

CSX CORP  
Form 10-Q  
April 16, 2014

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 28, 2014

OR

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

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

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

500 Water Street, 15th Floor, Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip  
Code)

(Telephone number, including area  
code)

No Change

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

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

Yes (X) No ( )

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

Yes (X) No ( )

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

Large Accelerated Filer (X)

Accelerated Filer ( )

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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 1,004,362,589 shares of common stock outstanding on March 28, 2014 (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 28, 2014  
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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	
	2014	2013
Revenue	\$3,012	\$2,963
Expense		
Labor and Fringe	814	767
Materials, Supplies and Other	629	507
Fuel	446	444
Depreciation	283	270
Equipment and Other Rents	101	95
Total Expense	2,273	2,083
Operating Income	739	880
Interest Expense	(140)	(147)
Other Income - Net	7	(3)
Earnings Before Income Taxes	606	730
Income Tax Expense	(208)	(268)
Net Earnings	\$398	\$462
Per Common Share (Note 2)		
Net Earnings Per Share, Basic	\$0.40	\$0.45
Net Earnings Per Share, Assuming Dilution	\$0.40	\$0.45
Average Shares Outstanding (In millions)	1,008	1,022
Average Shares Outstanding, Assuming Dilution (In millions)	1,008	1,023
Cash Dividends Paid Per Common Share	\$0.15	\$0.14

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	First Quarters	
	2014	2013
Total Comprehensive Earnings (Note 10)	\$414	\$479

See accompanying notes to consolidated financial statements.



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## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	(Unaudited) March 28, 2014	December 27, 2013	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$475	\$592	
Short-term Investments	248	487	
Accounts Receivable - Net (Note 1)	1,073	1,052	
Materials and Supplies	259	252	
Deferred Income Taxes	143	155	
Other Current Assets	91	64	
Total Current Assets	2,289	2,602	
Properties	37,604	37,184	
Accumulated Depreciation	(10,110)	(9,893)	)
Properties - Net	27,494	27,291	
Investment in Conrail	756	752	
Affiliates and Other Companies	558	546	
Other Long-term Assets	583	591	
Total Assets	\$31,680	\$31,782	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Accounts Payable	\$975	\$957	
Labor and Fringe Benefits Payable	404	587	
Casualty, Environmental and Other Reserves (Note 4)	149	151	
Current Maturities of Long-term Debt (Note 7)	325	533	
Income and Other Taxes Payable	246	91	
Other Current Liabilities	113	105	
Total Current Liabilities	2,212	2,424	
Casualty, Environmental and Other Reserves (Note 4)	285	300	
Long-term Debt (Note 7)	9,021	9,022	
Deferred Income Taxes	8,658	8,662	
Other Long-term Liabilities	859	870	
Total Liabilities	21,035	21,278	
Shareholders' Equity:			
Common Stock \$1 Par Value	1,004	1,009	
Other Capital	65	61	
Retained Earnings	10,062	9,936	
Accumulated Other Comprehensive Loss (Note 10)	(507)	(523)	)
Noncontrolling Interest	21	21	
Total Shareholders' Equity	10,645	10,504	

Total Liabilities and Shareholders' Equity	\$31,680	\$31,782
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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)

	Three Months 2014	2013	
<b>OPERATING ACTIVITIES</b>			
Net Earnings	\$ 398	\$ 462	
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	283	270	
Deferred Income Taxes	(1)	) 82	
Gain on Property Dispositions	(1)	) (30	)
Other Operating Activities	(9)	) (57	)
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(46	) (47	)
Other Current Assets	(41	) (38	)
Accounts Payable	30	48	
Income and Other Taxes Payable	159	129	
Other Current Liabilities	(173	) (88	)
Net Cash Provided by Operating Activities	599	731	
<b>INVESTING ACTIVITIES</b>			
Property Additions	(475	) (491	)
Purchase of Short-term Investments	(165	) (290	)
Proceeds from Sales of Short-term Investments	409	534	
Other Investing Activities	4	(18	)
Net Cash Used in Investing Activities	(227	) (265	)
<b>FINANCING ACTIVITIES</b>			
Long-term Debt Repaid (Note 7)	(209	) (413	)
Dividends Paid	(151	) (143	)
Stock Options Exercised (Note 3)	—	6	
Shares Repurchased	(127	)—	
Other Financing Activities	(2	) 5	
Net Cash Used in Financing Activities	(489	) (545	)
Net Decrease in Cash and Cash Equivalents	(117	) (79	)
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and Cash Equivalents at Beginning of Period	592	784	
Cash and Cash Equivalents at End of Period	\$ 475	\$ 705	

