

CSX CORP  
Form 10-Q  
July 15, 2014

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

FORM 10-Q

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

For the quarterly period ended June 27, 2014

OR

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

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

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(State or other jurisdiction of incorporation or  
organization)

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

500 Water Street, 15th Floor, Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip  
Code)

(Telephone number, including area  
code)

No Change

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

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

Yes (X) No ( )

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

Yes (X) No ( )

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

Large Accelerated Filer (X)

Accelerated Filer ( )

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Non-accelerated Filer ☐

Smaller Reporting Company ☐

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

There were 999,572,416 shares of common stock outstanding on June 27, 2014 (the latest practicable date that is closest to the filing date).

CSX CORPORATION  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 27, 2014  
INDEX

|                                                                                                                                    | Page      |
|------------------------------------------------------------------------------------------------------------------------------------|-----------|
| PART I. FINANCIAL INFORMATION                                                                                                      |           |
| Item 1. <u>Financial Statements</u>                                                                                                | <u>3</u>  |
| <u>Consolidated Income Statements (Unaudited)</u> -<br>Quarters and Six Months Ended June 27, 2014 and June 28, 2013               | <u>3</u>  |
| <u>Consolidated Comprehensive Income Statements (Unaudited)</u> -<br>Quarters and Six Months Ended June 27, 2014 and June 28, 2013 | <u>3</u>  |
| <u>Consolidated Balance Sheets</u> -<br>At June 27, 2014 (Unaudited) and December 27, 2013                                         | <u>4</u>  |
| <u>Consolidated Cash Flow Statements (Unaudited)</u> -<br>Six Months Ended June 27, 2014 and June 28, 2013                         | <u>5</u>  |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u>                                                                      | <u>5</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                               | <u>26</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                                          | <u>35</u> |
| Item 4. <u>Controls and Procedures</u>                                                                                             | <u>35</u> |
| PART II. OTHER INFORMATION                                                                                                         |           |
| Item 1. <u>Legal Proceedings</u>                                                                                                   | <u>35</u> |
| Item 1A. <u>Risk Factors</u>                                                                                                       | <u>36</u> |
| Item 2. <u>CSX Purchases of Equity Securities</u>                                                                                  | <u>36</u> |
| Item 3. <u>Defaults upon Senior Securities</u>                                                                                     | <u>36</u> |
| Item 4. <u>Mine Safety Disclosures</u>                                                                                             | <u>36</u> |
| Item 5. <u>Other Information</u>                                                                                                   | <u>36</u> |
| Item 6. <u>Exhibits</u>                                                                                                            | <u>37</u> |
| <u>Signature</u>                                                                                                                   | <u>38</u> |

Table of Contents

## CSX CORPORATION

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

|                                                             | Second Quarters |         | Six Months |         |
|-------------------------------------------------------------|-----------------|---------|------------|---------|
|                                                             | 2014            | 2013    | 2014       | 2013    |
| Revenue                                                     | \$3,244         | \$3,046 | \$6,256    | \$6,009 |
| Expense                                                     |                 |         |            |         |
| Labor and Fringe                                            | 809             | 777     | 1,623      | 1,544   |
| Materials, Supplies and Other                               | 621             | 560     | 1,250      | 1,067   |
| Fuel                                                        | 416             | 397     | 862        | 841     |
| Depreciation                                                | 287             | 276     | 570        | 546     |
| Equipment and Other Rents                                   | 114             | 96      | 215        | 191     |
| Total Expense                                               | 2,247           | 2,106   | 4,520      | 4,189   |
| Operating Income                                            | 997             | 940     | 1,736      | 1,820   |
| Interest Expense                                            | (135            | )(140   | )(275      | )(287   |
| Other (Expense) Income - Net                                | (12             | )9      | (5         | )6      |
| Earnings Before Income Taxes                                | 850             | 809     | 1,456      | 1,539   |
| Income Tax Expense                                          | (321            | )(288   | )(529      | )(556   |
| Net Earnings                                                | \$529           | \$521   | \$927      | \$983   |
| Per Common Share (Note 2)                                   |                 |         |            |         |
| Net Earnings Per Share, Basic                               | \$0.53          | \$0.51  | \$0.92     | \$0.96  |
| Net Earnings Per Share, Assuming Dilution                   | \$0.53          | \$0.51  | \$0.92     | \$0.96  |
| Average Shares Outstanding (In millions)                    | 1,003           | 1,022   | 1,005      | 1,022   |
| Average Shares Outstanding, Assuming Dilution (In millions) | 1,003           | 1,023   | 1,006      | 1,023   |
| Cash Dividends Paid Per Common Share                        | \$0.16          | \$0.15  | \$0.31     | \$0.29  |

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

|                                        | Second Quarters |       | Six Months |         |
|----------------------------------------|-----------------|-------|------------|---------|
|                                        | 2014            | 2013  | 2014       | 2013    |
| Total Comprehensive Earnings (Note 10) | \$544           | \$538 | \$958      | \$1,017 |

See accompanying notes to consolidated financial statements.



