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CSX CORP
Form 10-K
February 21, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 30, 2011

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

Common Stock, \$1 Par Value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (as defined in Exchange Act Rule 12b-2).

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

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On July 1, 2011 (which is the last day of the second quarter and the required date to use), the aggregate market value of the Registrant's voting stock held by non-affiliates was approximately \$26 billion (based on the New York Stock Exchange closing price on such date).

There were 1,052,267,692 shares of Common Stock outstanding on January 27, 2012 (the latest practicable date that is closest to the filing date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement (the "Proxy Statement") to be filed no later than 120 days after the end of the fiscal year with respect to its annual meeting of shareholders scheduled to be held on May 9, 2012.

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CSX CORPORATION

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Item 1. Business

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

CSX Transportation, Inc.

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. It has access to over 70 ocean, river and lake port terminals along the Atlantic and Gulf Coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. The Company’s intermodal business links customers to railroads via trucks and terminals. CSXT also serves thousands of production and distribution facilities through track connections to approximately 240 short-line and regional railroads.

Lines of Business

During 2011, CSXT’s transportation services generated \$11.7 billion of revenue and served three primary lines of business:

The merchandise business shipped nearly 2.7 million carloads and generated approximately 54% of revenue and 41% of volume in 2011. The Company’s merchandise business is the most diverse market and transports aggregates (which includes crushed stone, sand and gravel), metal, phosphate, fertilizer, food, consumer (manufactured goods and appliances), agricultural, automotive, paper and chemical products.

The coal business shipped 1.5 million carloads and accounted for nearly 32% of revenue and 24% of volume in 2011. The Company transports utility, industrial and export coal to electricity-generating power plants, steel manufacturers, industrial plants and deep-water port facilities. Roughly one of every three tons of export coal and nearly all of the domestic coal that the Company transports is used for generating electricity.

The intermodal business accounted for approximately 12% of revenue and 35% of volume in 2011. The intermodal line of business combines the superior economics of rail transportation with the short-haul flexibility of trucks and offers a competitive cost advantage over long-haul trucking. Through a network of more than 50 terminals, the intermodal business serves all major markets east of the Mississippi and transports mainly manufactured consumer goods in containers, providing customers with truck-like service for longer shipments.

Other revenue accounted for approximately 2% of the Company’s total revenue in 2011. This revenue category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching and other incidental charges. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

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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, for example 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 because they are not considered by the Company to be operating activities. Results of these activities fluctuate with the timing of non-operating real estate sales.

Financial Information

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for operating revenue, operating income and total assets for each of the last three fiscal years.

Company History

A leader in freight rail transportation for more than 180 years, the Company's heritage dates back to the early nineteenth century when The Baltimore and Ohio Railroad Company ("B&O") – the nation's first common carrier – was chartered in 1827. Since that time, the Company has built on this foundation to create a railroad that could safely and reliably service the ever-increasing demands of a growing nation.

Since its founding, numerous railroads have combined with the former B&O through merger and consolidation to create what has become CSX. Each of the railroads that combined into the CSX family brought new geographical reach to valuable markets, gateways, cities, ports and transportation corridors.

CSX was incorporated in 1978 under Virginia law. In 1980, the Company completed the merger of the Chessie System and Seaboard Coast Line Industries into CSX. The merger allowed the Company to connect northern population centers and Appalachian coal fields to growing southeastern markets. Later, the Company's acquisition of key portions of Conrail, Inc. allowed CSXT to link the northeast, including New England and the New York metropolitan area, with Chicago and midwestern markets as well as the growing areas in the southeast already served by CSXT. This current rail network allows the Company to directly serve every major market in the eastern United States with safe, dependable, environmentally responsible and fuel efficient freight transportation and intermodal service.

Competition

The business environment in which the Company operates is highly competitive. Shippers typically select transportation providers that offer the most compelling combination of service and price. Service requirements, both in terms of transit time and reliability, vary by shipper and commodity. As a result, the Company's primary competition varies by commodity, geographic location and mode of available transportation.

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CSXT's primary rail competitor is Norfolk Southern Railway, which operates throughout much of the Company's territory. Other railroads also operate in parts of the Company's territory. Depending on the specific market, competing railroads and deregulated motor carriers may exert pressure on price and service levels. For further discussion on the risk of competition to the Company, see Item 1A. Risk Factors.

Regulatory Environment

The Company's operations are subject to various federal, state and local laws and regulations generally applicable to businesses in the United States. The railroad operations conducted by the Company's subsidiaries, which includes CSXT, are subject to the regulatory jurisdiction of the Surface Transportation Board ("STB"), the Federal Railroad Administration ("FRA"), and its sister agency within the U.S. Department of Transportation, the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). Together, FRA and PHMSA have broad jurisdiction over railroad operating standards and practices, including track, freight cars, locomotives and hazardous materials requirements. Additionally, the Transportation Security Administration ("TSA"), a component of the Department of Homeland Security, has broad authority over railroad operating practices that may have homeland security implications.

Although the Staggers Act of 1980 significantly deregulated rail rates and much of the rail traffic of the Company's subsidiaries is currently exempt from rate regulation by agency decision, the STB has broad jurisdiction over railroad commercial practices, including some railroad rates, routes, fuel surcharges, conditions of services and the extension or abandonment of rail lines. This includes jurisdiction over freight car charges, the transfer, extension or abandonment of rail lines, rates charged on certain regulated rail traffic, conditions of service and any acquisition of control over rail common carriers.

In 2008, Congress enacted the Rail Safety Improvement Act (the "RSIA"). The legislation includes a mandate that all Class I freight railroads implement a positive train control system ("PTC") by December 31, 2015. The AAR recently advised the FRA on behalf of the industry that a nationwide interoperable PTC network cannot be completed by the December 31, 2015 deadline. Federal legislation introduced in both the House of Representatives and the Senate would, if approved, delay the final implementation of PTC from three to five years.

PTC must be installed on all main lines with passenger and commuter operations as well as most of those over which toxic-by-inhalation hazardous materials are transported. Implementation of a PTC system is designed to prevent train-to-train collisions, over-speed derailments, incursions into established work-zone limits, and train diversions onto another set of tracks caused by switches left in wrong positions. The Company expects to incur significant capital costs in connection with the implementation of PTC as well as related ongoing operating expenses. CSX previously estimated that the total multi-year cost of PTC implementation would be at least \$1.2 billion for the Company. This estimate is currently being re-evaluated due to upward pressure on these costs.