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, which includes shipments of plastics 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 three months ended March 28, 2014 and March 29, 2013;
- Consolidated comprehensive income statements for the three months ended March 28, 2014 and March 29, 2013;
- Consolidated balance sheets at March 28, 2014 and December 27, 2013; and
- Consolidated cash flow statements for the three months ended March 28, 2014 and March 29, 2013.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 2014 and 2013 consisted of 13 weeks ending on March 28, 2014 and March 29, 2013, respectively.

• Fiscal year 2014 and 2013 will each consist of 52 weeks ending on December 26, 2014 and December 27, 2013, respectively.

Except as otherwise specified, references to “first quarter(s)” or “three months” indicate CSX's fiscal periods ending March 28, 2014 and March 29, 2013, and references to “year-end” indicate the fiscal year ended December 27, 2013.

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 \$35 million and \$33 million is included in the consolidated balance sheets as of the end of first quarter 2014 and December 2013, respectively.

Other Items

Revision of Prior Period Financial Statements

During 2013, CSX completed a review of certain accounts receivable balances which resulted in an adjustment to previously reported revenue. This review identified immaterial differences between estimated and actual revenue earned on a small percentage of transactions as well as a small percentage of revenue over at least a decade. For information related to this prior period revision, see CSX's 2013 annual report on Form 10-K.

Dividend Increase

In April 2014, the Company announced a 7 percent increase in the quarterly dividend to \$0.16 per common share, payable on June 13, 2014 to shareholders of record at the close of business on May 28, 2014.

Share Repurchases

In April 2013, the Company announced a new \$1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and pertinent facts guide the timing and volume of all repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. During first quarter 2014, CSX repurchased \$127 million, or 5 million shares, of common stock under this program. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.



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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	
	2014	2013
Numerator (Dollars in millions):		
Net Earnings	\$398	\$462
Denominator (Units in millions):		
Average Common Shares Outstanding	1,008	1,022
Other Potentially Dilutive Common Shares	—	1
Average Common Shares Outstanding, Assuming Dilution	1,008	1,023
Net Earnings Per Share, Basic	\$0.40	\$0.45
Net Earnings Per Share, Assuming Dilution	\$0.40	\$0.45

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;

• in prior periods, employee stock options (all stock options expired in May 2013); and

• other equity awards, which include long-term incentive awards.

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

## NOTE 3. Share-Based Compensation

Under CSX's share-based compensation plans, awards primarily consist of performance grants, restricted stock awards, restricted stock units and stock grants for directors. 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 expense associated with all share-based compensation and the related income tax benefit are as follows:

(Dollars in millions)	First Quarters		
	2014	2013	
Share-Based Compensation (Expense) / Benefit <sup>(a)</sup>	\$(5	)\$3	
Income Tax Benefit / (Expense)	2	(1	)

(a) Share-based compensation was a benefit in first quarter 2013 driven by a reduction in the expected payouts on long-term incentive compensation.

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## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 4. Casualty, Environmental and Other Reserves

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

(Dollars in millions)	March 28, 2014			December 27, 2013		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$60	\$139	\$199	\$59	\$148	\$207
Occupational	3	20	23	3	20	23
Asbestos	10	40	50	10	40	50
Total Casualty	73	199	272	72	208	280
Environmental	59	38	97	59	41	100
Other	17	48	65	20	51	71
Total	\$149	\$285	\$434	\$151	\$300	\$451

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

## Casualty

Casualty reserves of \$272 million as of the end of first quarter 2014 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 Company's casualty 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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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

Occupational & Asbestos

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

Occupational and asbestos claims are analyzed by a third-party actuary or specialist (the "third-party specialist"), respectively, in order to determine the number of unasserted or incurred but not reported ("IBNR") claims. Occupational claims analyses are performed by the third-party specialist quarterly and are reviewed by management. Since exposure to asbestos has been substantially eliminated, management reviews asserted asbestos claims quarterly and the review by the third-party specialist is completed annually.

The third-party specialists analyze CSXT's historical claim filings, settlement amounts, and dismissal rates to determine future anticipated claim filing rates and average settlement values for occupational and asbestos claims reserves. The potentially exposed population is estimated by using CSX's employment records and industry data. From this analysis, the third-party specialists provide an estimate of the IBNR claims liability.