Table of Contents

## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

|                                                     | (Unaudited)<br>June 27,<br>2014 | December 27,<br>2013 |   |
|-----------------------------------------------------|---------------------------------|----------------------|---|
| <b>ASSETS</b>                                       |                                 |                      |   |
| Current Assets:                                     |                                 |                      |   |
| Cash and Cash Equivalents                           | \$573                           | \$592                |   |
| Short-term Investments                              | 216                             | 487                  |   |
| Accounts Receivable - Net (Note 1)                  | 1,062                           | 1,052                |   |
| Materials and Supplies                              | 275                             | 252                  |   |
| Deferred Income Taxes                               | 123                             | 155                  |   |
| Other Current Assets                                | 123                             | 64                   |   |
| Total Current Assets                                | 2,372                           | 2,602                |   |
| Properties                                          | 38,010                          | 37,184               |   |
| Accumulated Depreciation                            | (10,325)                        | (9,893)              | ) |
| Properties - Net                                    | 27,685                          | 27,291               |   |
| Investment in Conrail                               | 768                             | 752                  |   |
| Affiliates and Other Companies                      | 563                             | 546                  |   |
| Other Long-term Assets                              | 587                             | 591                  |   |
| Total Assets                                        | \$31,975                        | \$31,782             |   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                                 |                      |   |
| Current Liabilities:                                |                                 |                      |   |
| Accounts Payable                                    | \$900                           | \$957                |   |
| Labor and Fringe Benefits Payable                   | 490                             | 587                  |   |
| Casualty, Environmental and Other Reserves (Note 4) | 151                             | 151                  |   |
| Current Maturities of Long-term Debt (Note 7)       | 899                             | 533                  |   |
| Income and Other Taxes Payable                      | 229                             | 91                   |   |
| Other Current Liabilities                           | 128                             | 105                  |   |
| Total Current Liabilities                           | 2,797                           | 2,424                |   |
| Casualty, Environmental and Other Reserves (Note 4) | 289                             | 300                  |   |
| Long-term Debt (Note 7)                             | 8,410                           | 9,022                |   |
| Deferred Income Taxes                               | 8,728                           | 8,662                |   |
| Other Long-term Liabilities                         | 847                             | 870                  |   |
| Total Liabilities                                   | 21,071                          | 21,278               |   |
| Shareholders' Equity:                               |                                 |                      |   |
| Common Stock \$1 Par Value                          | 1,000                           | 1,009                |   |
| Other Capital                                       | 70                              | 61                   |   |
| Retained Earnings                                   | 10,304                          | 9,936                |   |
| Accumulated Other Comprehensive Loss (Note 10)      | (492)                           | (523)                | ) |
| Noncontrolling Interest                             | 22                              | 21                   |   |
| Total Shareholders' Equity                          | 10,904                          | 10,504               |   |

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|                                            |          |          |
|--------------------------------------------|----------|----------|
| Total Liabilities and Shareholders' Equity | \$31,975 | \$31,782 |
|--------------------------------------------|----------|----------|

See accompanying notes to consolidated financial statements.

Table of Contents

## CSX CORPORATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

|                                                                                     | Six Months<br>2014 | 2013    |   |
|-------------------------------------------------------------------------------------|--------------------|---------|---|
| OPERATING ACTIVITIES                                                                |                    |         |   |
| Net Earnings                                                                        | \$927              | \$983   |   |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities: |                    |         |   |
| Depreciation                                                                        | 570                | 546     |   |
| Deferred Income Taxes                                                               | 86                 | 172     |   |
| Gain on Property Dispositions                                                       | (4)                | (67)    | ) |
| Other Operating Activities                                                          | 1                  | (61)    | ) |
| Changes in Operating Assets and Liabilities:                                        |                    |         |   |
| Accounts Receivable                                                                 | (60)               | 7       | ) |
| Other Current Assets                                                                | (60)               | (31)    | ) |
| Accounts Payable                                                                    | (50)               | 25      | ) |
| Income and Other Taxes Payable                                                      | 114                | 33      |   |
| Other Current Liabilities                                                           | (79)               | (28)    | ) |
| Net Cash Provided by Operating Activities                                           | 1,445              | 1,579   |   |
| INVESTING ACTIVITIES                                                                |                    |         |   |
| Property Additions                                                                  | (956)              | (1,085) | ) |
| Purchase of Short-term Investments                                                  | (360)              | (690)   | ) |
| Proceeds from Sales of Short-term Investments                                       | 646                | 904     |   |
| Other Investing Activities                                                          | 20                 | (50)    | ) |
| Net Cash Used in Investing Activities                                               | (650)              | (921)   | ) |
| FINANCING ACTIVITIES                                                                |                    |         |   |
| Long-term Debt Repaid (Note 7)                                                      | (244)              | (455)   | ) |
| Dividends Paid                                                                      | (311)              | (296)   | ) |
| Stock Options Exercised (Note 3)                                                    | —                  | 9       |   |
| Shares Repurchased                                                                  | (257)              | (95)    | ) |
| Other Financing Activities                                                          | (2)                | 9       | ) |
| Net Cash Used in Financing Activities                                               | (814)              | (828)   | ) |
| Net Decrease in Cash and Cash Equivalents                                           | (19)               | (170)   | ) |
| CASH AND CASH EQUIVALENTS                                                           |                    |         |   |
| Cash and Cash Equivalents at Beginning of Period                                    | 592                | 784     |   |
| Cash and Cash Equivalents at End of Period                                          | \$573              | \$614   |   |

See accompanying notes to consolidated financial statements.



