CSX CORP
Form 10-Q
October 15, 2010

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

FORM 10-Q

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

For the quarterly period ended September 24, 2010

OR

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

For the transition period from __________ to __________

Commission File Number 1-8022

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes (X) No ( )

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

Large Accelerated Filer (X)	Accelerated Filer ( )
Non-accelerated Filer ( )	Smaller Reporting Company ( )

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ( ) No (X)

There were 374,184,621 shares of common stock outstanding on September 24, 2010 (the latest practicable date that is closest to the filing date).

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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)

	Third Quarters		Nine Months	
	2010	2009	2010	2009
		(Adjusted) (a)		(Adjusted) (a)
Revenue	$2,666	$2,289	$7,820	$6,721
Expense				
Labor and Fringe	731	653	2,181	1,969
Materials, Supplies and Other (Note 1)	509	500	1,579	1,482
Fuel	279	223	866	599
Depreciation	232	227	690	677
Equipment and Other Rents	90	92	279	303
Total Expense	1,841	1,695	5,595	5,030
Operating Income	825	594	2,225	1,691
Interest Expense	(131)	(140)	(408)	(420)
Other Income - Net (Note 8)	8	6	28	19
Earnings From Continuing Operations				
Before Income Taxes	702	460	1,845	1,290
Income Tax Expense (Note 9)	(288)	(170)	(712)	(465)
Earnings From Continuing Operations	414	290	1,133	825
Discontinued Operations (Note 10)	-	-	-	15
Net Earnings	$414	$290	$1,133	$840
Per Common Share (Note 2)				
Net Earnings Per Share, Basic				
Continuing Operations	$1.09	$0.74	$2.95	$2.10
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.09	$0.74	$2.95	$2.14
Net Earnings Per Share, Assuming Dilution				
Continuing Operations	$1.08	$0.73	$2.92	$2.08
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.08	$0.73	$2.92	$2.12
Average Shares Outstanding (Thousands)	378,050	392,352	384,102	391,847

Average Shares Outstanding,				
Assuming Dilution (Thousands)	381,822	396,333	387,516	395,268
Cash Dividends Paid Per Common Share	$0.24	$0.22	$0.72	$0.66

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

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	(Unaudited) September 24, 2010	December 25, 2009 (Adjusted) (a)
ASSETS		
Current Assets		
Cash and Cash Equivalents	$636	$1,029
Short-term Investments	40	61
Accounts Receivable - Net (Note 1)	1,001	995
Materials and Supplies	225	203
Deferred Income Taxes	206	158
Other Current Assets	97	124
Total Current Assets	2,205	2,570
Properties	31,457	30,907
Accumulated Depreciation	(8,123)	(7,843)
Properties - Net	23,334	23,064
Investment in Conrail	660	650
Affiliates and Other Companies	466	438
Other Long-term Assets	364	165
Total Assets	$27,029	$26,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$981	$967
Labor and Fringe Benefits Payable	473	383
Casualty, Environmental and Other Reserves (Note 4)	187	190
Current Maturities of Long-term Debt (Note 7)	605	113
Income and Other Taxes Payable	179	112
Other Current Liabilities	115	100
Total Current Liabilities	2,540	1,865
Casualty, Environmental and Other Reserves (Note 4)	534	547
Long-term Debt (Note 7)	7,297	7,895
Deferred Income Taxes	6,732	6,528
Other Long-term Liabilities	1,288	1,284
Total Liabilities	18,391	18,119
Common Stock $1 Par Value	374	393
Other Capital	-	80

Retained Earnings	9,022	9,090
Accumulated Other Comprehensive Loss (Note 1)	(771)	(809)
Noncontrolling Interest	13	14
Total Shareholders' Equity	8,638	8,768
Total Liabilities and Shareholders' Equity	$27,029	$26,887

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

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1: FINANCIAL STATEMENTS

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

	Nine Months	
	2010	2009 (Adjusted) (a)
OPERATING ACTIVITIES		
Net Earnings	$1,133	$840
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	690	675
Deferred Income Taxes	139	326
Contributions to Qualified Pension Plans	-	(166)
Other Operating Activities	80	(150)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(6)	159
Other Current Assets	(44)	(50)
Accounts Payable	27	(4)
Income and Other Taxes Payable	150	39
Other Current Liabilities	97	(80)
Net Cash Provided by Operating Activities	2,266	1,589
INVESTING ACTIVITIES		
Property Additions (Note 1)	(1,092)	(1,031)
Other Investing Activities	41	51
Net Cash Used in Investing Activities	(1,051)	(980)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	-	500
Long-term Debt Repaid (Note 7)	(103)	(110)
Dividends Paid	(275)	(259)
Stock Options Exercised (Note 3)	21	19
Shares Repurchased	(1,123)	-
Other Financing Activities (Note 1)	(128)	(188)
Net Cash Used in Financing Activities	(1,608)	(38)
Net (Decrease) Increase in Cash and Cash Equivalents	(393)	571
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	1,029	669
Cash and Cash Equivalents at End of Period	$636	$1,240

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

See accompanying notes to consolidated financial statements.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

CSX's principal operating subsidiary, CSX Transportation, Inc. ("CSXT"), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec.

Other entities

In addition to CSXT, the Company's subsidiaries include CSX Intermodal 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 arranges drayage services for certain CSXT intermodal customers. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. CSX Technology and other subsidiaries provide support services for the Company.

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

CSX Intermodal, Inc. ("Intermodal") was a subsidiary of CSX until it merged with CSXT on June 26, 2010 (which was the first day of the third quarter). Prior to the merger, Intermodal was the parent company of CSX Intermodal Terminals, and conducted the sales and marketing activities associated with intermodal transportation service now provided by CSXT, as well as the drayage and trucking dispatch operations now being provided by CSX Intermodal Terminals.

The Company no longer reflects the intermodal business as a separate segment. This change was a result of the strategic business review and change in the Company's intermodal service associated with the start of the UMAX program as well as certain management realignments. The UMAX program, which began in the second quarter, is a domestic interline container program. CSX's president views intermodal similarly to merchandise and coal. Also, inland transportation expense has been reclassified to materials, supplies and other. Intermodal revenue will continue to be viewed as a separate revenue group; however, a separate income statement and operating ratio will no longer be provided and business segment disclosures are no longer required. All prior periods have been revised to reflect this change.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Basis of Presentation

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

- Consolidated income statements for the quarters and nine months ended September 24, 2010 and September 25, 2009;
- Consolidated balance sheets at September 24, 2010 and December 25, 2009; and
- Consolidated cash flow statements for the nine months ended September 24, 2010 and September 25, 2009.

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent Annual Report on Form 10-K and any Current Reports on Form 8-K.

Fiscal Year

CSX follows a 52/53 week fiscal reporting calendar with the last day of each reporting period ending on a Friday:

- The third fiscal quarter of 2010 and 2009 consisted of 13 weeks ending on September 24, 2010 and September 25, 2009, respectively.
- The nine month periods of 2010 and 2009 consisted of 39 weeks ending on September 24, 2010 and September 25, 2009, respectively.
- Fiscal year 2009 consisted of 52 weeks ending on December 25, 2009.
- Fiscal year 2010 consists of 53 weeks ending on December 31, 2010. Therefore, fourth quarter 2010 will consist of 14 weeks.