In December 2009, a proposed bill called the "Surface Transportation Board Reauthorization Act of 2009" was introduced in the Senate but not advanced. In January 2011, the bill, now referred to as the Surface Transportation Board Reauthorization Act of 2011 ("STB Reauthorization Bill") was reintroduced. The STB Reauthorization Bill, if adopted, could increase government involvement in railroad pricing, service and operations. The proposed legislation also includes provisions that would reduce a railroad's ability to price at market levels and open a carrier's privately-owned and maintained rail network to competitors under certain conditions. Though unlikely, portions of the STB Reauthorization bill may be considered as part of the Moving Ahead for Progress in the 21st Century Act, a bill

to reauthorize Federal-aid highway and highway safety construction programs, and for other purposes.

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If adopted as proposed, this bill could have a material adverse effect on the Company's revenue and operations, as well as its ability to invest in enhancing and maintaining vital infrastructure. Prior to the reintroduction of the STB Reauthorization Bill, the STB had already announced two new hearings; one held in February 2011 to review the utility of boxcar, intermodal, automotive and other exemptions, and the other held in June 2011 to explore the current state of competition in the railroad industry. The STB has not yet announced what actions, if any, it will take in response to the records developed in these hearings.

For further discussion on regulatory risks to the Company, see Item 1A. Risk Factors.

Other Information

CSX makes available on its website www.csx.com, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission ("SEC"). The information on the CSX website is not part of this annual report on Form 10-K. Additionally, the Company has posted its code of ethics on its website, which is also available to any shareholder who requests it. This Form 10-K and other SEC filings made by CSX are also accessible through the SEC's website at www.sec.gov.

CSX has included the certifications of its Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") required by Section 302 of the Sarbanes-Oxley Act of 2002 ("the Act") as Exhibit 31, as well as Section 906 of the Act as Exhibit 32 to this Form 10-K report. Additionally, on May 25, 2011, CSX filed its annual CEO certification with the New York Stock Exchange ("NYSE") confirming CSX's compliance with the NYSE Corporate Governance Listing Standards. The CEO was not aware of any violations of these standards by CSX as of February 17, 2012 (the latest practicable date that is closest to the filing of this Form 10-K). This certification is also included as Exhibit 99 to this Form 10-K.

The Company's annual average number of employees was approximately 31,000 in 2011, which includes approximately 26,000 union employees. Most of the Company's employees provide or support transportation services. The information set forth in Item 6. Selected Financial Data is incorporated herein by reference.

For additional information concerning business conducted by the Company during 2011, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1A. Risk Factors

The following risk factors could have a materially adverse effect on the Company's financial condition, results of operations or liquidity, and could cause those results to differ materially from those expressed or implied in the Company's forward-looking statements. Additional risks and uncertainties not currently known to the Company or that the Company currently does not deem to be material also may materially impact the Company's financial condition, results of operations or liquidity.

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New legislation or regulatory changes could impact the Company's earnings or restrict its ability to independently negotiate prices.

Legislation passed by Congress or new regulations issued by federal agencies can significantly affect the revenues, costs and profitability of the Company's business. For instance, legislation proposed in the Senate in December 2009, and reintroduced in January 2011 (see Regulatory Environment in Part I for further details), if adopted, could significantly change the federal regulatory framework of the railroad industry. Several of the changes under consideration could have a significant negative impact on the Company's ability to determine prices for rail services and meet service standards, which could force a reduction in capital spending. In addition, statutes imposing price constraints or affecting rail-to-rail competition could adversely affect the Company's profitability.

Government regulation and compliance risks may adversely affect the Company's operations and financial results.

The Company is subject to the jurisdiction of various regulatory agencies, including the STB, the FRA and other state and federal regulatory agencies for a variety of economic, health, safety, labor, environmental, tax, legal and other matters. New rules or regulations by these agencies could increase the Company's operating costs or reduce operating efficiencies. For example, the RSIA mandated that the installation of PTC be completed by December 31, 2015 on main lines that carry certain hazardous materials and on lines that have commuter or passenger operations. In January 2010, the FRA issued its final rule on the design, operational requirements and implementation of the new PTC technology. The FRA is now re-examining certain aspects of the rule in response to rail industry concerns. The AAR recently advised the FRA on behalf of the industry that a nationwide interoperable PTC network cannot be completed by the December 31, 2015 deadline. Federal legislation introduced in both the House of Representatives and the Senate would, if approved, delay the final implementation of PTC from three to five years. Even if revised, the rule will continue to impose significant new costs on the Company and the rail industry. Noncompliance with these and other applicable laws or regulations could erode public confidence in the Company and can subject the Company to fines, penalties and other legal or regulatory sanctions.

Climate change legislation and regulation could adversely affect the Company's operations and financial results.

Climate change legislation or regulation has been proposed and, in some cases adopted, on the federal, state, provincial (Canada) and local levels. These final and proposed laws and regulations take the form of restrictions, caps, taxes or other controls on greenhouse gas ("GHG") emissions. In particular, the U.S. Environmental Protection Agency ("EPA") has issued various regulations targeting GHG emissions, including rules and standards governing GHG emissions from certain stationary sources and from vehicles.

Any of these pending or proposed laws or regulations could adversely affect CSX operations and financial results by, among other things: (1) increasing energy costs generally, making it difficult for the Company's customers in the U.S. and Canada to produce products in a cost competitive manner (particularly in the absence of similar regulations in countries like India and China); (2) increasing the Company's fuel, capital and other operating costs and negatively affecting operating and fuel efficiencies; (3) reducing coal-fired electricity generation due to mandated emission standards which CSX considers to be unachievable within the time frames ordered by the U.S. EPA, and (4) reducing the consumption of coal as a viable energy resource in the United States. Any of these factors could reduce the amount of traffic the Company handles and have a material adverse effect on the Company's financial condition, results of operations or liquidity.

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Capacity constraints could have a negative impact on service and operating efficiency.

CSXT may experience rail network difficulties related to: (i) increased passenger activities, including high-speed rail, in capacity-constrained areas, or (ii) regulatory changes impacting when CSXT can transport freight or service routes that could have a negative effect on CSXT's operational fluidity, leading to deterioration of service, asset utilization and overall efficiency.

General economic conditions could negatively affect demand for commodities and other freight.

The economic recession in late 2008 and 2009 adversely affected demand for rail and intermodal services. Although overall traffic improved in 2010 and 2011, a decline in general domestic and global economic conditions that affect demand for the commodities the Company carries could reduce revenues or have other adverse effects. In addition, if the rate of economic growth in China slows or if European economies contract, U.S. export coal volume could be adversely impacted resulting in lower revenue for CSX. Furthermore, sustained low natural gas prices are having a negative impact on domestic coal volume, as coal-fired electricity generation is being displaced by natural gas-fired generation, which could adversely impact the Company's financial condition, results of operations or liquidity.

CSXT, as a common carrier by rail, is required by law to transport hazardous materials, which could expose the Company to significant costs and claims.