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

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

Other entities

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

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

Basis of Presentation

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

- Consolidated income statements for the quarters and six months ended June 27, 2014 and June 28, 2013;
- Consolidated comprehensive income statements for the quarters and six months ended June 27, 2014 and June 28, 2013;
- Consolidated balance sheets at June 27, 2014 and December 27, 2013; and
- Consolidated cash flow statements for the six months ended June 27, 2014 and June 28, 2013.

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



Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Fiscal Year

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

• The second fiscal quarters of 2014 and 2013 consisted of 13 weeks ending on June 27, 2014 and June 28, 2013, respectively.

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

Except as otherwise specified, references to “second quarter(s)” or “six months” indicate CSX’s fiscal periods ending June 27, 2014 and June 28, 2013, and references to “year-end” indicate the fiscal year ended December 27, 2013.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$35 million and \$33 million is included in the consolidated balance sheets as of the end of second quarter 2014 and December 2013, respectively.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update, Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligations. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. The new standard will become effective for CSX beginning with the first quarter 2017 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Other Items

Revision of Prior Period Financial Statements

During 2013, CSX completed a review of certain accounts receivable balances which resulted in an adjustment to previously reported revenue. This review identified certain immaterial differences between estimated and actual revenue. For information related to this prior period revision, see CSX’s most recent annual report on Form 10-K.

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Share Repurchases

In April 2013, the Company announced a new \$1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. During second quarter 2014, CSX repurchased \$131 million, or approximately 4 million shares, of common stock under this program. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

## NOTE 2. Earnings Per Share

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

|                                                         | Second Quarters |        | Six Months |        |
|---------------------------------------------------------|-----------------|--------|------------|--------|
|                                                         | 2014            | 2013   | 2014       | 2013   |
| Numerator (Dollars in millions):                        |                 |        |            |        |
| Net Earnings                                            | \$529           | \$521  | \$927      | \$983  |
| Denominator (Units in millions):                        |                 |        |            |        |
| Average Common Shares Outstanding                       | 1,003           | 1,022  | 1,005      | 1,022  |
| Other Potentially Dilutive Common Shares                | —               | 1      | 1          | 1      |
| Average Common Shares Outstanding,<br>Assuming Dilution | 1,003           | 1,023  | 1,006      | 1,023  |
| Net Earnings Per Share, Basic                           | \$0.53          | \$0.51 | \$0.92     | \$0.96 |
| Net Earnings Per Share, Assuming Dilution               | \$0.53          | \$0.51 | \$0.92     | \$0.96 |

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

• convertible debt;

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

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

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



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 3. Share-Based Compensation

Under CSX's share-based compensation plans, awards primarily consist of performance grants, restricted stock awards, restricted stock units and stock grants for directors. Awards granted under the various programs are determined and approved by the Compensation Committee of the Board of Directors or, in certain circumstances, by the Chief Executive Officer for awards to management employees other than senior executives. The Board of Directors approves awards granted to the Company's non-management directors upon recommendation of the Governance Committee.

On May 6, 2014, approximately 1 million performance units were granted to certain employees under a new long-term incentive plan ("2016 LTIP") adopted under the CSX Stock and Incentive Award Plan. Payouts of performance units for the cycle ending with fiscal year 2016 will be based on the achievement of goals related to both operating ratio and return on assets in each case excluding non-recurring items as disclosed in the Company's financial statements. The average operating ratio and return on assets over the plan period will each comprise 50% of the payout and are measured independently of the other.

Grants were made in performance units, with each unit representing the right to receive one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals. Payouts for certain executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable companies.

Additionally, as part of the 2014 LTIP, the Company granted approximately 370 thousand restricted stock units to certain employees on May 6, 2014. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon attainment of goals.

Both performance units and restricted stock units require participants to be employed through the final day of the respective vesting period except in the case of death, disability or retirement. For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent annual report on Form 10-K.

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

| (Dollars in millions)            | Second Quarters |      | Six Months |      |
|----------------------------------|-----------------|------|------------|------|
|                                  | 2014            | 2013 | 2014       | 2013 |
| Share-Based Compensation Expense | \$6             | \$5  | \$11       | \$2  |
| Income Tax Benefit               | 2               | 2    | 4          | 1    |



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 4. Casualty, Environmental and Other Reserves

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

|                       | June 27,<br>2014 |           |       | December 27,<br>2013 |           |       |
|-----------------------|------------------|-----------|-------|----------------------|-----------|-------|
| (Dollars in millions) | Current          | Long-term | Total | Current              | Long-term | Total |
| Casualty:             |                  |           |       |                      |           |       |
| Personal Injury       | \$63             | \$136     | \$199 | \$59                 | \$148     | \$207 |
| Occupational          | 3                | 18        | 21    | 3                    | 20        | 23    |
| Asbestos              | 10               | 39        | 49    | 10                   | 40        | 50    |
| Total Casualty        | 76               | 193       | 269   | 72                   | 208       | 280   |
| Environmental         | 59               | 48        | 107   | 59                   | 41        | 100   |
| Other                 | 16               | 48        | 64    | 20                   | 51        | 71    |
| Total                 | \$151            | \$289     | \$440 | \$151                | \$300     | \$451 |

