\$1,851	1	%

(a) Prior periods have been reclassified to conform to current presentation.

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First Quarter 2013 Results of Operations

Volume and Revenue

Volume declined 2% year-over-year as lower coal and agricultural products shipments were partially offset by growth in chemicals and intermodal volume. Pricing gains drove increases in revenue per unit in nearly all markets. As a result, total revenue was essentially flat year-over-year due to lower volume, offset by pricing gains, other revenue gains and higher fuel recoveries.

Merchandise

Agricultural

Agricultural Products - Volume decreased due to lower shipments of feed grain and ethanol. Shipments for animal feed declined due to low supplier inventories caused by last year's drought and increased competition from imports. Ethanol shipments were lower as a result of a continued reduction in gasoline demand in the U.S. and increased competition from imports.

Phosphates and Fertilizers - Volume increased as the reopening of a mine led to more short haul phosphate rock shipments to fertilizer production facilities. Fertilizer volume also grew as producers advanced shipments of fertilizer in anticipation of an expected increase in application by farms.

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

Chemicals - Volume growth was driven by an increase in energy-related markets 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 - Although North American light vehicle production was flat, vehicle shipments increased due to the restart of a production facility. This increase was offset by competitive losses in the automotive parts business.

Metals - Volume decreased due to lower shipments of scrap metals and sheet steel. The decline in scrap metals was driven by lower global demand for domestic steel production and exported scrap metals, while sheet steel was negatively impacted by a source shift and competitive losses.

Housing and Construction

Forest Products - Volume was flat due to an increase in building products which was offset by the decline in paper shipments. The recovery of the residential housing market increased the demand for building products, while electronic substitution of print media continues to drive contraction in the paper market.



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Minerals - Volume was flat year-over-year as growth in salt shipments and aggregates (which include crushed stone, sand and gravel) was offset by a reduction in cement shipments. Salt shipments grew as a more severe winter resulted in increased application of salt to roads, and aggregates increased from the continued recovery in construction activity. Cement volume declined due to source shifts and a plant closure.

Waste and Equipment - Volume decreased in equipment primarily due to the cycling of the prior year surge in moves of third-party coal cars into storage as a result of coal market declines. This decrease was partially offset by growth in waste shipments due to continued clean-up efforts from Superstorm Sandy.

Coal

Shipments of domestic coal declined due to utility stockpiles above target levels and low natural gas prices. Export declines were driven by decreased shipments of U.S. thermal coal primarily to Europe where demand for electrical generation declined due to the overall softening of the economy.

Intermodal

Domestic volume was driven by highway-to-rail conversions, expanded service offerings and growth with existing customers. International volume was flat as new services were offset by recent carrier port shifts.

Other

Other revenue increased primarily due to higher revenue of \$32 million from customers who did not meet minimum contractual volumes.

Expense

Expenses in the first quarter 2013 decreased \$27 million from the prior year's first quarter. Significant variances are described below.

Labor and Fringe expense decreased \$3 million due to the following:

- Efficiency and volume-related labor costs decreased \$20 million due to the year-over-year improvement in crew starts and overtime, as well as training and other labor savings.
- Wage expense increased \$13 million as a result of inflation.
- Various other costs increased \$4 million during the quarter.

Materials, Supplies and Other expense decreased \$35 million due to the following:

• Deferred gains increased year-over-year by \$30 million. During the quarter, a deferred gain of \$20 million was recognized due to a closure arrangement reached during the quarter related to a prior conveyance of a formerly-owned company. Additionally, the recognition of the deferred gain from the 2011 sale of an operating rail corridor to the

state of Florida increased \$10 million year-over-year.

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Efficiency and volume-related expenses decreased \$22 million primarily related to lower material and repair costs due to the reduction of active locomotives and other savings.

Inflation-related expenses increased \$11 million.

Various other costs increased \$6 million.

Fuel expense remained flat primarily as volume and efficiency offset the 3% increase in the average price per gallon for locomotive fuel.

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

Consolidated Results of Operations

Interest Expense

Interest expense increased \$3 million to \$147 million primarily due to higher average debt balances during first quarter 2013 partially offset by lower average interest rates.

Other (Expense) Income - Net

Other income-net decreased \$7 million to \$(3) million primarily due to higher non-operating expenses.

Income Tax Expense

Income tax expense decreased \$1 million to \$266 million primarily due the extension of certain prior year tax credits partially offset by higher earnings.

Net Earnings

Net earnings increased \$10 million to \$459 million and earnings per diluted share increased \$0.02 to \$0.45 due to the factors mentioned above. Lower average shares outstanding also had a positive impact on earnings per diluted share.





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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 \$15 million from year end primarily due to the increase in net properties of \$238 million resulting from capital spending as well as the increase in other current assets. These increases were partially offset by the decline in cash (including short-term investment activity) of \$299 million.

Total liabilities and shareholders' equity combined increased \$15 million from year end. This increase was due to net earnings of \$459 million and increases in current taxes payable of \$121 million. Partially offsetting these increases were debt repayments of \$413 million as well as dividends paid of \$143 million.

Significant Cash Flows

Cash and cash equivalents decreased \$79 million during the three months ended 2013 versus the decrease of \$156 million for the same period in the prior year primarily due to the following items:

- No debt issued versus \$300 million in the prior year
- No share repurchases versus \$300 million in the prior year
- No pension plan contribution versus \$275 million in the prior year
- Higher net purchases of short-term investments of \$140 million
- Higher dividends paid of \$18 million

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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 March 2013 was \$643 million.

Liquidity and Working Capital

As of the end of first quarter 2013, CSX had \$1,072 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 December 2013. 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 \$93 million and \$174 million as of March 2013 and December 2012, respectively. This decline since year end is primarily due to cash used for capital investments and long-term debt repaid 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.



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CRITICAL ACCOUNTING ESTIMATES

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

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

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

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.

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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;

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• 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](http://www.sec.gov) and the Company's website at [www.csx.com](http://www.csx.com). The information on the CSX website is not part of this quarterly report on Form 10-Q.

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 March 29, 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 March 29, 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 first quarter of 2013 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.





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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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

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 March 29, 2013 filed with the SEC on April 16, 2013, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended March 29, 2013 and March 30, 2012, (ii) consolidated comprehensive income statements for the fiscal periods ended March 29, 2013 and March 30, 2012, (iii) consolidated balance sheets at March 29, 2013 and December 28, 2012, (iv) consolidated cash flow statements for the fiscal periods ended March 29, 2013 and March 30, 2012, and (v) the notes to consolidated financial statements.

\* Filed herewith



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CSX CORPORATION  
PART II

Signature

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

CSX CORPORATION  
(Registrant)

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

Dated: April 16, 2013

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