Environmental

Environmental reserves were \$97 million as of the end of first quarter 2014. 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 256 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.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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

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

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

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

Other

Other reserves of \$65 million as of the end of first quarter 2014 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 property and liability 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, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5. Commitments and Contingencies, continued

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 practices, 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 \$14 million in aggregate at March 28, 2014. 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.

Fuel Surcharge Antitrust Litigation

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

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. On October 15, 2013, the District Court held a case management conference to determine the scope and schedule of the remand proceedings. The District Court has ordered briefing on class certification to be completed by the end of May 2014, and in the interim, has deferred proceedings on the merits of the case.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Environmental

CSXT has certain indemnification requirements with respect to Pharmacia LLC (formerly known as Monsanto Company) for certain liabilities associated with real estate formerly owned by Pharmacia that is now owned by CSXT in Kearny, New Jersey (the "Property"). The indemnification and defense duties arise with respect to several matters. The State of New Jersey filed suit in 2005 against Occidental Chemical Corporation, Tierra Solutions Inc., Maxus Energy Corporation and five other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of the Newark Bay Complex, which includes a 17-mile stretch of the Passaic River near the Property. In 2009, Pharmacia, along with hundreds of other companies, was served with a third-party complaint by Tierra Solutions Inc. and Maxus Energy Corporation seeking contribution towards the costs and damages claimed by the state of New Jersey or incurred by Tierra and Maxus related to the Newark Bay Complex. CSXT has been participating in the defense of this matter with and on behalf of Pharmacia. In 2013, Pharmacia, along with most of the other third-party defendants, entered into a settlement agreement with the state of New Jersey for an amount that is not material to CSXT. The settlement, approved by the Superior Court of New Jersey in December 2013, resolves certain claims or potential claims by the state of New Jersey for costs and damages arising from discharges to the Newark Bay Complex. CSXT, on behalf of Pharmacia, is also conducting a Remedial Investigation and Feasibility Study of the 17-mile Lower Passaic River Study Area with approximately 70 other parties pursuant to an Administrative Order on Consent with the U.S. Environmental Protection Agency ("EPA"). The Company does not believe any remediation costs potentially allocable to CSXT would be material to the Company's financial condition, results of operations or liquidity. On April 11, 2014, the EPA announced its proposed plan to remediate the lower eight miles of the Lower Passaic River. The proposed plan, based on a Focused Feasibility Study, informs the public of EPA's preferred remedial alternative and solicits public comment. After review of comments, EPA is expected to issue its final cleanup plan early next 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 post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Medicare-eligible retirees are covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Non-Medicare eligible retirees are covered by a self-insured program partially funded by participating retirees. 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	
	First Quarters	
	2014	2013
Service Cost	\$11	\$12
Interest Cost	31	27
Expected Return on Plan Assets	(41	)(40
Amortization of Net Loss	14	25
Total Expense	\$15	\$24

(Dollars in millions)	Other Post-retirement Benefits	
	First Quarters	
	2014	2013
Service Cost	\$1	\$1
Interest Cost	3	3
Amortization of Net Loss	1	3
Total Expense	\$5	\$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 further contributions to its qualified pension plans will be required in 2014.

## NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of first quarter 2014 is shown in the table below. For fair value information related to the Company's long-term debt, see Note 9, Fair Value Measurements.

(Dollars in millions)	Current Portion	Long-term Portion	Total
Long-term debt as of December 2013	\$533	\$9,022	\$9,555
2014 activity:			
Long-term debt repaid	(209	)—	(209
Discount, premium and other activity	1	(1	)—
Long-term debt as of first quarter 2014	\$325	\$9,021	\$9,346

## 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 2014, 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 2014. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. The Company anticipates either renewing the facility or replacing it with another liquidity-based solution. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 8. Income Taxes

During the first quarter of 2014, the state of Indiana enacted legislation reducing the future corporate income tax rate. A net \$21 million income tax benefit was recognized primarily as a result of this legislation and the related revaluation of deferred tax liabilities. There have been no material changes to the balance of unrecognized tax benefits during first quarters 2014 and 2013.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

## Investments

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

• Certificates of Deposit and Commercial Paper (Level 2): Valued by discounting the related cash flows based on current yields of similar instruments with comparable durations.