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

## Casualty

Casualty reserves of \$269 million as of the end of second quarter 2014 represent accruals for personal injury, occupational injury and asbestos claims. The Company's self-insured retention amount for these claims is \$50 million per occurrence. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in independent third-party estimates, which are reviewed by management. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

## Personal Injury

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

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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

Occupational & Asbestos

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

Occupational and asbestos claims are analyzed by a third-party actuary or specialist (the "third-party specialist"), respectively, in order to determine the number of unasserted or incurred but not reported ("IBNR") claims. Occupational claims analyses are performed by the third-party specialist quarterly and are reviewed by management. Unasserted asbestos claims analyses are performed by the third-party specialist annually, and asserted claims are reviewed by management quarterly.

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

Environmental

Environmental reserves were \$107 million as of the end of second quarter 2014. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at 257 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, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

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

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

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

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

Other

Other reserves of \$64 million as of the end of second quarter 2014 include liabilities for various claims, such as longshoremen disability claims, and claims for property, automobile and general liability.

NOTE 5. Commitments and Contingencies

Insurance

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the property and liability programs. The Company has a \$25 million retention per occurrence for the non-catastrophic property program (such as a derailment) and a \$50 million retention per occurrence for the liability and catastrophic property programs (such as hurricanes and floods). While the Company believes its current insurance coverage is adequate, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Legal

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

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be \$3 million to \$30 million in aggregate at June 27, 2014. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

Fuel Surcharge Antitrust Litigation

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

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

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

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Environmental

CSXT has certain indemnification requirements with respect to Pharmacia LLC (formerly known as Monsanto Company) for certain liabilities associated with real estate formerly owned by Pharmacia that is now owned by CSXT in Kearny, New Jersey (the "Property"). The indemnification and defense duties arise with respect to several matters. The State of New Jersey filed suit in 2005 against Occidental Chemical Corporation, Tierra Solutions Inc., Maxus Energy Corporation and five other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of the Newark Bay Complex. This includes a 17-mile stretch of the Passaic River near the Property. In 2009, Pharmacia, along with hundreds of other companies, was served with a third-party complaint by Tierra Solutions Inc. and Maxus Energy Corporation seeking contribution toward the costs and damages claimed by the state of New Jersey or incurred by Tierra and Maxus related to the Newark Bay Complex. CSXT has been participating in the defense of this matter with and on behalf of Pharmacia.

In 2013, Pharmacia, along with most of the other third-party defendants, entered into a settlement agreement with the state of New Jersey for an amount that is not material to CSXT. The settlement, approved by the Superior Court of New Jersey in December 2013, resolves certain claims or potential claims by the state of New Jersey for costs and damages arising from discharges to the Newark Bay Complex. CSXT, on behalf of Pharmacia, is also conducting a Remedial Investigation and Feasibility Study of the 17-mile Lower Passaic River Study Area with approximately 70 other parties pursuant to an Administrative Order on Consent with the U.S. Environmental Protection Agency ("EPA"). On April 11, 2014, the EPA announced its proposed plan to remediate the lower eight miles of the Lower Passaic River. The proposed plan, based on a Focused Feasibility Study, informs the public of EPA's preferred remedial alternative and solicits public comment. After review of comments, EPA is expected to issue its final cleanup plan next year. Based on currently available information, the Company does not believe any remediation costs potentially allocable to CSXT would be material to the Company's financial condition, results of operations or liquidity.

NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to January 1, 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation.

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

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 6. Employee Benefit Plans, continued

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

| (Dollars in millions)          | Pension Benefits |      |            |      |
|--------------------------------|------------------|------|------------|------|
|                                | Second Quarters  |      | Six Months |      |
|                                | 2014             | 2013 | 2014       | 2013 |
| Service Cost                   | \$11             | \$13 | \$22       | \$25 |
| Interest Cost                  | 31               | 27   | 62         | 54   |
| Expected Return on Plan Assets | (42)             | )(41 | ) (83      | )(81 |
| Amortization of Net Loss       | 14               | 25   | 28         | 50   |
| Total Expense                  | \$14             | \$24 | \$29       | \$48 |

| (Dollars in millions)               | Other Post-retirement Benefits |      |            |      |
|-------------------------------------|--------------------------------|------|------------|------|
|                                     | Second Quarters                |      | Six Months |      |
|                                     | 2014                           | 2013 | 2014       | 2013 |
| Service Cost                        | \$—                            | \$1  | \$1        | \$2  |
| Interest Cost                       | 4                              | 3    | 7          | 6    |
| Amortization of Net Loss            | 2                              | 4    | 3          | 7    |
| Amortization of Prior Service Costs | (1                             | )(1  | ) (1       | )(1  |
| Total Expense                       | \$5                            | \$7  | \$10       | \$14 |

Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. No significant contributions to the Company's qualified pension plans are expected in 2014.