Except as otherwise specified, references to "third quarter(s)" or "nine months" indicate CSX's fiscal periods ending September 24, 2010 and September 25, 2009, and references to year-end indicate the fiscal year ended December 25, 2009.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Comprehensive Earnings

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the Accounting Standards Codification ("ASC") in the Consolidated Statement of Changes in Shareholders' Equity. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g., issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equals net earnings plus or minus certain reclassifications for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of related tax effects and were $431 million and $297 million for third quarters 2010 and 2009, respectively, and $1.2 billion and $853 million for nine months 2010 and 2009, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement reclassifications. Overall equity was reduced by $771 million and $809 million as of September 2010 and December 2009, respectively, primarily as a result of normal quarterly pension reclassifications. In general, for CSX, AOCI is not materially impacted by other items.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, public project receivables (work done by the Company on behalf of a government agency), claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of $39 million and $47 million is included in the consolidated balance sheets as of September 2010 and December 2009, respectively.

Capital Expenditures

Property additions, which are classified as investing activities on the consolidated cash flow statements, consisted of $1.1 billion and $1 billion for nine months 2010 and 2009, respectively. Total capital expenditures for the nine months of 2009 included purchases of new assets using seller financing of approximately $160 million, for which payments are included in other financing activities on the consolidated cash flow statements. There were no purchases of new assets using seller financing agreements during the nine months of 2010. The Company plans to spend approximately $1.8 billion for total capital expenditures in 2010.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

New Accounting Pronouncements and Changes in Accounting Policy

Change in Accounting Principle

Effective in the second quarter of 2010, CSX changed the accounting policy for rail grinding costs from a capitalization method, under which the cost of rail grinding was capitalized and then depreciated, to a direct expense method, under which rail grinding costs are expensed as incurred. This represents a change from an acceptable method under GAAP to a preferable method, and is consistent with recent changes in industry practice.

The direct expense method eliminates the subjectivity in determining the period of benefit over which to depreciate the capitalized costs associated with rail grinding. The application of the change in accounting principle is presented retrospectively to all periods presented.

The balance sheet effects of the adjustments through the beginning of fiscal year 2009 resulted in a decrease in net properties, deferred income taxes, and shareholders' equity by $134 million, $51 million, and $83 million, respectively. The effect of this change is not material to the financial condition, results of operations or liquidity for any of the periods presented.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

The following tables show the effects of the change in policy for rail grinding costs on the consolidated financial statements. The Accounting Changes and Error Corrections Topic in the ASC requires CSX to present both prior period amounts that have been previously reported as well as current period amounts as computed under both the prior method and as reported.

	2010					
Consolidated Income Statements	3rd Quarter			9 months		
Dollars in Millions, Except Per Share Amounts	Computed under Prior Method	Impact of Adjustment	As Reported	Computed under Prior Method	Impact of Adjustment	As Reported
Materials, Supplies and Other	$503	$6	$509	$1,564	$15	$1,579
Depreciation	234	(2)	232	694	(4)	690
Total Expense	1,837	4	1,841	5,584	11	5,595
Operating Income	829	(4)	825	2,236	(11)	2,225
Earnings from Continuing Operations						
Before Taxes	706	(4)	702	1,856	(11)	1,845
Income Tax Expense	(289)	1	(288)	(716)	4	(712)
Earnings from Continuing Operations	417	(3)	414	1,140	(7)	1,133
Net Earnings	417	(3)	414	1,140	(7)	1,133
Net Earnings Per Share, Basic						
Continuing Operations	$1.10	$(0.01)	$1.09	$2.97	$(0.02)	$2.95
Net Earnings	$1.10	$(0.01)	$1.09	$2.97	$(0.02)	$2.95
Net Earnings Per Share, Assuming Dilution						
Continuing Operations	$1.09	$(0.01)	$1.08	$2.94	$(0.02)	$2.92
Net Earnings	$1.09	$(0.01)	$1.08	$2.94	$(0.02)	$2.92

	2009					
Consolidated Income Statements	3rd Quarter			9 months		
Dollars in Millions, Except Per Share Amounts	As Previously Reported	Impact of Adjustment	As Adjusted	As Previously Reported	Impact of Adjustment	As Adjusted
Materials, Supplies and Other	$495	$5	$500	$1,467	$15	$1,482
Depreciation	228	(1)	227	681	(4)	677
Total Expense	1,691	4	1,695	5,019	11	5,030
Operating Income	598	(4)	594	1,702	(11)	1,691
Earnings from Continuing Operations	464	(4)	460	1,301	(11)	1,290
Before Taxes						

Income Tax Expense	(171)	1	(170)	(469)	4	(465)
Earnings from Continuing Operations	293	(3)	290	832	(7)	825
Net Earnings	293	(3)	290	847	(7)	840
Net Earnings Per Share, Basic						
Continuing Operations	$0.75	$(0.01)	$0.74	$2.12	$(0.02)	$2.10
Net Earnings	$0.75	$(0.01)	$0.74	$2.16	$(0.02)	$2.14
Net Earnings Per Share, Assuming Dilution						
Continuing Operations	$0.74	$(0.01)	$0.73	$2.10	$(0.02)	$2.08
Net Earnings	$0.74	$(0.01)	$0.73	$2.14	$(0.02)	$2.12

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Consolidated Balance Sheets	September 2010			December 2009		
Dollars in Millions	Computed under Prior Method	Impact of Adjustment	As Reported	As Previously Reported	Impact of Adjustment	As Adjusted
Properties - Net	$23,494	$(160)	$23,334	$23,213	$(149)	$23,064
Total Assets	27,189	(160)	27,029	27,036	(149)	26,887
Deferred Income Taxes	6,793	(61)	6,732	6,585	(57)	6,528
Total Liabilities	18,452	(61)	18,391	18,176	(57)	18,119
Retained Earnings	9,121	(99)	9,022	9,182	(92)	9,090
Total Shareholders' Equity	8,737	(99)	8,638	8,860	(92)	8,768
Total Liabilities and Shareholders' Equity	27,189	(160)	27,029	27,036	(149)	26,887

	2010		
Consolidated Cash Flow Statements	9 months		
Dollars in Millions	Computed under Prior Method	Impact of Adjustment	As Reported
Net Earnings	$1,140	$(7)	$1,133
Depreciation	694	(4)	690
Deferred Income Taxes	143	(4)	139
Net Cash Provided by Operating Activities	2,281	(15)	2,266
Property Additions	(1,107)	15	(1,092)
Net Cash Used in Investing Activities	(1,066)	15	(1,051)

			2009
Consolidated Cash Flow Statements	9 months		
Dollars in Millions	As Previously Reported	Impact of Adjustment	As Adjusted
Net Earnings	$847	$(7)	$840
Depreciation	679	(4)	675
Deferred Income Taxes	330	(4)	326
Net Cash Provided by Operating Activities	1,604	(15)	1,589
Property Additions	(1,046)	15	(1,031)
	(995)	15	(980)

Net Cash Used in Investing Activities

Other Items

Retained Earnings

During third quarter 2010, CSX's other capital balance was reduced to zero as a result of share repurchases. In accordance with the Equity Topic in the ASC, other capital cannot be negative. Therefore, a reclassification of $272 million was made between retained earnings and other capital to bring the other capital balance to zero. Generally, retained earnings is only impacted by net earnings and dividends.