Under federal regulations, CSXT is required to transport hazardous materials under its common carrier obligation. A train accident involving the transport of hazardous materials could result in significant claims arising from personal injury, property or natural resource damage, environmental penalties and remediation obligations. Such claims, if insured, could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

CSXT is also required to comply with regulations regarding the handling of hazardous materials. In November 2008, the TSA issued final rules placing significant new security and safety requirements on passenger and freight railroad carriers, rail transit systems, and facilities that ship hazardous materials by rail. Noncompliance with these rules can subject the Company to significant penalties and could be a factor in litigation arising out of a train accident. Finally, legislation preventing the transport of hazardous materials through certain cities could result in network congestion and increase the length of haul for hazardous substances, which could increase operating costs, reduce operating efficiency or increase the risk of an accident involving the transport of hazardous materials.

The Company is subject to environmental laws and regulations that may result in significant costs.

The Company is subject to wide-ranging federal, state, provincial (Canada) and local environmental laws and regulations concerning, among other things, emissions into the air, ground and water, the handling, storage, use, generation, transportation and disposal of waste and other materials, the clean-up of hazardous material and petroleum releases, and the health and safety of our employees. If we violate or fail to comply with these laws and regulations, we could be fined or otherwise sanctioned by regulators. We can also be held liable for consequences arising out of human exposure to any hazardous substances for which we are responsible. In certain circumstances, environmental liability can extend to formerly owned or operated properties, leased properties, adjacent properties and properties owned by third parties or Company predecessors, as well as to properties currently owned, leased or used by the Company.

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The Company has been, and may in the future, be subject to allegations or findings to the effect that it has violated, or is strictly liable under, environmental laws or regulations, and such violations can result in the Company's incurring fines, penalties or costs relating to the clean-up of environmental contamination. Although the Company believes it has appropriately recorded current and long-term liabilities for known and estimable future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. The Company also may be required to incur significant expenses to investigate and remediate known, unknown or future environmental contamination.

The Company relies on the stability and availability of its technology systems to operate its business.

The Company relies on information technology in all aspects of its business. The performance and reliability of the Company's technology systems are critical to its ability to operate and compete safely and effectively. A cybersecurity attack, which is a deliberate theft of data or impairment of information technology systems, or other significant disruption or failure could result in a service interruption, train accident, misappropriation of confidential information, process failure, security breach or other operational difficulties. Such an event could result in increased capital, insurance or operating costs, including increased security costs to protect the Company's infrastructure. Disruption of the Company's information technology systems, even for short periods of time, could have a material adverse effect on the Company.

Disruption of the supply chain could negatively affect operating efficiency and increase costs.

The capital intensive nature and sophistication of core rail equipment (including rolling stock equipment, locomotives, rail, and ties) limits the number of railroad equipment suppliers. If any of the current manufacturers stops production or experiences a supply shortage, CSXT could experience a significant cost increase or material shortage. In addition, a few critical railroad suppliers are foreign and, as such, adverse developments in international relations, new trade regulations, disruptions in international shipping or increases in global demand could make procurement of these supplies more difficult or increase CSXT's operating costs.

Additionally, if a fuel supply shortage were to arise, whether due to the Organization of the Petroleum Exporting Countries (OPEC), other production restrictions, lower refinery outputs, a disruption of oil imports, adverse political developments or otherwise, the Company would be negatively impacted.

Failure to complete negotiations on collective bargaining agreements could result in strikes and/or work stoppages.

Most of CSX's employees are represented by labor unions and are covered by collective bargaining agreements. The majority of these agreements are bargained nationally by the National Carriers Conference Committee and negotiated over the course of several years and previously have not resulted in any extended work stoppages. Under the Railway Labor Act's procedures (which include mediation, cooling-off periods and the possibility of Presidential intervention), during negotiations neither party may take action until the procedures are exhausted. If, however, CSX is unable to negotiate acceptable agreements, or if terms of existing agreements are disputed, the employees covered by the Railway Labor Act could strike, which could result in loss of business and increased operating costs as a result of higher wages or benefits paid to union members.

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The Company faces competition from other transportation providers.

The Company experiences competition in the form of pricing, service, reliability and other factors from various transportation providers including railroads and motor carriers that operate similar routes across its service area and, to a less significant extent, barges, ships and pipelines. Transportation providers such as motor carriers and barges utilize public rights-of-way that are built and maintained by governmental entities while CSXT and other railroads must build and maintain rail networks largely using internal resources. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, or legislation providing for less stringent size or weight restrictions on trucks, could negatively impact the Company's competitive position.

Future acts of terrorism, war or regulatory changes to combat the risk of terrorism may cause significant disruptions in the Company's operations.

Terrorist attacks, along with any government response to those attacks, may adversely affect the Company's financial condition, results of operations or liquidity. CSXT's rail lines or other key infrastructure may be direct targets or indirect casualties of acts of terror or war. This risk could cause significant business interruption and result in increased costs and liabilities and decreased revenues. In addition, premiums charged for some or all of the insurance coverage currently maintained by the Company could increase dramatically or the coverage may no longer be available.

Furthermore, in response to the heightened risk of terrorism, federal, state and local governmental bodies are proposing and, in some cases, have adopted legislation and regulations relating to security issues that impact the transportation industry. For example, the Department of Homeland Security adopted regulations that require freight railroads to implement additional security protocols when transporting hazardous materials. Complying with these regulations could continue to increase the Company's operating costs and reduce operating efficiencies.

Severe weather or other natural occurrences could result in significant business interruptions and expenditures in excess of available insurance coverage.

The Company's operations may be affected by external factors such as severe weather and other natural occurrences, including floods, fires, hurricanes and earthquakes. As a result, the Company's rail network may be damaged, its workforce may be unavailable, fuel costs may rise and significant business interruptions could occur. In addition, the performance of locomotives and railcars could be adversely affected by extreme weather conditions. Insurance maintained by the Company to protect against loss of business and other related consequences resulting from these natural occurrences is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of the Company's damages or damages to others and this insurance may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of service, the Company may not be able to restore service without a significant interruption in operations.

The Company may be subject to lawsuits that could result in significant expenditures.

The Company is subject to various claims and lawsuits, including putative class action litigation alleging violations of antitrust laws. The Company may experience material judgments or incur significant costs to defend existing and future lawsuits. Additionally, existing litigation may suffer adverse developments not currently reflected in the

Company's reserve estimates as the ultimate outcome of existing litigation is subject to numerous factors outside of the Company's control. Final judgments or settlement amounts may differ materially from the recorded reserves.

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Increases in the number and magnitude of property damage and personal injury claims could adversely affect the Company's operating results.

The Company faces inherent business risk from exposure to occupational and personal injury claims, property damage, including storm damage, and claims related to train accidents. The Company may incur significant costs to defend such claims.