## NOTE 7. Debt and Credit Agreements

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

| (Dollars in millions)                    | Current Portion | Long-term Portion | Total   |
|------------------------------------------|-----------------|-------------------|---------|
| Long-term debt as of December 2013       | \$533           | \$9,022           | \$9,555 |
| 2014 activity:                           |                 |                   |         |
| Long-term debt repaid                    | (244            | )—                | (244    |
| Reclassifications                        | 610             | (610              | )—      |
| Discount, premium and other activity     | —               | (2                | )(2     |
| Long-term debt as of second quarter 2014 | \$899           | \$8,410           | \$9,309 |

Table of Contents

CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

Credit Facility

CSX has a \$1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016. As of the date of this filing, the Company has no outstanding balances under this facility. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. As of second quarter 2014, CSX was in compliance with all covenant requirements under this facility.

Receivables Securitization Facility

The Company's \$250 million receivables securitization facility has a three-year term expiring in June 2017. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 8. Income Taxes

During last year's second quarter, the Company recorded an income tax benefit of \$17 million, or \$0.02 per share, as a result of a deferred tax adjustment, the resolution of certain tax matters and a change in state tax legislation. There were no material changes to the balance of unrecognized tax benefits on the consolidated balance sheet during second quarter 2014 and 2013.

NOTE 9. Fair Value Measurements

The Financial Instruments Topic in the ASC requires disclosures about fair value of financial instruments in annual reports as well as in quarterly reports. For CSX, this statement applies to certain investments and long-term debt. Disclosure of the fair value of pension plan assets is only required annually. Also, this rule clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

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

Level 1 - observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets

Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)

Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

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

reporting date.

16

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Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

## Investments

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

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

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

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

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. Additionally, the amortized cost basis of these investments was \$393 million and \$668 million as of June 27, 2014 and December 27, 2013, respectively.

| (Dollars in Millions)                        | June 27,<br>2014 |         |         |       | December 27,<br>2013 |         |         |       |
|----------------------------------------------|------------------|---------|---------|-------|----------------------|---------|---------|-------|
|                                              | Level 1          | Level 2 | Level 3 | Total | Level 1              | Level 2 | Level 3 | Total |
| Certificates of Deposit and Commercial Paper | \$—              | \$195   | \$—     | \$195 | \$—                  | \$472   | \$—     | \$472 |
| Corporate Bonds                              | —                | 135     | —       | 135   | —                    | 132     | —       | 132   |
| Government Securities                        | —                | 49      | —       | 49    | —                    | 49      | —       | 49    |
| Auction Rate Securities                      | —                | —       | 15      | 15    | —                    | —       | 15      | 15    |
| Total investments at fair value              | \$—              | \$379   | \$15    | \$394 | \$—                  | \$653   | \$15    | \$668 |

These investments have the following maturities:

| (Dollars in millions) | June 27,<br>2014 | December 27,<br>2013 |
|-----------------------|------------------|----------------------|
| Less than 1 year      | \$216            | \$487                |
| 1 - 2 years           | 74               | 58                   |
| 2 - 5 years           | 84               | 105                  |
| Greater than 5 years  | 20               | 18                   |
| Total                 | \$394            | \$668                |

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 9. Fair Value Measurements, continued

## Long-term Debt

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

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

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

| (Dollars in millions)                          | June 27,<br>2014 | December 27,<br>2013 |
|------------------------------------------------|------------------|----------------------|
| Long-term Debt (Including Current Maturities): |                  |                      |
| Fair Value                                     | \$ 10,563        | \$ 10,354            |
| Carrying Value                                 | 9,309            | 9,555                |

## NOTE 10. Other Comprehensive Income

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the ASC in the Consolidated Comprehensive Income Statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$544 million and \$538 million for second quarters 2014 and 2013, respectively, and \$958 million and \$1,017 million for six months 2014 and 2013, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement benefit adjustments and CSX's share of AOCI of equity method investees.

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 10. Other Comprehensive Income, continued

Changes in the AOCI balance by component are shown in the table below. Amounts reclassified in pension and other post-employment benefits to net earnings relate to the amortization of actuarial losses and are included in labor and fringe on the consolidated income statements. See Note 6. Employee Benefit Plans for further information. Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified in other to net earnings are included in materials, supplies and other on the consolidated income statements.

|                                       | Pension and Other<br>Post-Employment<br>Benefits | Other   | Accumulated Other<br>Comprehensive<br>Income (Loss) |   |
|---------------------------------------|--------------------------------------------------|---------|-----------------------------------------------------|---|
| (Dollars in millions)                 |                                                  |         |                                                     |   |
| Balance December 27, 2013, Net of Tax | \$(462                                           | ) \$(61 | ) \$(523                                            | ) |
| Other Comprehensive Income            |                                                  |         |                                                     |   |
| Amounts Reclassified to Net Earnings  | 31                                               | 13      | 44                                                  |   |
| Tax Expense                           | (12                                              | )(1     | )(13                                                | ) |
| Total Other Comprehensive Income      | 19                                               | 12      | 31                                                  |   |
| Balance June 27, 2014, Net of Tax     | \$(443                                           | ) \$(49 | ) \$(492                                            | ) |