• Corporate Bonds and Government Securities (Level 2): Valued using price evaluations reflecting the bid and/or ask sides of the market for a similar investment as of the last day of the period.

• Auction Rate Securities (Level 3): Valued using a discounted cash flow model, because there is currently no active market for trading.

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. Additionally, the amortized cost basis of these investments was \$422 million and \$668 million as of March 28, 2014 and December 27, 2013, respectively.

(Dollars in Millions)	March 28, 2014				December 27, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	\$—	\$230	\$—	\$230	\$—	\$472	\$—	\$472
Corporate Bonds	—	129	—	129	—	132	—	132
Government Securities	—	49	—	49	—	49	—	49
Auction Rate Securities	—	—	15	15	—	—	15	15
Total investments at fair value	\$—	\$408	\$15	\$423	\$—	\$653	\$15	\$668

These investments have the following maturities:

(Dollars in millions)	March 28, 2014	December 27, 2013
Less than 1 year	\$248	\$487
1 - 2 years	70	58
2 - 5 years	87	105
Greater than 5 years	18	18
Total	\$423	\$668

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

## Long-term Debt

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

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

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

(Dollars in millions)	March 28, 2014	December 27, 2013
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 10,411	\$ 10,354
Carrying Value	\$ 9,346	\$ 9,555

## 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 \$414 million and \$479 million for first quarters 2014 and 2013, respectively.



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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Other Comprehensive Income, continued

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.

	Pension and Other Post-Employment Benefits	Other <sup>(b)</sup>	Accumulated Other Comprehensive Income (Loss)
(Dollars in millions)			
Balance December 27, 2013, Net of Tax	\$(462	) \$(61	) \$(523 )
Other Comprehensive Income			
Amounts Reclassified to Net Earnings <sup>(a)</sup>	15	8	23
Tax Expense	(6	) (1	) (7 )
Total Other Comprehensive Income	9	7	16
Balance March 28, 2014, Net of Tax	\$(453	) \$(54	) \$(507 )

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

<sup>(b)</sup> Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified to net earnings are included in materials, supplies and other on the consolidated income statements.

## NOTE 11. Summarized Consolidating Financial Data

In 2007, CSXT, a wholly-owned subsidiary of CSX Corporation, 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 shown in the tables below.



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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 2014	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$2,992	\$20	\$3,012
Expense	(103)	)2,393	(17)	)2,273
Operating Income	103	599	37	739
Equity in Earnings of Subsidiaries	416	—	(416)	)—
Interest (Expense) / Benefit	(130)	) (14)	)4	(140)
Other Income / (Expense) - Net	(2)	)6	3	7
Earnings Before Income Taxes	387	591	(372)	)606
Income Tax Benefit / (Expense)	11	(204)	) (15)	) (208)
Net Earnings	\$398	\$387	\$(387)	)\$398
Total Comprehensive Earnings	\$414	\$393	\$(393)	)\$414
First Quarter 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$—	\$2,946	\$17	\$2,963
Expense	(93)	)2,217	(41)	)2,083
Operating Income	93	729	58	880
Equity in Earnings of Subsidiaries	489	(1)	) (488)	)—
Interest (Expense) / Benefit	(134)	) (17)	)4	(147)
Other Income / (Expense) - Net	(1)	)2	(4)	) (3)
Earnings Before Income Taxes	447	713	(430)	)730
Income Tax (Expense) / Benefit	15	(264)	) (19)	) (268)
Net Earnings	\$462	\$449	\$(449)	)\$462
Total Comprehensive Earnings	\$479	\$449	\$(449)	)\$479