Existing claims may suffer adverse developments not currently reflected in reserve estimates, as the ultimate outcome of existing claims is subject to numerous factors outside of the Company's control. Although the Company establishes reserves and maintains insurance to cover these types of claims, final amounts determined to be due on any outstanding matters may differ materially from the recorded reserves and exceed the Company's insurance coverage.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's properties primarily consist of track and its related infrastructure, locomotives and freight cars and equipment. These categories and the geography of the network are described below.

Track and Infrastructure

Serving 23 states, the District of Columbia, and the Canadian provinces of Ontario and Quebec, the CSXT rail network serves, among other markets, New York, Philadelphia and Boston in the northeast and mid-Atlantic, the southeast markets of Atlanta, Miami and New Orleans, and the midwestern cities of St. Louis, Memphis and Chicago.

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CSXT's track structure includes main thoroughfares, connecting terminals and yards (known as mainline track), track within terminals and switching yards, track adjacent to the mainlines used for passing trains, track connecting the mainline track to customer locations and track that diverts trains from one track to another known as turnouts. Total track miles are greater than CSXT's approximately 21,000 route miles, which reflect the size of CSXT's network that connects markets, customers and western railroads. At December 2011, the breakdown of track miles was as follows:

	Track Miles
Mainline track	26,546
Terminals and switching yards	9,556
Passing sidings and turnouts	910
Total	37,012

In addition to its physical track structure, CSXT operates numerous yards and terminals. These serve as the hubs between CSXT and its local customers and as sorting facilities where rail cars often are received, re-sorted and placed onto new outbound trains.

The Company's ten largest yards and terminals based on annual volume (number of rail cars or intermodal containers processed) are listed below:

Yards and Terminals	Annual Volume (number of units processed)
Chicago, IL	922,893
Waycross, GA	663,821
Selkirk, NY	584,746
Willard, OH	500,612
Nashville, TN	493,106
Indianapolis, IN	491,728
Cincinnati, OH	486,242
Hamlet, NC	462,247
Toledo, OH	361,871
Birmingham, AL	357,353

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Network Geography

CSXT's operations are primarily focused on four major transportation networks and corridors which are defined geographically and by commodity flows below.

Interstate 90 (I-90) Corridor – This CSXT corridor links Chicago and the Midwest to metropolitan areas in New York and New England. This route, also known as the “waterlevel route,” has minimal hills and grades and nearly all of it has two main tracks (referred to as double track). These superior engineering attributes permit the corridor to support consistent, high-speed intermodal, automotive and merchandise service. This corridor is a primary route for import traffic coming from the far east through western ports moving eastward across the country, through Chicago and into the population centers in the Northeast. The I-90 Corridor is also a critical link between ports in New York, New Jersey, and Pennsylvania and consumption markets in the Midwest. This route carries consumer goods from all three of the Company's major markets – merchandise, coal and intermodal.

Interstate 95 (I-95) Corridor – The CSXT I-95 Corridor connects Charleston, Jacksonville, Miami and many other cities throughout the Southeast with the heavily populated northeastern cities of Baltimore, Philadelphia and New York. CSXT primarily transports food and consumer products, as well as metals and chemicals along this line. It is the only rail corridor along the eastern seaboard south of the District of Columbia, and provides access to major eastern ports.

Southeastern Corridor – This critical part of the network runs between CSXT's western gateways of Chicago, St. Louis and Memphis through the cities of Nashville, Birmingham, and Atlanta and markets in the Southeast. The Southeastern Corridor is the premier rail route connecting these key cities, gateways, and markets and positions CSXT to efficiently handle projected traffic volumes of intermodal, automotive and general merchandise traffic. The corridor also provides direct rail service between the coal reserves of the southern Illinois basin and the demand for coal in the Southeast.

Coal Network – The CSXT coal network connects the coal mining operations in the Appalachian mountain region and Illinois Basin with industrial areas in the Northeast and Mid-Atlantic, as well as many river, lake, and deep water port facilities. CSXT's coal network is well positioned to supply utility markets in both the Northeast and Southeast and to transport coal shipments for exports outside of the U.S. Roughly one of every three tons of export coal and nearly all of the domestic coal that the Company transports is used for generating electricity.

See the following page for a map of the CSX Rail Network.

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CSX Rail Network

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Locomotives

CSXT operates more than 4,000 locomotives, of which over 95% are owned by CSXT. Freight locomotives are the power source used primarily to pull trains. Switching locomotives are used in yards to sort railcars so that the right railcar is attached to the right train in order to deliver it to its final destination. Auxiliary units are typically used to provide extra traction for heavy trains in hilly terrain. At December 2011, CSXT's fleet of owned and long-term leased locomotives consisted of the following types of locomotives:

	Locomotives	%	Average Age (years)
Freight	3,579	87	% 20
Switching	322	8	% 32
Auxiliary Units	215	5	% 19
Total	4,116	100	% 20

Equipment

In 2011, the average daily fleet of cars on line consisted of approximately 206,000. At any time over half of the railcars on the CSXT system are not owned or leased by the Company. Examples of these are as follows: railcars owned by other railroads (which are utilized by CSXT), shipper-furnished or private cars (which are generally used only in that shipper's service) and multi-level railcars used to transport automobiles (which are shared among railroads).

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The Company's equipment consists of freight cars, containers and chassis.

Gondolas – Support CSXT's metals markets and provide transport for woodchips and other bulk commodities. Some gondolas are equipped with special hoods for protecting products like coil and sheet steel.

Open-top hoppers – Transport heavy dry bulk commodities such as coal, coke, stone, sand, ores and gravel that are resistant to weather conditions.

Box cars – Include a variety of tonnages, sizes, door configurations and heights to accommodate a wide range of finished products, including paper, auto parts, appliances and building materials. Insulated box cars deliver food products, canned goods, beer and wine.

Covered hoppers – Have a permanent roof and are segregated based upon commodity density. Lighter bulk commodities such as grain, fertilizer, flour, salt, sugar, clay and lime are shipped in large cars called jumbo covered hoppers. Heavier commodities like cement, ground limestone and glass sand are shipped in small cube covered hoppers.

Multi-level flat cars – Transport finished automobiles and are differentiated by the number of levels: bi-levels for large vehicles such as pickup trucks and SUVs and tri-levels for sedans and smaller automobiles.

Flat cars – Used for shipping intermodal containers and trailers or bulk and finished goods, such as lumber, pipe, plywood, drywall and pulpwood.

Containers - Weather-proof boxes used for bulk shipment of freight.

Chassis - Wheeled support framework for a container that allows it to be attached to a tractor. All of the Company's chassis are leased.