## NOTE 11. Summarized Consolidating Financial Data

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



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

| Second Quarter 2014                | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|------------------------------------|--------------------|-----------------------|---------------------------|--------------|
| Revenue                            | \$—                | \$3,223               | \$21                      | \$3,244      |
| Expense                            | (105)              | )2,360                | (8)                       | )2,247       |
| Operating Income                   | 105                | 863                   | 29                        | 997          |
| Equity in Earnings of Subsidiaries | 545                | —                     | (545)                     | )—           |
| Interest (Expense) / Benefit       | (126)              | ) (14)                | ) 5                       | (135 )       |
| Other Income / (Expense) - Net     | (3)                | ) (10)                | ) 1                       | (12 )        |
| Earnings Before Income Taxes       | 521                | 839                   | (510)                     | ) 850        |
| Income Tax Benefit / (Expense)     | 8                  | (318)                 | ) (11)                    | ) (321 )     |
| Net Earnings                       | \$529              | \$521                 | \$(521)                   | ) \$529      |
| Total Comprehensive Earnings       | \$544              | \$522                 | \$(522)                   | ) \$544      |
| Second Quarter 2013                | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
| Revenue                            | \$—                | \$3,027               | \$19                      | \$3,046      |
| Expense                            | (92)               | )2,213                | (15)                      | )2,106       |
| Operating Income                   | 92                 | 814                   | 34                        | 940          |
| Equity in Earnings of Subsidiaries | 536                | —                     | (536)                     | )—           |
| Interest (Expense) / Benefit       | (128)              | ) (15)                | ) 3                       | (140 )       |
| Other Income / (Expense) - Net     | (2)                | ) (3)                 | ) 14                      | 9            |
| Earnings Before Income Taxes       | 498                | 796                   | (485)                     | ) 809        |
| Income Tax (Expense) / Benefit     | 23                 | (294)                 | ) (17)                    | ) (288 )     |
| Net Earnings                       | \$521              | \$502                 | \$(502)                   | ) \$521      |
| Total Comprehensive Earnings       | \$538              | \$504                 | \$(504)                   | ) \$538      |

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Income Statements

(Dollars in millions)

|                                    |                    |                       |                           |              |   |
|------------------------------------|--------------------|-----------------------|---------------------------|--------------|---|
| Six Months Ended June 27, 2014     | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |   |
| Revenue                            | \$—                | \$6,215               | \$41                      | \$6,256      |   |
| Expense                            | (208               | )4,753                | (25                       | )4,520       |   |
| Operating Income                   | 208                | 1,462                 | 66                        | 1,736        |   |
| Equity in Earnings of Subsidiaries | 961                | —                     | (961                      | )—           |   |
| Interest (Expense) / Benefit       | (256               | )(28                  | )9                        | (275         | ) |
| Other Income / (Expense) - Net     | (5                 | )(4                   | )4                        | (5           | ) |
| Earnings Before Income Taxes       | 908                | 1,430                 | (882                      | )1,456       |   |
| Income Tax (Expense) / Benefit     | 19                 | (522                  | )(26                      | )(529        | ) |
| Net Earnings                       | \$927              | \$908                 | \$(908                    | )\$927       |   |
| Total Comprehensive Earnings       | \$958              | \$915                 | \$(915                    | )\$958       |   |
| Six Months Ended June 28, 2013     | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |   |
| Revenue                            | \$—                | \$5,973               | \$36                      | \$6,009      |   |
| Expense                            | (185               | )4,430                | (56                       | )4,189       |   |
| Operating Income                   | 185                | 1,543                 | 92                        | 1,820        |   |
| Equity in Earnings of Subsidiaries | 1,025              | (1                    | )(1,024                   | )—           |   |
| Interest (Expense) / Benefit       | (262               | )(32                  | )7                        | (287         | ) |
| Other Income / (Expense) - Net     | (3                 | )(1                   | )10                       | 6            |   |
| Earnings Before Income Taxes       | 945                | 1,509                 | (915                      | )1,539       |   |
| Income Tax (Expense) / Benefit     | 38                 | (558                  | )(36                      | )(556        | ) |
| Net Earnings                       | \$983              | \$951                 | \$(951                    | )\$983       |   |
| Total Comprehensive Earnings       | \$1,017            | \$953                 | \$(953                    | )\$1,017     |   |



Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

| As of June 2014                             | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|---------------------------------------------|--------------------|-----------------------|---------------------------|--------------|
| <b>ASSETS</b>                               |                    |                       |                           |              |
| Current Assets                              |                    |                       |                           |              |
| Cash and Cash Equivalents                   | \$407              | \$103                 | \$63                      | \$573        |
| Short-term Investments                      | 195                | —                     | 21                        | 216          |
| Accounts Receivable - Net                   | 5                  | 168                   | 889                       | 1,062        |
| Receivable from Affiliates                  | 1,160              | 2,633                 | (3,793)                   | )—           |
| Materials and Supplies                      | —                  | 275                   | —                         | 275          |
| Deferred Income Taxes                       | (8                 | ) 132                 | (1                        | ) 123        |
| Other Current Assets                        | 24                 | 88                    | 11                        | 123          |
| Total Current Assets                        | 1,783              | 3,399                 | (2,810)                   | ) 2,372      |
| Properties                                  | 1                  | 35,724                | 2,285                     | 38,010       |
| Accumulated Depreciation                    | (1                 | ) (9,148              | ) (1,176                  | ) (10,325    |
| Properties - Net                            | —                  | 26,576                | 1,109                     | 27,685       |
| Investments in Conrail                      | —                  | —                     | 768                       | 768          |
| Affiliates and Other Companies              | (39                | ) 629                 | (27                       | ) 563        |
| Investments in Consolidated Subsidiaries    | 20,914             | —                     | (20,914                   | )—           |
| Other Long-term Assets                      | 214                | 389                   | (16                       | ) 587        |
| Total Assets                                | \$22,872           | \$30,993              | \$(21,890                 | ) \$31,975   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                    |                       |                           |              |
| Current Liabilities                         |                    |                       |                           |              |
| Accounts Payable                            | \$102              | \$769                 | \$29                      | \$900        |
| Labor and Fringe Benefits Payable           | 34                 | 417                   | 39                        | 490          |
| Payable to Affiliates                       | 3,317              | 443                   | (3,760                    | )—           |
| Casualty, Environmental and Other Reserves  | —                  | 136                   | 15                        | 151          |
| Current Maturities of Long-term Debt        | 600                | 299                   | —                         | 899          |
| Income and Other Taxes Payable              | (178               | ) 400                 | 7                         | 229          |
| Other Current Liabilities                   | —                  | 118                   | 10                        | 128          |
| Total Current Liabilities                   | 3,875              | 2,582                 | (3,660                    | ) 2,797      |
| Casualty, Environmental and Other Reserves  | —                  | 222                   | 67                        | 289          |
| Long-term Debt                              | 7,709              | 701                   | —                         | 8,410        |
| Deferred Income Taxes                       | (66                | ) 8,603               | 191                       | 8,728        |
| Other Long-term Liabilities                 | 472                | 500                   | (125                      | ) 847        |
| Total Liabilities                           | \$11,990           | \$12,608              | \$(3,527                  | ) \$21,071   |
| Shareholders' Equity                        |                    |                       |                           |              |
| Common Stock, \$1 Par Value                 | \$1,000            | \$181                 | \$(181                    | ) \$1,000    |

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|                                            |           |           |            |             |
|--------------------------------------------|-----------|-----------|------------|-------------|
| Other Capital                              | 70        | 5,077     | (5,077     | ) 70        |
| Retained Earnings                          | 10,304    | 13,137    | (13,137    | ) 10,304    |
| Accumulated Other Comprehensive Loss       | (492      | ) (36     | ) 36       | (492 )      |
| Noncontrolling Interest                    | —         | 26        | (4         | ) 22        |
| Total Shareholders' Equity                 | \$ 10,882 | \$ 18,385 | \$ (18,363 | ) \$ 10,904 |
| Total Liabilities and Shareholders' Equity | \$ 22,872 | \$ 30,993 | \$ (21,890 | ) \$ 31,975 |

22

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Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Balance Sheet

(Dollars in millions)

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

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

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

| Six months ended June 27, 2014                       | CSX<br>Corporation | CSX<br>Transportation | Eliminations<br>and Other | Consolidated |
|------------------------------------------------------|--------------------|-----------------------|---------------------------|--------------|
| Operating Activities                                 |                    |                       |                           |              |
| Net Cash Provided by (Used in) Operating Activities  | \$453              | \$1,276               | \$(284)                   | ) \$1,445    |
| Investing Activities                                 |                    |                       |                           |              |
| Property Additions                                   | —                  | (867                  | )(89                      | )(956 )      |
| Purchases of Short-term Investments                  | (360               | )—                    | —                         | (360 )       |
| Proceeds from Sales of Short-term Investments        | 637                | —                     | 9                         | 646          |
| Other Investing Activities                           | —                  | (58                   | )(78                      | 20           |
| Net Cash Provided by (Used in) Investing Activities  | 277                | (925                  | )(2                       | )(650 )      |
| Financing Activities                                 |                    |                       |                           |              |
| Long-term Debt Repaid                                | (200               | )(44                  | )(—                       | (244 )       |
| Dividends Paid                                       | (311               | )(285                 | )(285                     | (311 )       |
| Shares Repurchased                                   | (257               | )—                    | —                         | (257 )       |
| Other Financing Activities                           | 6                  | (10                   | )(2                       | (2 )         |
| Net Cash Provided by (Used in) Financing Activities  | (762               | )(339                 | )(287                     | (814 )       |
| Net Increase (Decrease) in Cash and Cash Equivalents | (32                | )12                   | 1                         | (19 )        |
| Cash and Cash Equivalents at Beginning of Period     | 439                | 91                    | 62                        | 592          |
| Cash and Cash Equivalents at End of Period           | \$407              | \$103                 | \$63                      | \$573        |

Table of Contents

## CSX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 11. Summarized Consolidating Financial Data, continued

## Consolidating Cash Flow Statements

(Dollars in millions)

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

Table of Contents

## CSX CORPORATION

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

## SECOND QUARTER 2014 HIGHLIGHTS

Revenue of \$3.2 billion grew \$198 million or 7% year over year driven by overall volume growth.

Expenses of \$2.2 billion increased \$141 million or 7% year over year primarily due to higher volume, increase in costs related to network performance and inflation.

Operating income of \$997 million rose \$57 million or 6%.