Dividend Increase

On September 29, 2010, CSX announced an 8 percent increase to its quarterly cash dividend to 26 cents per share payable on December 15, 2010 to shareholders of record on November 30, 2010. This is the eighth dividend increase which represents a 35 percent compounded annual growth rate over a five-year period.

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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:

	Third Quarters		Nine Months	
	2010	2009	2010	2009
		(Adjusted) (a)		(Adjusted) (a)
Numerator (Dollars in millions):				
Earnings from Continuing Operations	$414	$290	$1,133	$825
Discontinued Operations - Net of Tax (b)	-	-	-	15
Net Earnings	$414	$290	$1,133	$840
Denominator (Units in thousands):				
Average Common Shares Outstanding	378,050	392,352	384,102	391,847
Convertible Debt	987	1,116	1,008	1,117
Stock Option Common Stock Equivalents (c)	1,865	2,417	2,018	2,076
Other Potentially Dilutive Common Shares	920	448	388	228
Average Common Shares Outstanding, Assuming Dilution	381,822	396,333	387,516	395,268
Net Earnings Per Share, Basic:				
Continuing Operations	$1.09	$0.74	$2.95	$2.10
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.09	$0.74	$2.95	$2.14
Net Earnings Per Share, Assuming Dilution:				
Continuing Operations	$1.08	$0.73	$2.92	$2.08
Discontinued Operations	-	-	-	0.04
Net Earnings	$1.08	$0.73	$2.92	$2.12

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

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

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, continued

Basic earnings per share is based on the weighted-average number of shares of common stock outstanding. Earnings per share, assuming dilution, is based on the weighted-average number of shares of common stock outstanding adjusted for the effects of common stock that may be issued as a result of the following types of potentially dilutive instruments:

- convertible debt;
- employee stock options; and
- other equity awards, which include long-term incentive awards.

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

As a result, diluted shares outstanding are not impacted when debentures are converted into CSX common stock because those shares were already included in the diluted shares calculation. Shares outstanding for basic earnings per share, however, are impacted on a weighted-average basis when conversions occur. During third quarter 2010, approximately $300 thousand of face value of convertible debentures were converted into 10 thousand shares of CSX common stock. During third quarter 2009, $275 thousand of face value of convertible debentures were converted into approximately 10 thousand shares of CSX common stock. As of September 2010, approximately $28 million of convertible debentures at face value remained outstanding, which are convertible into approximately 1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3. Share-Based Compensation, continued

On May 5, 2010, 402,000 performance units were granted to key members of management under a new long-term incentive plan (LTIP) adopted under the CSX Stock and Incentive Award Plan. This LTIP plan provides for a three-year cycle ending in fiscal year 2012. Similar to the two existing plans, the financial target upon which payments are based is operating ratio, which is defined as operating expenses divided by operating revenue and is calculated excluding certain non-recurring items. Grants were made in performance units, with each unit being equivalent to one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the original grant based upon CSX's attainment of pre-established operating ratio targets for fiscal year 2012. Payouts to certain senior executive officers are subject to a reduction of up to 30% at the discretion of the Compensation Committee of the Board of Directors based upon Company performance against certain CSX strategic initiatives.

Additionally, on May 5, 2010, as part of its overall long-term incentive compensation program, the Company granted 134,000 time-based restricted stock units to key members of management. The restricted stock units vest three years after the date of grant and participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are not based upon CSX's attainment of operational targets.

For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent Annual Report on Form 10-K.

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

	Third Quarters		Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Share-Based Compensation Expense (a)	$13	$9	$46	$12
Income Tax Benefit	5	3	17	4

(a) Share-based compensation expense may fluctuate with estimates of the number of performance-based awards that are expected to be awarded in future periods.

The following table provides information about stock options exercised.

	Third Quarters		Nine Months	
(In thousands)	2010	2009	2010	2009
Number of Stock Options Exercised	280	386	1,193	952

As of December 2009, all outstanding options were vested, and therefore, there will be no future expense related to these options. As of September 2010, CSX had approximately 4 million stock options outstanding. However, the impact of options to diluted earnings per share is much smaller (see note (b) to the table in Note 2, Earnings Per Share for more information).

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves

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

	September 2010			December 2009		
(Dollars in millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	$78	$191	$269	$85	$215	$300
Occupational	31	116	147	27	132	159
Total Casualty	109	307	416	112	347	459
Separation	15	48	63	16	57	73
Environmental	37	70	107	37	60	97
Other	26	109	135	25	83	108
Total	$187	$534	$721	$190	$547	$737

Details with respect to each type of reserve are described below. Actual settlements and claims received could differ. The final outcome of these matters cannot be predicted with certainty. Considering the legal defenses available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items, when finally resolved, will have a material effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, they could have a material effect on the Company's financial condition, results of operations or liquidity in that particular period.

During the second quarter of 2010, the Company reduced casualty reserves by a net $9 million, most of which is related to the reduction in CSXT personal injury reserves of $13 million as noted below. There were no significant adjustments to casualty reserves in the third quarter of 2010.

During the second quarter of 2009, the Company reduced casualty reserves by a net $85 million, or $0.22 per share. The majority of this reduction is related to personal injury and asbestos and is described below. Also included in the net reduction is a write-off of $11 million of reinsurance receivables (expected receivables from outside insurance companies). This receivable write-off is not included in the reserve amounts disclosed above.

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CSX CORPORATION
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NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves represent accruals for personal injury and occupational injury claims. During the second quarter of 2010 the Company increased its self-insured retention amount for these claims from $25 million to $50 million per injury for claims occurring on or after June 1, 2010. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount; the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in independent third-party estimates, which are reviewed by management. The claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

Personal Injury

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

CSXT retains an independent actuarial firm to assist management in assessing the value of personal injury claims and cases. An analysis is performed by the independent actuarial firm semi-annually and is reviewed by management. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims. It is based largely on CSXT's historical claims and settlement experience. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation.

During second quarters of 2010 and 2009, the Company reduced personal injury reserves by $13 million and $78 million, respectively, based on management's review of the actuarial analysis performed by an independent actuarial firm. These reductions are a direct result of the Company's improvement in safety. Claims have shown a continued downward trend in the number of injuries, resulting in a continual reduction of the Company's FRA personal injury frequency index. Additionally, the trend in the severity of injuries has significantly declined. There were no significant adjustments to personal injury reserves in the third quarter of 2010.