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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 March 2014	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$321	\$91	\$63	\$475
Short-term Investments	230	—	18	248
Accounts Receivable - Net	3	191	879	1,073
Receivable from Affiliates	1,301	2,323	(3,624)	)—
Materials and Supplies	—	259	—	259
Deferred Income Taxes	(11)	)155	(1)	)143
Other Current Assets	(1)	)86	6	91
Total Current Assets	1,843	3,105	(2,659)	)2,289
Properties	1	35,377	2,226	37,604
Accumulated Depreciation	(1)	)8,965	)1,144	)10,110 )
Properties - Net	—	26,412	1,082	27,494
Investments in Conrail	—	—	756	756
Affiliates and Other Companies	(39)	)624	(27)	)558
Investments in Consolidated Subsidiaries	20,506	—	(20,506)	)—
Other Long-term Assets	214	388	(19)	)583
Total Assets	\$22,524	\$30,529	\$(21,373)	)\$31,680
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities				
Accounts Payable	\$190	\$758	\$27	\$975
Labor and Fringe Benefits Payable	33	340	31	404
Payable to Affiliates	3,063	539	(3,602)	)—
Casualty, Environmental and Other Reserves	—	133	16	149
Current Maturities of Long-term Debt	—	325	—	325
Income and Other Taxes Payable	(102)	)342	6	246
Other Current Liabilities	—	109	4	113
Total Current Liabilities	3,184	2,546	(3,518)	)2,212
Casualty, Environmental and Other Reserves	—	218	67	285
Long-term Debt	8,308	713	—	9,021
Deferred Income Taxes	(70)	)8,541	187	8,658
Other Long-term Liabilities	478	506	(125)	)859
Total Liabilities	\$11,900	\$12,524	\$(3,389)	)\$21,035
Shareholders' Equity				
Common Stock, \$1 Par Value	\$1,004	\$181	\$(181)	)\$1,004

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Other Capital	65	5,077	(5,077	) 65
Retained Earnings	10,062	12,759	(12,759	) 10,062
Accumulated Other Comprehensive Loss	(507	) (37	) 37	(507 )
Noncontrolling Interest	—	25	(4	) 21
Total Shareholders' Equity	\$ 10,624	\$ 18,005	\$ (17,984	) \$ 10,645
Total Liabilities and Shareholders' Equity	\$ 22,524	\$ 30,529	\$ (21,373	) \$ 31,680

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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 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$439	\$91	\$62	\$592
Short-term Investments	472	—	15	487
Accounts Receivable - Net	3	240	809	1,052
Receivable from Affiliates	1,141	2,635	(3,776)	)—
Materials and Supplies	—	252	—	252
Deferred Income Taxes	(5	) 161	(1	) 155
Other Current Assets	1	57	6	64
Total Current Assets	2,051	3,436	(2,885)	) 2,602
Properties	1	34,987	2,196	37,184
Accumulated Depreciation	(1	) (8,778	) (1,114	) (9,893
Properties - Net	—	26,209	1,082	27,291
Investments in Conrail	—	—	752	752
Affiliates and Other Companies	(39	) 612	(27	) 546
Investment in Consolidated Subsidiaries	20,226	—	(20,226	)—
Other Long-term Assets	217	388	(14	) 591
Total Assets	\$22,455	\$30,645	\$(21,318	) \$31,782
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current Liabilities				
Accounts Payable	\$110	\$809	\$38	\$957
Labor and Fringe Benefits Payable	38	491	58	587
Payable to Affiliates	3,298	535	(3,833	)—
Casualty, Environmental and Other Reserves	—	136	15	151
Current Maturities of Long-term Debt	200	333	—	533
Income and Other Taxes Payable	(397	) 479	9	91
Other Current Liabilities	—	103	2	105
Total Current Liabilities	3,249	2,886	(3,711	) 2,424
Casualty, Environmental and Other Reserves	—	231	69	300
Long-term Debt	8,308	714	—	9,022
Deferred Income Taxes	(64	) 8,548	178	8,662
Other Long-term Liabilities	479	512	(121	) 870
Total Liabilities	\$11,972	\$12,891	\$(3,585	) \$21,278
Shareholders' Equity				
Common Stock, \$1 Par Value	\$1,009	\$181	\$(181	) \$1,009
Other Capital	61	5,077	(5,077	) 61

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Retained Earnings	9,936	12,514	(12,514	)9,936
Accumulated Other Comprehensive Loss	(523	) (43	) 43	(523 )
Noncontrolling Minority Interest	—	25	(4	) 21
Total Shareholders' Equity	\$10,483	\$17,754	\$(17,733	)\$10,504
Total Liabilities and Shareholders' Equity	\$22,455	\$30,645	\$(21,318	)\$31,782

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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)