Other cars owned or leased on the network include, but are not limited to, center beam cars for transporting lumber and building products. The Company also has other types of equipment such as doublestack railcars, which allow for two containers to be mounted one above the other.

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At December 2011, the Company's owned and long-term leased equipment consisted of the following:

Equipment	Number of Units	%	%
Gondolas	25,337	37	%
Open-top hoppers	12,354	18	%
Box cars	8,659	13	%
Covered hoppers	10,987	16	%
Multi-level flat cars	9,845	14	%
Flat cars	1,106	2	%
Other cars	371	1	%
Subtotal freight cars	68,659	100	%
Containers	16,403	61	%
Chassis	10,360	39	%
Subtotal equipment	26,763	100	%
Total equipment	95,422		

Item 3. Legal Proceedings

Fuel Surcharge Antitrust Litigation

Class action lawsuits first filed in May 2007 have been consolidated and are pending in federal court in the District of Columbia against CSXT and three other U.S.-based Class I railroads. The court has not yet ruled on whether it is appropriate to certify the case as a class action.

The lawsuits contain substantially similar allegations to the effect that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. The suits seek unquantified treble damages (three times the amount of actual damages) allegedly sustained by purported class members, attorneys' fees and other relief.

All but three of the lawsuits purport to be filed on behalf of a class of shippers that allegedly purchased rail freight transportation services from the defendants through the use of contracts or through other means exempt from rate regulation during defined periods commencing as early as June 2003 and that were assessed fuel surcharges. Three of the lawsuits purport to be on behalf of indirect purchasers of rail services. The court denied the defendants' motion to dismiss the direct purchasers' claims. The court dismissed all of the indirect purchasers' causes of action seeking money damages, but did not dismiss their request for injunctive relief. The dismissal was upheld on appeal. Plaintiffs then petitioned the United States Supreme Court to hear the case. The Supreme Court denied the petition in December 2010.

One additional lawsuit was filed, but not served, by an individual shipper. CSXT entered into a tolling agreement with this shipper whereby the shipper agreed to dismiss the lawsuit against CSXT without prejudice and CSXT agreed to extend the statute of limitations for the claims asserted until the end of 2010. That agreement has been extended to the end of 2012.

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CSXT believes that its fuel surcharge practices are lawful. Accordingly, CSXT intends to vigorously defend itself against the purported class actions, which it believes are without merit. While CSXT cannot predict the outcome of the private lawsuits, or of any government investigations, charges or additional litigation that may be filed in the future, we currently believe that these matters will not have a material adverse effect on any of our results of operations, financial condition and liquidity. Penalties for violating antitrust laws can be severe, involving both potential criminal and civil liability. If a material adverse outcome were to occur and be sustained, it could have a material adverse impact on the Company's financial condition, results of operations or liquidity.

Other Legal Proceedings

In addition to the matters described above, the Company is involved in litigation incidental to its business and is a party to a number of legal actions and claims, various governmental proceedings and private civil lawsuits, including, but not limited to, those related to environmental and hazardous material exposure matters, FELA claims by employees, other personal injury claims and disputes and complaints involving certain transportation rates and charges. Some of the legal proceedings include claims for compensatory as well as punitive damages and others are, or are purported to be, class actions. While the final outcome of these matters cannot be predicted with certainty, considering, among other things, the legal defenses available and liabilities that have been recorded along with applicable insurance, it is currently the opinion of CSX management that none of these 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.

Item 4. Mine Safety Disclosure

Not Applicable

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Executive Officers of the Registrant

Executive officers of the Company are elected by the CSX Board of Directors and generally hold office until the next annual election of officers. There are no family relationships or any arrangement or understanding between any officer and any other person pursuant to which such officer was elected. As of the date of this filing, the executive officers' names, ages and business experience are:

Name and Age	Business Experience During Past Five Years
Michael J. Ward, 61 Chairman, President and Chief Executive Officer	<p>A 34-year veteran of the Company, Ward has served as Chairman, President and Chief Executive Officer of CSX since January 2003.</p> <p>Ward's distinguished railroad career has included key executive positions in nearly all aspects of the Company's business, including sales and marketing, operations and finance.</p>
Fredrik J. Eliasson, 41 Executive Vice President and Chief Financial Officer	<p>Eliasson was named Executive Vice President and Chief Financial Officer of CSX and CSXT in January 2012 and is responsible for the management and oversight of strategic planning and finance activities, including accounting, financial planning, tax, treasury and investor relations.</p> <p>Eliasson brings more than 16 years of management and finance experience to his new role. He previously served as Vice President of Sales and Marketing for CSX's chemicals and fertilizer business, Vice President of Emerging Markets, Vice President of Commercial Finance, and Vice President of Financial Planning and Analysis.</p>

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Name and Age

Business Experience During Past Five Years

Oscar Munoz, 53
Executive Vice President and
Chief Operating Officer

Munoz was named Executive Vice President and Chief Operating Officer of CSXT in January 2012. He manages all aspects of the Company's operations across its 21,000-mile network, including transportation, service design, customer service, engineering, mechanical and technology. Prior to his current role, Munoz spent eight years as CSX's Executive Vice President and Chief Financial Officer from 2003 to 2012.

Munoz brings to the Company more than 25 years of experience from a variety of industries. Before joining CSX in 2003, Munoz served as Chief Financial Officer and Vice President of AT&T Consumer Services. He also has held key executive positions with other consumer products companies, including the Coca-Cola Company and Pepsico Corporation.

Clarence W. Gooden, 60
Executive Vice President of Sales
and Marketing and Chief
Commercial Officer

Gooden has been the Executive Vice President and Chief Commercial Officer of CSX and CSXT since April 2004. He is responsible for generating customer revenue, forecasting business trends and developing CSX's model for future revenue growth.

A member of the Company for more than 40 years, Gooden has held key executive positions in both operations and sales and marketing.

Ellen M. Fitzsimmons, 51
Senior Vice President of Law and
Public Affairs, General Counsel
and Corporate Secretary

Fitzsimmons has been the Senior Vice President of Law and Public Affairs, General Counsel, and Corporate Secretary since December 2003. She serves as the Company's chief legal officer and oversees all government relations and public affairs activities.

During her 20-year tenure with the Company, her broad responsibilities have included key roles in major risk and corporate governance-related areas.

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Name and Age

Business Experience During Past Five Years

Lisa A. Mancini, 52
Senior Vice President and Chief
Administrative Officer

Mancini has been Senior Vice President and Chief Administrative Officer since January 2009. She is responsible for employee compensation and benefits, labor relations, all employee staffing and development activities, purchasing, real estate, aviation and facilities. She previously served as Vice President-Strategic Infrastructure Initiatives from 2007 to 2009 and, prior to that, Vice President – Labor Relations.

Prior to joining CSX in 2003, Mancini served as Chief Operating Officer of the San Francisco Municipal Railway.