Occupational

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

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CSX CORPORATION
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NOTE 4. Casualty, Environmental and Other Reserves, continued

An analysis of occupational claims is performed semi-annually by an independent third party and reviewed by management. The methodology used includes estimates of future anticipated incurred but not reported claims based on the Company's trends in average historical claim filing rates, future anticipated dismissal rates and future settlement rates. Actual claims may vary from these estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation.

During second quarter 2009, the Company reduced its asbestos reserves by $18 million. This reserve reduction is related to approximately 1500 claims that were deemed to have no medical merit and, therefore, have been determined to have no value. There were no significant adjustments to asbestos reserves in 2010.

Separation

Separation liabilities represent the estimated benefits provided to certain union employees as a result of implementing workforce reductions, improvements in productivity and certain other cost reductions at the Company's major transportation units since 1991. These liabilities are expected to be paid out over the next 10 to 15 years from general corporate funds and may fluctuate depending on the timing of payments and associated taxes.

Environmental

The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings, involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 265 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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:

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

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

Currently, the Company does not possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, related to some sites, and will not possess such information until completion of future environmental studies. In addition, conditions that are currently unknown could, at any given location, result in liabilities, the amount and materiality of which cannot presently be reliably estimated. Based upon information currently available, however, the Company believes its environmental reserves are adequate to fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall financial condition, results of operations or liquidity.

See Item 1, Legal proceedings in Part II of this quarterly report on Form 10-Q for information related to an environmental settlement.

Other

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. Commitments and Contingencies

Insurance

The Company maintains numerous insurance programs with substantial limits for third-party casualty liability and Company property damage and business interruption. A certain amount of risk is retained by the Company on each of the casualty and property programs. For the first event in any given year, the Company has a $25 million deductible for non-catastrophic property programs and a $50 million deductible for casualty and catastrophic property programs.

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

Guarantees

As of June 2010, the Company is no longer liable for the guarantee related to CSX Energy. Additionally, the guarantee for A.P. Moller-Maersk is currently less than $1 million.
Legal Proceedings

For information related to the Company's legal proceedings, see Item 1, Legal proceedings in Part II of this quarterly report on Form 10-Q.

NOTE 6. Employee Benefit Plans

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

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

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

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CSX CORPORATION
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NOTE 6. Employee Benefit Plans, continued

	Pension Benefits			
(Dollars in millions)	Third Quarters		Nine Months	
	2010	2009	2010	2009
Service Cost	$10	$8	$31	$24
Interest Cost	30	32	91	94
Expected Return on Plan Assets	(42)	(37)	(124)	(108)
Amortization of Prior Service Cost	-	1	-	2
Amortization of Net Loss	15	6	44	19
Net Periodic Benefit Cost	$13	$10	$42	$31

	Other Post-retirement Benefits			
(Dollars in millions)	Third Quarters		Nine Months	
	2010	2009	2010	2009
Service Cost	$2	$2	$4	$4
Interest Cost	5	5	14	17
Amortization of Net Loss	1	1	5	3
Net Periodic Benefit Cost	$8	$8	$23	$24

Qualified pension plan obligations are funded in accordance with prescribed regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. The Company made pension plan contributions of $250 million to its qualified defined benefit pension plans in 2009. At this time, the Company anticipates that no contributions to its qualified pension plans will be required in 2010. For further details, see Note 8, Employee Benefit Plans, in CSX's most recent Annual Report on Form 10-K.

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of September 2010 was as follows:

(Dollars in millions)	Current Portion	Long-term Portion	Total Long-term Debt Activity
Total long-term debt at December 2009	$113	$7,895	$8,008
2010 activity:			
Long-term Debt Issued	-	-	-
Long-term Debt Repaid	(103)	-	(103)
Reclassifications	598	(598)	-
Converted into CSX stock	(3)	-	(3)
Discount and premium activity	-	-	-
Total long-term debt at September 2010	$605	$7,297	$7,902

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7. Debt and Credit Agreements, continued

Debt Exchange

On March 24, 2010, CSX exchanged $660 million of notes of multiple series (the "Existing Notes"), bearing interest at an average annual rate of 7.74% with maturities ranging from 2017 to 2038. These Existing Notes were exchanged for $660 million of debt securities (the "New Notes") bearing interest at 6.22% and due April 30, 2040. In addition, CSX paid approximately $141 million to the debtholders as cash consideration. CSX also paid the debtholders any accrued and unpaid interest on the Existing Notes. In accordance with the Debt Topic in the ASC, this transaction has been accounted for as a debt exchange. As such, the $141 million of cash consideration paid to the debtholders was recorded in other long-term assets. This cash consideration and the unamortized discount and issue costs from the Existing Notes are being amortized as an adjustment of interest expense over the term of the New Notes. There was no gain or loss recognized as a result of this exchange. However, all costs related to the debt exchange and due to parties other than the debtholders were included in interest expense during first quarter 2010. These costs totaled approximately $3 million.

In July 2010, CSX exchanged the New Notes for substantially identical notes registered under the Securities Act of 1933, as amended, pursuant to a registration rights agreement entered into in connection with the exchange offer.

For fair value information related to the Company's long-term debt, see Note 11, Fair Value Measurements.

Revolving Credit Facility

CSX has a $1.25 billion unsecured revolving credit facility with a syndicate of banks. The facility allows borrowings at floating rates based on the London interbank offered rate ("LIBOR"), plus a spread, depending upon CSX's senior unsecured debt ratings. The facility requires CSX to maintain a ratio of total debt to total capitalization below a prescribed limit. The facility does not require CSX to post collateral under any circumstances. As of September 2010, this facility was not drawn on, and CSX was in compliance with all covenant requirements under the facility. This facility expires in 2012.

Receivables Securitization Facility

The Company's $250 million receivables securitization facility has a 364-day term and expires in June 2011. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has not drawn on this facility. Under the terms of this facility, CSX Transportation transfers eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX will service the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements.

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NOTE 8. Other Income - Net

The Company derives income from items that are not considered operating activities. Income from these items is reported net of related expense. Other income – net consisted of the following:

	Third Quarters		Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Interest Income	$1	$2	$4	$9
Income from Real Estate	5	11	20	18
Miscellaneous Income (Expense)	2	(7)	4	(8)
Total Other Income - Net	$8	$6	$28	$19

NOTE 9. Income Taxes

During the third quarter of 2010, the Company recorded an income tax charge of $22 million or $0.06 per share primarily related to the merger of the Company's former Intermodal subsidiary with CSXT. As a result of this merger, CSXT's effective state tax rate has increased and resulted in a revaluation of the deferred tax liabilities. There were no material changes to the Company's uncertain tax positions during the quarter.

NOTE 10. Discontinued Operations

The Greenbrier

In 2009, CSX sold the stock of a subsidiary that indirectly owned Greenbrier Hotel Corporation ("The Greenbrier") to Justice Family Group, LLC. CSX recognized a gain on the sale of $25 million. In addition, The Greenbrier incurred $10 million of losses from operations during nine months 2009.

Previously, all amounts associated with the operations of The Greenbrier were included in other income – net. All prior periods have been reclassified to reflect discontinued operations. The Greenbrier had revenue of $33 million and pre-tax income (including the gain on sale) of $5 million during 2009 through the date of sale, respectively. There was no activity in 2010.