Three months ended March 28, 2014	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	\$113	\$669	\$(183	)\$599
Investing Activities				
Property Additions	—	(443	)(32	)(475 )
Purchases of Short-term Investments	(165	)—	—	(165 )
Proceeds from Sales of Short-term Investments	407	—	2	409
Other Investing Activities	—	(67	)71	4
Net Cash Provided by (Used in) Investing Activities	242	(510	)41	(227 )
Financing Activities				
Long-term Debt Repaid	(200	)(9	)—	(209 )
Dividends Paid	(151	)(143	)143	(151 )
Shares Repurchased	(127	)—	—	(127 )
Other Financing Activities	5	(7	)—	(2 )
Net Cash Provided by (Used in) Financing Activities	(473	)(159	)143	(489 )
Net Increase (Decrease) in Cash and Cash Equivalents	(118	)—	1	(117 )
Cash and Cash Equivalents at Beginning of Period	439	91	62	592
Cash and Cash Equivalents at End of Period	\$321	\$91	\$63	\$475



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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)

Three months ended March 29, 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

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

## FIRST QUARTER 2014 HIGHLIGHTS

Revenue of \$3.0 billion increased \$49 million or 2%.

Expenses of \$2.3 billion increased \$190 million or 9%.

Operating income of \$739 million decreased \$141 million or 16%.

Operating ratio of 75.5% increased 520 basis points from 70.3%.

	First Quarters		Change	% Change
	2014	2013		
Volume (in thousands)	1,620	1,578	42	3%
(in millions)				
Revenue	\$3,012	\$2,963	\$49	2%
Expense	2,273	2,083	(190)	(9)%
Operating Income	\$739	\$880	\$(141)	(16)%
Operating Ratio	75.5	%70.3	%(520	) bps
Earnings Per Diluted Share	\$0.40	\$0.45	\$(0.05	)(11)%

Total revenue increased 2% year over year driven by overall volume growth and pricing gains across most markets. Expenses increased 9% year over year primarily due to the severe winter weather impacts across the network. Also contributing to the increase in expenses were prior year real estate gains not repeated in the current quarter.

For additional information, refer to Results of Operations discussed on pages 25 through 27.



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## CSX CORPORATION

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

## RESULTS OF OPERATIONS

## Volume and Revenue (Unaudited)

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

First Quarters <sup>(a)</sup>

	Volume			Revenue			Revenue Per Unit			
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change	
<b>Agricultural</b>										
Agricultural Products	106	95	12	% \$284	\$241	18	% \$2,679	\$2,537	6	%
Phosphates and Fertilizers	83	84	(1)	) 134	144	(7)	) 1,614	1,714	(6)	)
Food and Consumer	23	24	(4)	) 65	68	(4)	) 2,826	2,833	—	
<b>Industrial</b>										
Chemicals	146	130	12	516	468	10	3,534	3,600	(2)	)
Automotive	98	105	(7)	) 275	293	(6)	) 2,806	2,790	1	
Metals	65	66	(2)	) 165	161	2	2,538	2,439	4	
<b>Housing and Construction</b>										
Forest Products	74	73	1	194	189	3	2,622	2,589	1	
Minerals	54	57	(5)	) 95	96	(1)	) 1,759	1,684	4	
Waste and Equipment	31	32	(3)	) 59	57	4	1,903	1,781	7	
Total Merchandise	680	666	2	1,787	1,717	4	2,628	2,578	2	
Coal	293	297	(1)	) 662	726	(9)	) 2,259	2,444	(8)	)
Intermodal	647	615	5	421	404	4	651	657	(1)	)
Other	—	—	—	142	116	22	—	—	—	
Total	1,620	1,578	3	% \$3,012	\$2,963	2	% \$1,859	\$1,878	(1)	)%

(a) Previously reported 2013 other revenue, total revenue and total revenue per unit have been revised as disclosed in CSX's most recent annual report on Form 10-K.

## First Quarter 2014

## Revenue

Volume increased 3% year over year as growth in merchandise and intermodal more than offset lower coal volume. Total revenue increased by 2% year over year driven by this volume growth and pricing gains across most markets. Challenging operating conditions resulting from severe winter weather negatively impacted volume in most markets.

## Merchandise

## Agricultural Sector

Agricultural Products - Volume growth was driven by increased shipments of grain and ethanol. Grain shipments increased due to a strong corn and soybean crop when compared to the prior year crop, which was negatively impacted by a drought in the Midwest. Ethanol shipments increased due to lower corn prices which incited producers to increase both production and exports.

Phosphates and Fertilizers - Volume declined as winter weather impacted shipments of fertilizer into the Midwest. This decline was partially offset by an increase in phosphate rock shipments as capacity at a key customer location

returned to normal levels.