Carolyn T. Sizemore, 49
Vice President and Controller

Sizemore has served as Vice President and Controller of CSX and CSXT since April 2002. She is responsible for financial and regulatory reporting, freight billing and collections, payroll for the Company's 31,000 employees, accounts payable and various other accounting processes.

Sizemore's responsibilities during her 22-year tenure with the Company have included roles in finance and audit-related areas including a variety of positions in accounting, finance strategies, budgets and performance analysis.

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Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

CSX's common stock is listed on the NYSE, which is its principal trading market, and is traded over-the-counter and on exchanges nationwide. The official trading symbol is "CSX."

Description of Common and Preferred Stock

A total of 1.8 billion shares of common stock are authorized, of which 1,049,157,179 shares were outstanding as of December 2011. Each share is entitled to one vote in all matters requiring a vote of shareholders. There are no pre-emptive rights, which are privileges extended to select shareholders that allow them to purchase additional shares before other members of the general public in the event of an offering. At January 27, 2012, the latest practicable date, there were 36,697 common stock shareholders of record. The weighted average of common shares outstanding, which was used in the calculation of diluted earnings per share, was approximately 1.1 billion as of December 30, 2011. (See Note 2, Earnings Per Share.)

A total of 25 million shares of preferred stock is authorized, none of which is currently outstanding.

The following table sets forth, for the quarters indicated, the dividends declared and the high and low share prices of CSX common stock as required by SEC Regulation S-K. All dividends and common stock prices were adjusted to reflect the three-for-one stock split effective May 31, 2011.

	Quarter				
	1st	2nd	3rd	4th	Year
2011					
Dividends	\$0.09	\$0.12	\$0.12	\$0.12	\$0.45
Common Stock Price					
High	\$26.81	\$26.50	\$27.06	\$23.14	\$27.06
Low	\$21.37	\$24.08	\$17.69	\$17.83	\$17.69
2010					
Dividends	\$0.08	\$0.08	\$0.08	\$0.09	\$0.33
Common Stock Price					
High	\$17.61	\$20.67	\$18.93	\$21.60	\$21.60
Low	\$14.02	\$16.00	\$15.50	\$17.98	\$14.02

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Stock Performance Graph

The cumulative shareholder returns, assuming reinvestment of dividends, on \$100 invested at December 31, 2006 are illustrated on the graph below. The Company references the Standard & Poor 500 Stock Index (“S&P 500”) and the Dow Jones U.S. Transportation Average Index, which provide comparisons to a broad-based market index and other companies in the transportation industry. As shown in the graph, CSX’s five-year stock returns significantly outpaced those of the S&P 500.

* The S&P 500 is a registered trademark of the McGraw-Hill Companies, Inc.

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 2011, CSX repurchased a total of \$1.6 billion of common stock, which includes \$1.3 billion from the new share repurchase program announced in May 2011. As of December 30, 2011, the Company had remaining authority of \$734 million under this new \$2 billion program. The Company may purchase shares from time to time on the open market, through block trades or otherwise. CSX did not repurchase any shares in the fourth quarter of 2011, and as such, no table showing shares repurchased in the quarter is required. CSX expects to complete the remaining repurchase amount by the end of 2012 based on market and business conditions. Since year end, the Company has completed \$178 million of additional share repurchases through a trade date of February 15, 2012.

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Item 6. Selected Financial Data

Selected financial data related to the Company's financial results for the last five fiscal years are listed below.

(Dollars and Shares in Millions, Except Per Share Amounts)	Fiscal Years					
	2011	2010	2009	2008	2007	
Financial Performance						
Revenue	\$11,743	\$10,636	\$9,041	\$11,255	\$10,030	
Expense	8,325	7,565	6,771	8,504	7,784	
Operating Income	\$3,418	\$3,071	\$2,270	\$2,751	\$2,246	
Net Earnings from Continuing Operations	\$1,822	\$1,563	\$1,128	\$1,485	\$1,227	
Operating Ratio	70.9	% 71.1	% 74.9	% 75.6	% 77.6	%
Earnings Per Share: ^(a)						
From Continuing Operations, Basic	\$1.68	\$1.37	\$0.96	\$1.23	\$0.95	
From Continuing Operations, Assuming Dilution	1.67	1.35	0.95	1.21	0.91	
Average Common Shares Outstanding	1,083	1,143	1,176	1,204	1,293	
Average Common Shares Outstanding, Assuming Dilution	1,089	1,154	1,187	1,228	1,347	
Financial Position						
Cash, Cash Equivalents and Short-term Investments	\$1,306	\$1,346	\$1,090	\$745	\$714	
Total Assets	29,473	28,141	26,887	26,154	25,417	
Long-term Debt	8,734	8,051	7,895	7,512	6,470	
Shareholders' Equity	8,468	8,700	8,768	7,985	8,612	
Dividend Per Share ^(a)	\$0.45	\$0.33	\$0.29	\$0.26	\$0.18	
Additional Data						
Capital Expenditures ^(b)	\$2,297	\$1,840	\$1,586	\$1,784	\$1,806	
Employees -- Annual Averages	31,344	30,066	30,202	33,348	33,977	

^(a) Earnings per share and dividends per share data were retroactively restated to reflect the three-for-one stock split effective May 31, 2011.

Capital Expenditures include investments related to reimbursable public-private partnerships. These investments of approximately \$100 million in 2011 are projects that are partially or wholly reimbursed to CSX through either ^(b) government grants or other funding sources such as cash received from a property sale. These reimbursements may not be fully received in a given year; therefore the timing of receipts may differ from the timing of the investment. See the capital expenditures table on page 43 for additional information.

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Item 7. 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. 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. America is once again poised for a period of growth in manufacturing, as the economy continues to recover. 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 are the best way to meet this demand while reducing environmental impacts. CSX can move a ton of freight almost 500 miles on one gallon of fuel and, on average, over three times more fuel efficiently than trucks.

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 products and commodities to meet the country's needs. These products range from energy sources like coal and ethanol, to automobiles, chemicals, building materials, paper, metals, grains and consumer products. The Company categorizes these products into three primary lines of business: merchandise, coal and intermodal. CSX's transportation solutions connect industries across the United States with each other and with global markets to meet 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.

CSX services are delivered by dedicated employees whose jobs cannot be exported overseas. Railroad jobs are among some of the nation's highest paying. In 2011, CSX continued its job creation efforts by hiring more than 4,000 new employees that will carry forward with this legacy.

Strategic Growth Initiatives

As CSX continues to strengthen its core business, the Company is focusing on three key strategic growth initiatives related to intermodal, export coal and total service integration. The Company believes these initiatives will allow it to capture additional domestic and international volume, while improving service offerings to its customers in a cost-effective manner.