NOTE 11. Fair Value Measurements

The Financial Instruments Topic in the ASC requires disclosures about fair value of financial instruments in annual reports as well as in quarterly reports. For CSX, this statement applies to certain investments and long-term debt. Disclosure of the fair value of pension plan assets is only required annually.

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

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CSX CORPORATION
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NOTE 11. Fair Value Measurements, continued

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments)

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

Investments

The Company’s investment assets consist primarily of corporate bonds and are carried at fair value, as determined with the assistance of a third party trustee, on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. Level 2 inputs were used to determine fair value of the Company’s investment assets. The fair value and amortized cost of these bonds are as follows:

(Dollars in millions)	September 2010	December 2009
Fair Value	$125	$96
Amortized Cost	$122	$91

These investments have the following maturities:

(Dollars in millions)	September 2010
Less than 1 year	$22
1 - 2 years (a)	81
2 - 5 years	17
Greater than 5 years	5
Total	$125

(a) This amount includes approximately $18 million of callable bonds which mature in 1 – 2 years, but are classified as short-term investments on the consolidated balance sheet.

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CSX CORPORATION
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NOTE 11. Fair Value Measurements, continued

Long-term Debt

Long-term debt is reported at carrying amount on the consolidated balance sheet and encompasses the Company's only financial instrument with fair values significantly different from its carrying amounts. The majority of the Company's long-term debt is valued with the assistance of an independent third party. For those instruments not valued with the assistance of a third party, the fair value has been estimated using discounted cash flow analysis based upon the yields provided by the same independent third party. All inputs used to determine the fair value of the Company's long-term debt qualify as level 2 inputs.

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

(Dollars in millions)	September 2010	December 2009
Long-term Debt Including Current Maturities:		
Fair Value	$9,226	$8,780
Carrying Value	$7,902	$8,008

NOTE 12. Summarized Consolidating Financial Data

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

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Quarter Ended September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$2,650	$41	$(25)	$2,666
Expense	(46)	1,841	71	(25)	1,841
Operating Income	46	809	(30)	-	825
Equity in Earnings of Subsidiaries	492	-	-	(492)	-
Interest Expense	(119)	(22)	(6)	16	(131)
Other Income - Net	3	17	4	(16)	8
Earnings From Continuing Operations Before Income Taxes	422	804	(32)	(492)	702
Income Tax Benefit (Expense)	(9)	(327)	48	-	(288)
Earnings From Continuing Operations	413	477	16	(492)	414
Discontinued Operations	-	-	-	-	-
Net Earnings	$413	$477	$16	$(492)	$414

Quarter Ended September 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$1,971	$344	$(26)	$2,289
Expense	(69)	1,496	291	(23)	1,695
Operating Income	69	475	53	(3)	594
Equity in Earnings of Subsidiaries	340	-	-	(340)	-
Interest Expense	(126)	(29)	(2)	17	(140)
Other Income - Net	24	10	(14)	(14)	6
Earnings From Continuing Operations Before Income Taxes	307	456	37	(340)	460
Income Tax Benefit (Expense)	(17)	(168)	15	-	(170)
Earnings From Continuing Operations	290	288	52	(340)	290
Discontinued Operations	-	-	-	-	-
Net Earnings	$290	$288	$52	$(340)	$290

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in millions)

Nine Months Ended September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$7,139	$758	$(77)	$7,820
Expense	(129)	5,120	681	(77)	5,595
Operating Income	129	2,019	77	-	2,225
Equity in Earnings of Subsidiaries	1,381	-	-	(1,381)	-
Interest Expense	(367)	(77)	(18)	54	(408)
Other Income - Net	13	55	14	(54)	28
Earnings From Continuing Operations Before Income Taxes	1,156	1,997	73	(1,381)	1,845
Income Tax Benefit (Expense)	(23)	(772)	83	-	(712)
Earnings From Continuing Operations	1,133	1,225	156	(1,381)	1,133
Discontinued Operations	-	-	-	-	-
Net Earnings	$1,133	$1,225	$156	$(1,381)	$1,133

Nine Months Ended September 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Revenue	$-	$5,810	$989	$(78)	$6,721
Expense	(211)	4,461	850	(70)	5,030
Operating Income	211	1,349	139	(8)	1,691
Equity in Earnings of Subsidiaries	899	-	-	(899)	-
Interest Expense	(375)	(88)	(6)	49	(420)
Other Income - Net	304	13	(257)	(41)	19
Earnings From Continuing Operations Before Income Taxes	1,039	1,274	(124)	(899)	1,290
Income Tax Benefit (Expense)	(231)	(484)	250	-	(465)
Earnings From Continuing Operations	808	790	126	(899)	825
Discontinued Operations	32	-	(17)	-	15
Net Earnings	$840	$790	$109	$(899)	$840

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

CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Consolidating Balance Sheet
(Dollars in millions)

As of September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and Cash Equivalents	$463	$111	$62	$-	$636
Short-term Investments	-	-	40	-	40
Accounts Receivable - Net	4	952	677	(632)	1,001
Materials and Supplies	-	225	-	-	225
Deferred Income Taxes	15	184	7	-	206
Other Current Assets	110	54	(41)	(26)	97
Total Current Assets	592	1,526	745	(658)	2,205
Properties	8	30,136	1,313	-	31,457
Accumulated Depreciation	(8)	(7,284)	(831)	-	(8,123)
Properties - Net	-	22,852	482	-	23,334
Investments in Conrail	-	-	660	-	660
Affiliates and Other Companies	-	598	(132)	-	466
Investments in Consolidated Subsidiaries	16,245	-	50	(16,295)	-
Other Long-term Assets	176	104	127	(43)	364
Total Assets	$17,013	$25,080	$1,932	$(16,996)	$27,029
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	$118	$840	$23	$-	$981
Labor and Fringe Benefits Payable	39	395	39	-	473
Payable to (from) Affiliates	1,482	(188)	(662)	(632)	-
Casualty, Environmental and Other Reserves	-	172	15	-	187
Current Maturities of Long-term Debt	507	95	3	-	605
Income and Other Taxes Payable	(2)	600	(419)	-	179
Other Current Liabilities	4	112	25	(26)	115
Total Current Liabilities	2,148	2,026	(976)	(658)	2,540
Casualty, Environmental and Other Reserves	-	438	96	-	534
Long-term Debt	6,049	1,245	3	-	7,297
Deferred Income Taxes	(296)	6,939	89	-	6,732
Long-term Payable to Affiliates	-	-	44	(44)	-
Other Long-term Liabilities	487	545	256	-	1,288
Total Liabilities	8,388	11,193	(488)	(702)	18,391
Shareholders' Equity					

Common Stock, $1 Par Value	374	181	-	(181)	374
Other Capital	-	5,627	2,312	(7,939)	-
Retained Earnings	9,022	8,127	125	(8,252)	9,022
Accumulated Other Comprehensive Loss	(771)	(69)	(63)	132	(771)
Noncontrolling Interest	-	21	46	(54)	13
Total Shareholders' Equity	8,625	13,887	2,420	(16,294)	8,638
Total Liabilities and Shareholders' Equity	$17,013	$25,080	$1,932	$(16,996)	$27,029