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CSX CORPORATION

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

Food and Consumer - Volume declined due to lower shipments of refrigerated products, rice and beans. The decline in refrigerated products was driven by the severe weather impacting the Chicago interchange. Rice shipments were lower as customers used lower priced corn as a substitute, while bean shipments declined due to a smaller harvest and higher prices for U.S. beans on the world market.

Industrial Sector

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

Automotive - North American light vehicle production increased in the quarter, but rail shipments declined due to network disruptions caused by the severe winter weather.

Metals - Volume declined due to the severe weather and lower semi-finished steel products driven by a temporary shutdown of a customer's facility. These declines were partially offset by growth in steel plate shipments that support energy-related markets.

Housing and Construction Sector

Forest Products - Volume growth was led by an increase in building products and pulp board shipments used to produce packaging materials. Building products increased due to the continued recovery of the residential housing market. Pulp board shipments grew due to inventory replenishments that resulted from reduced production late last year.

Minerals - Volume declined in aggregates (which include crushed stone, sand and gravel) due to impacts of the severe weather. This decline was partially offset by growth in salt shipments due to increased application of road salt.

Waste and Equipment - Waste volume declined year-over-year as the severe weather disruptions impacted municipal and construction waste shipments. This decline was partially offset by increased movements of private railcars from storage locations due to car supply issues resulting from the severe weather.

Coal

Coal volume slightly declined due to a decrease in shipments of export coal as a result of softening global market conditions. This decline was partially offset by an increase in domestic coal which was driven by competitive gains in the utility market and stronger northern utility demand as a result of the severe weather.

Intermodal

Domestic volume growth was driven by continued success with highway-to-rail conversions and strong demand for intermodal service offerings. International volume increased due to growth with our customers in global container shipments moving to inland destinations.

Other

Other revenue increased primarily due to higher revenue from customers who did not meet minimum contractual volumes.



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CSX CORPORATION

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

Expenses

Expenses in the first quarter 2014 increased \$190 million from the prior year's first quarter. Significant variances are described below.

Labor and Fringe expense increased \$47 million due to the following:

• Labor costs increased \$35 million due to weather disruptions that resulted in increased overtime by operating employees.

• Inflation increased expenses \$14 million.

• Other expenses decreased \$2 million as lower other expenses more than offset the increase in volume-related costs.

Materials, Supplies and Other expense increased \$122 million due to the following:

In the prior year, the Company recognized gains of \$49 million related to the recognition of a deferred gain from a 2011 sale of an operating rail corridor as well as a closure agreement reached on a prior conveyance of a formerly-owned company. No gains were recognized in the current year.

• Utilities, materials and foreign locomotive costs were \$35 million higher in response to weather disruptions.

• Inflation and other costs increased expenses \$26 million.

• Train accident costs were \$12 million higher due to derailments which is reflected in the increase in the FRA train accident frequency rate.

Fuel expense increased \$2 million due to the combined impact of efficiency losses from weather disruptions and higher volume of \$22 million. This was partially offset by a \$20 million reduction from lower price.

Interest expense decreased \$7 million to \$140 million due to lower average debt balances as well as lower average interest rates.

Other income - net increased \$10 million to \$7 million primarily due to lower non-operating expenses.

Income tax expense decreased \$60 million to \$208 million primarily due to lower earnings as well as a current year benefit which resulted from a change in state tax legislation.





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## CSX CORPORATION

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## Operating Statistics (Estimated)

	First Quarters		Improvement / (Deterioration)	
	2014	2013		
Safety and Service Measurements				
FRA Personal Injury Frequency Index	0.96	0.76	(26	)%
FRA Train Accident Rate	2.35	1.81	(30	)%
On-Time Train Originations	63	%91	% (31	)%
On-Time Destination Arrivals	51	%85	% (40	)%
Train Velocity	20.6	23.4	(12	)%
Dwell	26.8	22.2	(21	)%

Resources			Increase / (Decrease)	
	2014	2013		
Cars-On-Line <sup>(a)</sup>	202,319	183,223	10	%
Route Miles	20,772	20,839	—	%
Locomotives (owned and long-term leased)	4,261	4,192	2	%
Freight Cars (owned and long-term leased)	67,707	69,057	(2	)%
Containers	17,512	18,136	(3	)%

(a) Cars-on-line increased approximately 14,000 or 7.5% in 2014 due to a calculation error correction made by the American Association of Railroads in February 2014. This error impacted the industry cars-on-line since 2011. Previously reported amounts have not been adjusted to reflect this correction.