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. Construction of a new intermodal terminal in Louisville, Kentucky and major terminal expansion projects such as the Worcester, Massachusetts and Columbus, Ohio terminals are currently underway. These investments are in addition to the Company's new Northwest Ohio intermodal terminal that became operational during first quarter 2011. This high-capacity terminal, which is part of CSX's National Gateway initiative discussed below, expands service offerings to customers as well as improves market access to and from east coast ports.

Rapid economic growth in developing countries such as India, China and Brazil has generated a long term growth cycle in export coal demand. As a result of the increase in global steel production, demand for U.S. coal is expected to remain strong. Demand for coal used in electric power generation is also expected to remain high due to rising consumption as developing countries become more urbanized. These increases in global coal demand are expected to largely be met by export shipments with a considerable portion originating from the U.S. The Company is well-positioned to capitalize on this market growth through its network access to large U.S. coal suppliers and multiple port facilities.

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CSX's Total Service Integration ("TSI") initiative, which was launched in 2006, supports growth by improving service, optimizing train size, and increasing asset utilization for unit train shipments from origin to destination. CSX is now advancing this 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 will better align the Company's operating capabilities with customers' needs.

Balanced Approach to Capital Deployment

CSX remains highly committed to delivering value to shareholders through a balanced approach to deploying capital that includes investments in infrastructure, dividend growth and share repurchases. In 2011, the Company invested \$2.3 billion to further enhance the capacity, quality, safety and flexibility of its network. Included in this amount is approximately \$100 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. The Company has increased its quarterly cash dividend nine times over the last six year period which represents a 36 percent compounded annual growth rate. Also during 2011, CSX announced a new \$2 billion share repurchase authority expected to be completed by the end of 2012 based on market and business conditions.

Public-Private Partnerships

Expanding capacity on U.S. rail networks will provide 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 on key corridors between Mid-Atlantic ports and the Midwest. Current projects related to the National Gateway include the expansion of the Virginia Avenue Tunnel in Washington, D.C. and construction for double-stack train clearances in Ohio, West Virginia, Pennsylvania, Maryland and the District of Columbia.

CSX is engaged in another major partnership initiative with the Commonwealth of Massachusetts to expand freight and commuter rail service. Currently, CSX provides service to and from New England. To further improve that service offering to customers, CSX is expanding its intermodal terminal footprint in Worcester, Massachusetts and, with the Commonwealth, is clearing the route from Worcester to the New York state line for double-stack intermodal service.

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

In summary, these 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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2011 HIGHLIGHTS

Revenue increased \$1.1 billion or 10% to \$11.7 billion primarily driven by pricing above inflation and higher fuel recoveries.

- Expenses increased \$760 million or 10% to \$8.3 billion driven primarily by higher fuel prices and inflation.
- Operating income increased \$347 million or 11% to an all-time annual record of \$3.4 billion and operating ratio improved to 70.9%, also an all-time annual record.

(in Thousands)	Fiscal Years			
	2011	2010	2009	
Volume	6,476	6,384	5,793	
(in Millions)				
Revenue	\$ 11,743	\$ 10,636	\$ 9,041	
Expense	8,325	7,565	6,771	
Operating Income	\$3,418	\$3,071	\$2,270	
Operating Ratio	70.9	% 71.1	% 74.9	%

In 2011, the Company achieved positive year-over-year volume and revenue results as demand for rail service in the markets CSX serves continued to support profitable growth. Revenue increased 10% from prior year, to \$11.7 billion, with growth in all three major markets - merchandise, coal and intermodal. Ongoing emphasis on pricing above rail inflation, along with higher fuel recovery associated with the increase in fuel prices, drove revenue-per-unit increases in all markets.

Expenses increased by \$760 million, or 10%, from prior year. This increase was driven primarily by higher fuel prices, inflation and other labor-related costs associated with increased resource levels and training costs focused on service improvements. Although expenses increased year-over-year, CSX was able to achieve a record operating ratio of 70.9% due to the Company's continued focus on cost control and strong top line growth. Fiscal year 2010 results include an extra week of activity as compared to fiscal year 2011. This activity did not have a material impact on the Company's full year 2010 results of operations.

For additional information, refer to Results of Operations discussed on pages 34 through 37.

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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, initiatives and investment. For example, the Company's safety and train accident prevention programs rely on broad employee involvement. The programs utilize operating rules training, compliance measurement, root cause analysis and communication that are intended to create a safer environment for employees and the public. Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance.

The Company routinely collaborates with the 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.

During 2011, the Company's safety metrics improved. For 2011, the Federal Railroad Administration ("FRA") personal injury rate improved 10% to 0.91, compared to 1.01 in 2010. This is a record full year personal injury performance for CSX. The 2011 reported FRA train accident frequency rate improved 14% to 2.32, compared to 2.69 in 2010. These improvements were achieved through a sustained commitment to safety.

Key service measures in 2011 slightly declined as the impact of severe weather on first half 2011 operations were partially offset by improvements gained from additional resources added in the second half of 2011. On-time train originations declined to 72% from 75% in 2010 while on-time arrivals declined to 62% from 69% in 2010. Dwell time increased to 25.9 hours from 25.0 hours in 2010. Average train velocity declined 2% to 20.6 miles per hour. While these key measures declined on a year-over-year basis, fourth quarter 2011 measures were markedly improved, and continue to support efficient and reliable train operations for CSX's customers.

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Operating Statistics (Estimated)

		Fiscal Years		Improvement/ (Decline)	
		2011	2010		
Safety and Service Measurements	FRA Personal Injury Frequency Index	0.91	1.01	10	%
	FRA Train Accident Rate	2.32	2.69	14	%
	On-Time Train Originations	72	% 75	% (4)%
	On-Time Destination Arrivals	62	% 69	% (10)%
	Dwell	25.9	25.0	(4)%
	Cars-On-Line	206,432	210,984	2	%
	Train Velocity	20.6	21.0	(2)%
				Increase/ (Decrease)	
Resources	Route Miles	20,998	21,084	—	%
	Locomotives (owned and long-term leased)	4,116	4,072	1	%
	Freight Cars (owned and long-term leased)	68,659	70,318	(2)%

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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Free Cash Flow (Non-GAAP Measure)

Free cash flow is considered a non-GAAP financial measure under SEC Regulation G, Disclosure of Non-GAAP Measures. Management believes that free cash flow is important in evaluating the Company's financial performance. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities. As described below, free cash flow before dividends decreased \$94 million to \$1.4 billion.

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure).