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CSX CORPORATION
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NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in millions)

As of December 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and Cash Equivalents	$918	$30	$81	$-	$1,029
Short-term Investments	-	-	61	-	61
Accounts Receivable - Net	4	888	103	-	995
Materials and Supplies	-	203	-	-	203
Deferred Income Taxes	13	137	8	-	158
Other Current Assets	19	32	533	(460)	124
Total Current Assets	954	1,290	786	(460)	2,570
Properties	4	29,565	1,338	-	30,907
Accumulated Depreciation	(6)	(7,011)	(826)	-	(7,843)
Properties - Net	(2)	22,554	512	-	23,064
Investments in Conrail	-	-	650	-	650
Affiliates and Other Companies	-	566	(128)	-	438
Investments in Consolidated Subsidiaries	15,382	-	139	(15,521)	-
Other Long-term Assets	46	75	87	(43)	165
Total Assets	$16,380	$24,485	$2,046	$(16,024)	$26,887
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	$111	$628	$228	$-	$967
Labor and Fringe Benefits Payable	37	307	39	-	383
Payable to (from) Affiliates	625	786	(962)	(449)	-
Casualty, Environmental and Other Reserves	-	168	22	-	190
Current Maturities of Long-term Debt	-	110	3	-	113
Income and Other Taxes Payable	32	182	(102)	-	112
Other Current Liabilities	1	97	13	(11)	100
Total Current Liabilities	806	2,278	(759)	(460)	1,865
Casualty, Environmental and Other Reserves	-	449	98	-	547
Long-term Debt	6,557	1,334	4	-	7,895

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

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in millions)

Nine Months Ended September 2010	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by (Used in) Operating Activities	$242	$2,450	$17	$(443)	$2,266
Investing Activities					
Property Additions	-	(1,026)	(66)	-	(1,092)
Other Investing Activities	(17)	(86)	(57)	201	41
Net Cash (Used in) Provided by Investing Activities	(17)	(1,112)	(123)	201	(1,051)
Financing Activities					
Long-term Debt Repaid	-	(101)	(2)	-	(103)
Dividends Paid	(281)	(443)	6	443	(275)
Stock Options Exercised	21	-	-	-	21
Shares Repurchased	(1,123)	-	-	-	(1,123)
Other Financing Activities	703	(713)	83	(201)	(128)
Net Cash (Used in) Provided by Financing Activities	(680)	(1,257)	87	242	(1,608)
Net Increase (Decrease) in Cash and Cash Equivalents	(455)	81	(19)	-	(393)
Cash and Cash Equivalents at Beginning of Period	918	30	81		1,029
Cash and Cash Equivalents at End of Period	$463	$111	$62	$-	$636

Nine Months Ended September 2009 (Adjusted) (a)	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by (Used in) Operating Activities	$(75)	$1,706	$323	$(365)	$1,589
Investing Activities					
Property Additions	-	(986)	(45)	-	(1,031)
Other Investing Activities	(91)	5	48	89	51
	(91)	(981)	3	89	(980)

Net Cash (Used in) Provided by Investing Activities					
Financing Activities					
Long-term Debt Issued	500	-	-	-	500
Long-term Debt Repaid	-	(108)	(2)	-	(110)
Dividends Paid	(264)	(356)	(4)	365	(259)
Stock Options Exercised	19	-	-	-	19
Other Financing Activities	449	(242)	(306)	(89)	(188)
Net Cash Provided by (Used in) Financing Activities	704	(706)	(312)	276	(38)
Net Increase (Decrease) in Cash and Cash Equivalents	538	19	14	-	571
Cash and Cash Equivalents at Beginning of Period	559	63	47		669
Cash and Cash Equivalents at End of Period	$1,097	$82	$61	$-	$1,240

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

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CSX CORPORATION

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

STRATEGIC OVERVIEW

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. The Company's network is positioned to reach more than two-thirds of Americans, who account for about three-quarters of the nation's consumption of goods. Through this network, the Company transports a broad portfolio of products, ranging from coal and new energy sources, like biodiesel and ethanol, to automobiles, chemicals, military equipment and consumer products.

CSX remains highly committed to delivering value to shareholders through a balanced approach that includes investments in infrastructure, dividend improvement and share repurchases. On September 29, 2010, CSX announced an 8 percent increase to its quarterly cash dividend to 26 cents per share. This is the eighth dividend increase which represents a 35 percent compounded annual growth rate over a five-year period. Additionally, CSX expects to repurchase an additional $645 million in shares by the end of the first quarter 2011, representing the remainder of its existing $3 billion share repurchase program. The Company also continues to invest in its network to further enhance safety and improve service and reliability for its customers. The Company is now planning to spend approximately $1.8 billion in 2010 for total capital expenditures. This increase, from the $1.7 billion the Company had previously disclosed for total capital expenditures this year, supports various strategic investments. 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 will be reflected in new legislation and policy.

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

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

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CSX CORPORATION

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

THIRD QUARTER 2010 HIGHLIGHTS

- Revenue increased $377 million or 16% to $2.7 billion driven by increases in volume and core pricing gains.
- Expenses increased $146 million or 9% to $1.8 billion driven primarily by labor-related costs and higher fuel prices.
- Operating income increased $231 million or 39% to $825 million and operating ratio improved to 69.1%, both being all-time records.

	Third Quarters		Nine Months	
(in thousands)	2010	2009	2010	2009
Volume	1,609	1,465	4,693	4,295
(in millions)				
Revenue	$2,666	$2,289	$7,820	$6,721
Expense	1,841	1,695	5,595	5,030
Operating Income	$825	$594	$2,225	$1,691

CSX third quarter results reflect continued strong year-over-year volume and revenue growth as a result of the improving marketplace and in comparison to the level of economic activity last year. Revenue increased 16% from the prior year, to nearly $2.7 billion, with gains across all of the Company's markets with particular growth in coal and auto. These gains were driven by a 10% increase in volume, pricing gains, and higher fuel recovery associated with the increase in fuel prices.

While revenue increased 16%, expenses increased by $146 million, or only 9%, versus the prior year. This increase was driven by a rise in fuel costs due to higher fuel prices and higher labor-related costs.

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

During third quarter 2010, the Company continued to advance its efforts on safety and operating performance. CSXT delivered the sixth consecutive quarterly year-over-year improvement in Federal Railroad Administration ("FRA") reportable personal injuries in third quarter 2010. The FRA reportable personal injuries frequency index improved to 1.06, an 8% improvement over 2009. The reported FRA train accident frequency rate decreased 13% to 2.25.

Key service metrics in third quarter declined slightly versus 2009. On-time train originations and arrivals declined to 77% and 69%, respectively. Dwell time increased to 24.8 hours from 24.0 hours in same quarter of 2009. Average train velocity declined 3% to 21.1 miles per hour. While these key measures declined, they remain within the ranges experienced over the last several years and continue to support efficient and reliable train operations.