## Key Performance Measures Definitions

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

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

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

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

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

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

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

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.



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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.

Although difficult weather conditions impacted year-over-year performance during first quarter 2014, CSX remains an industry leader in employee safety. The FRA reportable personal injury frequency index worsened 26 percent year over year to 0.96 when compared to the historically low level in the prior year. The reported FRA train accident frequency rate also weakened 30 percent year over year to 2.35.

The unusually persistent cold temperatures and significant snowfall accumulation also impacted CSX's service performance. On-time originations degraded 31 percent year over year to 63 percent. On-time arrivals also weakened 40 percent to 51 percent. Average train velocity declined 12 percent to 20.6 miles per hour and dwell worsened 21 percent to 26.8 hours. In response to the weather challenges during the quarter, the Company deployed resources across the network and as a result has begun to see a gradual recovery in key service measures as of the end of first quarter 2014.

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 decreased \$102 million from year end primarily due to the decline in cash of \$356 million (including short-term investment activity) partially offset by the increase in net properties of \$203 million resulting from capital investments.

Total liabilities and shareholders' equity combined decreased \$102 million from year end. This decrease was primarily driven by debt repayments of \$209 million, payout of incentive compensation of \$175 million and dividends paid of \$151 million. These decreases were partially offset by net earnings of \$398 million.

Significant Cash Flows

Cash and cash equivalents decreased in both years. However, the decrease was \$38 million more for the first quarter ended 2014 primarily due to the following:

- Higher share repurchases of \$127 million
- Higher payouts of incentive compensation of \$89 million
- Partially offset by lower debt repayments of \$204 million.



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Planned capital investments for 2014 are expected to be \$2.3 billion, including expected spending of approximately \$300 million for Positive Train Control ("PTC"). This \$2.3 billion 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 2014 investment will be used to sustain the core infrastructure. The remaining amounts will be allocated to locomotives, freight cars, and high return projects that support long-term profitable growth and productivity initiatives that improve the returns of the business, such as intermodal terminal capacity projects. 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 through March 2014 was \$937 million.

**Liquidity and Working Capital**

As of the end of first quarter 2014, CSX had \$723 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 2014. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. The Company anticipates either renewing the facility or replacing it with another liquidity-based solution. 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 \$77 million and \$178 million as of March 2014 and December 2013, respectively. This decline since year end is primarily due to cash used for long-term debt repayments, incentive compensation payouts, dividends paid and share repurchases 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 areas below. For further discussion of CSX's critical accounting estimates, see the Company's most recent annual report on Form 10-K.

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

FORWARD-LOOKING STATEMENTS

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

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

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



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

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

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CSX CORPORATION

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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 28, 2014, 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 28, 2014, 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 2014 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CSX CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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.



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CSX CORPORATION

PART II

## Item 2. CSX Purchases of Equity Securities

CSX is required to disclose any purchases of its own common stock for the most recent quarter. CSX purchases its own shares for two primary reasons: to further its goals under its share repurchase program and to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan which covers certain union employees. In April 2013, CSX announced a new \$1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and pertinent facts guide the timing and volume of all repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Share repurchase activity of \$127 million for the first quarter 2014 was as follows:

CSX Purchases of Equity Securities  
for the Quarter

First Quarter <sup>(a)</sup>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				\$647,302,905
January	1,247,500	\$28.28	1,247,500	612,026,716
February	1,469,074	26.84	1,469,074	572,599,637
March	1,835,050	28.26	1,835,050	520,734,056
Ending Balance	4,551,624	\$27.81	4,551,624	\$520,734,056

(a) First quarter 2014 consisted of the following fiscal periods: January (December 28, 2013 - January 24, 2014), February (January 25, 2014 - February 21, 2014), March (February 22, 2014 - March 28, 2014).

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not Applicable

## Item 5. Other Information

None

## Item 6. 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 28, 2014 filed with the SEC on April 16, 2014, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended March 28, 2014 and March 29, 2013, (ii) consolidated comprehensive income statements for the fiscal periods ended March 28, 2014 and March 29, 2013, (iii) consolidated balance sheets at

March 28, 2014 and December 27, 2013, (iv) consolidated cash flow statements for the fiscal periods ended March 28, 2014 and March 29, 2013, and (v) the notes to consolidated financial statements.

\* Filed herewith

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CSX CORPORATION  
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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, 2014