	Fiscal Years		
	2011	2010	2009
(Dollars in Millions)			
Net cash provided by operating activities	\$3,491	\$3,261	\$2,039
Property additions ^(a)	(2,297) (1,840) (1,426
Proceeds from property dispositions	240	108	45
Other investing activities	(38) (39) 9
Free Cash Flow (before payment of dividends)	\$1,396	\$1,490	\$667

Property additions include investments related to reimbursable public-private partnerships. These investments of approximately \$100 million in 2011 are projects that are partially or wholly reimbursed to CSX through either government grants or other funding sources such as cash received from a property sale. These reimbursements (a) may not be fully received in a given year; therefore the timing of receipts may differ from the timing of the investment. Also, property additions for 2009 above do not include cash payments of new assets using seller financing of approximately \$160 million. These payments are shown in "other financing activities" on the consolidated cash flow statement.

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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, 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 the potential enactment of initiatives to further regulate the rail industry;

the outcome of litigation and claims, 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;

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the inherent business risks associated with safety and security, including the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;

labor and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or customers' ability to deliver goods to the Company for shipment;

the Company's success in implementing its strategic, financial and operational initiatives;

changes in operating conditions and costs or commodity concentrations; and

the inherent uncertainty associated with projecting economic and business conditions.

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

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FINANCIAL RESULTS OF OPERATIONS

2011 vs. 2010 Results of Operations

	Fiscal Years		\$ Change	% Change	
	2011	2010			
(Dollars in Millions)					
Revenue	\$11,743	\$10,636	\$1,107	10	%
Expense					
Labor and Fringe	3,073	2,957	(116)	(4))
Materials, Supplies and Other	2,229	2,075	(154)	(7))
Fuel	1,668	1,212	(456)	(38))
Depreciation	976	947	(29)	(3))
Equipment and Other Rents	379	374	(5)	(1))
Total Expense	8,325	7,565	(760)	(10))
Operating Income	\$3,418	\$3,071	\$347	11	
Interest Expense	(552)	(557)	5	1)
Other Income - Net	22	32	(10)	(31))
Income Tax Expense	(1,066)	(983)	(83)	(8))
Net Earnings	\$1,822	\$1,563	\$259	17	
Earnings Per Diluted Share:					
Net Earnings	\$1.67	\$1.35	\$0.32	24	%
Operating Ratio	70.9	% 71.1	%	20	bps

Volume and Revenue (Unaudited)

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

Fiscal Years ^(a)

	Volume			Revenue			Revenue Per Unit		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Agricultural									
Agricultural Products	424	446	(5)%	\$1,048	\$1,056	(1)%	\$2,472	\$2,368	4%
Phosphates and Fertilizers	321	313	3	490	465	5	1,526	1,486	3
Food and Consumer Industrial	101	102	(1)	263	245	7	2,604	2,402	8
Chemicals	462	461	—	1,596	1,485	7	3,455	3,221	7
Automotive	361	340	6	936	800	17	2,593	2,353	10
Metals	265	243	9	613	520	18	2,313	2,140	8
Housing and Construction									
Emerging Markets	439	418	5	672	615	9	1,531	1,471	4
Forest Products	281	265	6	684	600	14	2,434	2,264	7
Total Merchandise	2,654	2,588	3	6,302	5,786	9	2,375	2,236	6
Coal	1,533	1,573	(3)	3,709	3,267	14	2,419	2,077	17
Intermodal ^(b)	2,289	2,223	3	1,434	1,291	11	626	581	8
Other	—	—	—	298	292	2	—	—	—

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Total	6,476	6,384	1	%	\$11,743	\$10,636	10	%	\$1,813	\$1,666	9	%
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(a) CSX follows a 52/53 week fiscal reporting calendar and 2010 included 53 weeks. The revenue impact for the extra week was \$171 million.

(b) In fourth quarter 2011, CSX reduced revenue by \$18 million correcting the first nine months of 2011 intermodal revenue on certain interline business. This adjustment is presented in intermodal revenue above and is considered immaterial to the consolidated financial statements.

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2011 vs. 2010 Results of Operations

CSX full year results reflect positive year-over-year volume and revenue growth as demand for rail service in the markets CSX serves continued to support profitable growth. Ongoing emphasis on pricing above rail inflation, along with higher fuel recovery associated with the increase in fuel prices, drove revenue-per-unit increases in all markets. Fiscal year 2010 results include an extra week of activity as compared to fiscal year 2011.

Volume and Revenue

Merchandise

Agricultural

Agricultural Products – Volume declined as the amount of feed shipments declined as a result of higher corn prices and decreased production from producers of poultry and pork. These reductions were slightly offset by growth in ethanol and increased shipments of soybeans into the Southeast due to low inventories.

Phosphates and Fertilizers – Shipments of domestic fertilizers grew as farmers replenished inventories to improve crop yields as a result of higher anticipated crop prices. Export demand was also strong with recovery in exports to Central and South America after last year's drought. Shipments of phosphate rock, which is used to make fertilizer, grew as suppliers are stocking up in anticipation of a strong spring season.

Food and Consumer – Volume decreased as lower appliance shipments resulting from continued weakness in the housing sector was partially offset by strength in truckload conversions of refrigerated products and manufactured goods.

Industrial

Chemicals – Volume was flat as strength in frac sand (used in the extraction of gas and petroleum) resulted from the increase in natural gas drilling. This increase was offset by a reduction in basic chemical markets, like plastics, which experienced weak consumer demand and inventory destocking.

Automotive - Automotive volume grew as North American automotive production increased to meet pent up demand from delayed purchases during the slowed economy over the last few years.

Metals – Volume growth was driven by strong export demand for scrap shipments and higher domestic steel production resulting from strong demand in the automotive and oil and gas sectors for products such as sheet steel and pipe.

Housing and Construction

Emerging Markets – Volume increased primarily driven by improved shipments of aggregates (which include crushed stone, sand and gravel), cement and waste (such as construction and demolition debris) as a result of new distribution facilities and overall market growth related to the improving economy.

Forest Products – Volume increased, despite the weakness in housing-related markets, primarily related to strength in shipments of pulp board and paper used in packaging for consumer products and increased shipments of building products resulting from inventory replenishments.

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Coal

Shipments of utility coal declined as electrical generation declined in the eastern U.S., natural gas prices remained low and utility stockpiles were above target levels. This decrease was partially offset by higher export shipments driven by greater demand for U.S. coal in Europe, South America and Asia. During 2011, CSX shipped 40.2 million tons of export coal. The increase in revenue per unit was driven by improved yield, positive mix and fuel recovery.

Intermodal

International and domestic shipment growth resulted from expanded service offerings, over-the-road conversions, and service and network enhancements. The increase in revenue per unit was driven by increased fuel recovery, improved yields and favorable traffic mix. This revenue-per-unit increase was partially offset by the impact of switching from a purchased transportation arrangement to a domestic interline program in the prior year. This program, known as UMAX, provides customers with containers