Operating Statistics (Estimated)

		Third Quarters		
		2010	2009	Improvement/ (Decline) %
Safety and Service Measurements	FRA Personal Injury Frequency Index	1.06	1.15	8%
	FRA Train Accident Rate	2.25	2.59	13%
	On-Time Train Originations	77%	82%	(6)%
	On-Time Destination Arrivals	69%	79%	(13)%
	Dwell	24.8	24.0	(3)%
	Cars-On-Line	210,117	214,987	2%
	Train Velocity	21.1	21.8	(3)%
				(Decrease)
Resources	Route Miles	21,091	21,190	-%
	Locomotives (owned and long-term leased)	4,068	4,092	(1)%
	Freight Cars (owned and long-term leased)	80,919	85,223	(5)%

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

Key Performance Measures Definitions

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

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

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

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

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

Volume and Revenue (Unaudited)

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

Third Quarters

	Volume			Revenue			Revenue Per Unit		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
Chemicals	116	110	5 %	$379	$332	14 %	$3,267	$3,018	8%
Phosphates and Fertilizers	78	77	1	107	94	14	1,372	1,221	12
Automotive	82	57	44	196	127	54	2,390	2,228	7
Emerging Markets	113	109	4	163	159	3	1,442	1,459	(1)
Agricultural Products	104	101	3	246	223	10	2,365	2,208	7
Forest Products	67	67	-	150	140	7	2,239	2,090	7
Metals	57	55	4	125	111	13	2,193	2,018	9
Food and Consumer	26	26	-	62	57	9	2,385	2,192	9
Total Merchandise	643	602	7	1,428	1,243	15	2,221	2,065	8
Coal	392	382	3	835	680	23	2,130	1,780	20
Intermodal (a)	574	481	19	318	299	6	554	622	(11)
								-	
Other	-	-	-	85	67	27	-	-	-
Total	1,609	1,465	10 %	$2,666	$2,289	16 %	$1,657	$1,562	6 %

(a) The revenue-per-unit decline was primarily driven by the continued impact of terminating the prior interline agreement. See the explanation for intermodal variances for further information.

Third Quarter 2010 Results of Operations

CSX third quarter results reflect continued strong year-over-year volume and revenue growth as a result of the improving marketplace and in comparison to the level of economic activity last year. The greatest volume increases occurred in the automotive and intermodal markets. Ongoing emphasis on pricing above rail inflation and yield management, along with higher fuel recovery associated with the increase in fuel prices drove revenue-per-unit increases in nearly all markets.

Volume and Revenue

Merchandise

Chemicals – Growth occurred across most markets reflecting improvement in demand for intermediate products used in manufacturing automobiles and consumer goods.

Phosphates and Fertilizers – Volume was relatively flat as strength in domestic shipments, due to a strong planting season, was mostly offset by a slight moderation in export volume.

Automotive – Strong growth was due to an increase in North American light vehicle production driven by higher sales.

Emerging Markets – Shipments of aggregates (which include crushed stone, sand and gravel) were flat, however volume growth was primarily driven by new shipments of limestone and cement.

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Agricultural Products – Volume grew with increased shipments of feed, wheat and ethanol. Domestic shipments of feed and wheat increased due to reduced imports as a result of a worldwide shortage of wheat. Ethanol shipments grew as the amount of ethanol in fuel continued to increase.

Forest Products – Volume was flat due to continued weakness in construction and paper-related markets.

Metals – Volume growth was driven by increased shipments of sheet steel for auto production and by increases in pipe shipments for energy-related uses.

Food and Consumer – Volume was flat as increased shipments of refrigerated products and alcoholic beverages were offset by weakness in demand for appliances.

Coal

Growth was driven by higher export shipments due to greater demand for U.S. metallurgical coal, partially offset by lower shipments to utility customers as stockpiles continued to moderate to more normal levels. The increase in revenue per unit was driven by improved yield and longer length of haul.

Intermodal

Revenue gains during the quarter were driven by volume growth. International volume increased due to new business, U.S. inventory replenishments, and early holiday shipping. Domestic volume continued to grow with truckload conversions and expanded transcontinental service offerings. The revenue-per-unit decline was driven by the continued impact of terminating the prior interline agreement and was partly offset by increased fuel recovery and an improved pricing environment.

Other

Revenue gains were primarily driven by benefits for contract volume commitments not met as well as increases in intermodal container usage charges.

Expense

Expenses increased $146 million from last year's third quarter. Significant variances are described below.

Labor and Fringe expense increased $78 million. This increase was primarily driven by inflation, higher incentive compensation, and hiring and other costs.

Materials, Supplies and Other expense increased $9 million due to several items:

- Inland transportation expense reductions of $44 million were related to continued impact of terminating the prior intermodal interline agreement.
- Higher volume-related expenses were $24 million.

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

- Prior year expense reductions were $18 million and did not recur in the current quarter. These reductions were primarily related to legal recoveries and lower bad debt expense due to improved collections.

- Various other costs that are not expected to repeat.

Fuel expense increased $56 million primarily due to higher prices as well as higher volume.

Depreciation expense increased $5 million due to a larger asset base related to higher capital spending, partially offset by lower depreciation rates resulting from the previous periodic review of asset useful lives.

Equipment and Other Rents expense decreased $2 million primarily due to current quarter's cost savings associated with improved asset utilization and lower lease expense, partially offset by volume-related increases.

Consolidated Results of Operations

Interest Expense

Interest expense decreased $9 million to $131 million primarily due to lower average debt balances.

Income Tax Expense

Income tax expense increased $118 million to $288 million due to higher earnings and a charge of $22 million or $0.06 per share primarily related to the merger of the Company's former Intermodal subsidiary with CSXT.

Net Earnings

Net earnings increased $124 million to $414 million and earnings per diluted share increased $0.35 to $1.08 primarily due to higher revenue partially offset by labor-related costs, higher fuel expense and income taxes.

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

Volume and Revenue (Unaudited)
Volume (Thousands of units); Revenue (Dollars in millions); Revenue Per Unit (Dollars)
Nine Months

	Volume			Revenue			Revenue Per Unit		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
Chemicals	344	320	8 %	$1,102	$948	16 %	$3,203	$2,963	8%
Phosphates and Fertilizers	237	211	12	339	275	23	1,430	1,303	10
Automotive	244	156	56	570	335	70	2,336	2,147	9
Emerging Markets	311	306	2	460	440	5	1,479	1,438	3
Agricultural Products	325	316	3	768	705	9	2,363	2,231	6
Forest Products	195	196	(1)	440	413	7	2,256	2,107	7
Metals	183	148	24	393	295	33	2,148	1,993	8
Food and Consumer	76	76	-	180	176	2	2,368	2,316	2
Total Merchandise	1,915	1,729	11	4,252	3,587	19	2,220	2,075	7
Coal	1,166	1,188	(2)	2,406	2,086	15	2,063	1,756	17
Intermodal (a)	1,612	1,378	17	941	851	11	584	618	(6)
Other	-	-	-	221	197	12	-	-	-
Total	4,693	4,295	9 %	$7,820	$6,721	16 %	$1,666	$1,565	6 %

(a) The revenue-per-unit decline was primarily driven by the continued impact of terminating the prior interline agreement. See the explanation for intermodal variances for further information.

Nine Month Results of Operations

Consolidated Results of Operations

Revenue

Revenue increased $1.1 billion as a result of volume increases associated with the gradual economic recovery, ongoing yield management initiatives and higher fuel recovery due to an increase in fuel prices.

Operating Income

Operating income increased $534 million primarily due to higher revenue partially offset by fuel, labor-related costs and various other expenses.

Interest Expense

Interest expense decreased $12 million to $408 million primarily due to lower average debt balances. This decrease was partially offset by expenses related to the first quarter 2010 debt exchange.

Other Income – Net

Other income increased $9 million to $28 million primarily due to non-operating expenses from the prior year that did not repeat.

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

Income Tax Expense

Income tax expense increased $247 million to $712 million primarily due to higher earnings.

Net Earnings

Net earnings increased $293 million to $1.1 billion and earnings per diluted share increased $0.80 to $2.92 primarily due to higher revenue partially offset by fuel, labor-related costs, various other expenses and income taxes.

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

Properties increased $550 million due to capital spending, as CSX continued to invest in its business. Other long-term assets increased as a result of $141 million of cash consideration paid in the exchange of debt securities (see Note 7, Debt and Credit Agreements). Stockholder's equity decreased as a result of $1.1 billion of share repurchases since December 2009.

Consolidated Cash Flow Statements

Cash provided by operating activities increased $677 million primarily due to higher earnings. More cash was used for financing activities due to share repurchases of $1.1 billion during 2010. Additionally, the Company received $500 million from a debt issuance in 2009. There have been no debt issuances in 2010.

Liquidity and Working Capital

As of the end of the third quarter, CSX had $636 million of cash and cash equivalents. CSX also has available a $1.25 billion credit facility with a diverse syndicate of banks that was not drawn on. CSX uses current cash balances for general corporate purposes, which may include capital expenditures, working capital requirements, improvements in productivity, dividend payments to shareholders and repurchases of CSX common stock.

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The Company's $250 million receivables securitization facility has a 364-day term and expires in June 2011. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has not drawn on this facility. Under the terms of this facility, CSX Transportation transfers eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX will service the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital deficit of $335 million as of September 2010 and a working capital surplus of $705 million as of December 2009. The decline since December 2009 is primarily due to a $508 million reclassification from long-term debt to current maturities of long-term debt for amounts due within the next twelve months.

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.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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CSX CORPORATION

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

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, proposed new services and other similar expressions concerning 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 "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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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 this quarterly report on Form 10-Q 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, including the outcome of tax claims and litigation, the potential enactment of initiatives to further regulate the rail industry and the ultimate outcome of shipper and rate claims subject to adjudication;

- the outcome of litigation and claims, including, but not limited to, those related to fuel surcharge, environmental contamination, 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);
- 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.
- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;
- changes in fuel prices, surcharges for fuel and the availability of fuel;
- 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;
- 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;
- the cost of compliance with laws and regulations that differ from expectations (including those associated with PTC implementation) and costs, penalties and operational impacts associated with noncompliance with applicable laws or regulations;

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- the inherent business risks associated with safety and security, including the availability and cost of insurance, 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 the customers' ability to deliver goods to the Company for shipment;
- competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;
- 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 full year 2010 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, accessible on the SEC's website at www.sec.gov and the Company's website at www.csx.com. The information on the CSX website is not part of this quarterly report on Form 10-Q.

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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 September 24, 2010, 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 September 24, 2010, 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 third quarter 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Surface Transportation Board Rate Case

In October 2008, Seminole Electric Cooperative, Inc. ("Seminole") filed a complaint before the STB contesting CSXT's tariff rates for movements of coal to Seminole's power generating facility in Putnam County, Florida. Since CSXT and Seminole were unable to agree upon a new transportation contract, the prior transportation contract expired and CSXT's tariff rates took effect on January 1, 2009. In September 2010, a settlement was reached and Seminole filed a motion to dismiss the case. The parties have entered into a mutually agreeable transportation contract. These events are not expected to have a material impact on the Company's financial condition, results of operations or liquidity.

Fuel Surcharge Antitrust Litigation

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

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ITEM 1. LEGAL PROCEEDINGS, continued

Environmental Settlement

During the third quarter of 2010, CSXT entered into an agreement in principle with the District of Columbia Department of the Environment (“DDOE”) in settlement of claims pertaining to petroleum impacted groundwater allegedly migrating into the creek leading to the Anacostia River at CSXT’s Benning Yard facility. Although CSXT does not admit to the allegations, CSXT agreed to pay a civil penalty of $500,000. CSXT will also make a $7.5 million payment to a fund to help DDOE finance its cleanup efforts at other private sector and government sites on the Anacostia River. CSXT will be required to reimburse DDOE’s future oversight costs, conduct a site-wide investigation and natural resource damage assessment and clean up Benning Yard. These future costs cannot be estimated at this time. The settlement agreement will be embodied in a consent decree to be negotiated between CSXT and DDOE. The consent decree will be subject to public notice and comment and judicial approval.

Other Legal Proceedings

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

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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ITEM 2. CSX Purchases of Equity Securities

CSX is required to disclose any purchases of its common stock for the most recent quarter. The Company purchases shares of CSX common stock to further its goals under the Company's share repurchase program. Additional shares are purchased to fund the Company's obligations under a 401(k) plan that covers certain union employees.

During the third quarter 2010, CSX completed approximately $300 million of total share repurchases under the Company's share repurchase program. Since March 2008, CSX has completed approximately $2.35 billion in share repurchases. Based on market and business conditions, the Company expects to complete the remaining $645 million of repurchases under its existing $3 billion share repurchase program by the end of the first quarter of 2011.

CSX Purchases of Equity Securities
for the Quarter

Third Quarter	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				$945,202,448
July (June 26, 2010 - July 23, 2010)	1,175,900	$51.02	1,175,900	885,203,849
August (July 24, 2010 - August 20, 2010)	-	-	-	885,203,849
September (August 21, 2010 - September 24, 2010)	4,538,300	52.88	4,538,300	645,208,174
Ending Balance	5,714,200	$52.50	5,714,200	$645,208,174

Note: There were no share repurchases during third quarter 2010 to fund the Company's contribution to a 401(k) plan that covers certain union employees.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

31*	Rule 13a-14(a) Certifications.
32*	Section 1350 Certifications.
101*	The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended September 24, 2010 filed with the SEC on October 15, 2010, formatted in XBRL includes: (i) Consolidated Income Statements for the fiscal periods ended September 24, 2010 and September 25, 2009, (ii) Consolidated Balance Sheets at September 24, 2010 and December 25, 2009, (iii) Consolidated Cash Flow Statements for the fiscal periods ended September 24, 2010 and September 25, 2009, and (iv) the Notes to Consolidated Financial Statements.

* Filed herewith

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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: October 15, 2010