Operating ratio of 69.3% remained relatively flat compared to the prior year.

|                            | Second Quarters |         |        |          | Six Months |         |          |          |
|----------------------------|-----------------|---------|--------|----------|------------|---------|----------|----------|
|                            | 2014            | 2013    | Change | % Change | 2014       | 2013    | Change   | % Change |
| Volume (in thousands)      | 1,781           | 1,656   | 125    | 8%       | 3,401      | 3,234   | 167      | 5%       |
| (in millions)              |                 |         |        |          |            |         |          |          |
| Revenue                    | \$3,244         | \$3,046 | \$198  | 7%       | \$6,256    | \$6,009 | \$247    | 4%       |
| Expense                    | 2,247           | 2,106   | (141)  | (7)%     | 4,520      | 4,189   | (331)    | (8)%     |
| Operating Income           | \$997           | \$940   | \$57   | 6%       | \$1,736    | \$1,820 | \$(84)   | (5)%     |
| Operating Ratio            | 69.3            | % 69.1  | %(20   | ) bps    | 72.3       | % 69.7  | %(260    | ) bps    |
| Earnings Per Diluted Share | \$0.53          | \$0.51  | \$0.02 | 4%       | \$0.92     | \$0.96  | \$(0.04) | (4)%     |

For additional information, refer to Results of Operations discussed on pages 27 through 30.



Table of Contents

## CSX CORPORATION

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

## RESULTS OF OPERATIONS

## Volume and Revenue (Unaudited)

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

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

|                            | Volume |       |          | Revenue   |         |          | Revenue Per Unit |         |          |
|----------------------------|--------|-------|----------|-----------|---------|----------|------------------|---------|----------|
|                            | 2014   | 2013  | % Change | 2014      | 2013    | % Change | 2014             | 2013    | % Change |
| Agricultural               |        |       |          |           |         |          |                  |         |          |
| Agricultural Products      | 105    | 95    | 11       | % \$285   | \$248   | 15       | % \$2,714        | \$2,611 | 4        |
| Phosphates and Fertilizers | 86     | 86    | —        | 143       | 135     | 6        | 1,663            | 1,570   | 6        |
| Food and Consumer          | 25     | 25    | —        | 70        | 69      | 1        | 2,800            | 2,760   | 1        |
| Industrial                 |        |       |          |           |         |          |                  |         |          |
| Chemicals                  | 157    | 133   | 18       | 556       | 476     | 17       | 3,541            | 3,579   | (1)      |
| Automotive                 | 114    | 113   | 1        | 321       | 318     | 1        | 2,816            | 2,814   | —        |
| Metals                     | 74     | 66    | 12       | 184       | 163     | 13       | 2,486            | 2,470   | 1        |
| Housing and Construction   |        |       |          |           |         |          |                  |         |          |
| Forest Products            | 79     | 74    | 7        | 210       | 195     | 8        | 2,658            | 2,635   | 1        |
| Minerals                   | 80     | 75    | 7        | 123       | 115     | 7        | 1,538            | 1,533   | —        |
| Waste and Equipment        | 40     | 35    | 14       | 79        | 63      | 25       | 1,975            | 1,800   | 10       |
| Total Merchandise          | 760    | 702   | 8        | 1,971     | 1,782   | 11       | 2,593            | 2,538   | 2        |
| Coal                       | 330    | 310   | 6        | 744       | 770     | (3)      | 2,255            | 2,484   | (9)      |
| Intermodal                 | 691    | 644   | 7        | 449       | 425     | 6        | 650              | 660     | (2)      |
| Other                      | —      | —     | —        | 80        | 69      | 16       | —                | —       | —        |
| Total                      | 1,781  | 1,656 | 8        | % \$3,244 | \$3,046 | 7        | % \$1,821        | \$1,839 | (1)      |

Six Months<sup>(a)</sup>

|                            | Volume |       |          | Revenue |       |          | Revenue Per Unit |         |          |
|----------------------------|--------|-------|----------|---------|-------|----------|------------------|---------|----------|
|                            | 2014   | 2013  | % Change | 2014    | 2013  | % Change | 2014             | 2013    | % Change |
| Agricultural               |        |       |          |         |       |          |                  |         |          |
| Agricultural Products      | 211    | 190   | 11       | % \$569 | \$489 | 16       | % \$2,697        | \$2,574 | 5        |
| Phosphates and Fertilizers | 169    | 170   | (1)      | 277     | 279   | (1)      | 1,639            | 1,641   | —        |
| Food and Consumer          | 48     | 49    | (2)      | 135     | 137   | (1)      | 2,813            | 2,796   | 1        |
| Industrial                 |        |       |          |         |       |          |                  |         |          |
| Chemicals                  | 303    | 263   | 15       | 1,072   | 944   | 14       | 3,538            | 3,589   | (1)      |
| Automotive                 | 212    | 218   | (3)      | 596     | 611   | (2)      | 2,811            | 2,803   | —        |
| Metals                     | 139    | 132   | 5        | 349     | 324   | 8        | 2,511            | 2,455   | 2        |
| Housing and Construction   |        |       |          |         |       |          |                  |         |          |
| Forest Products            | 153    | 147   | 4        | 404     | 384   | 5        | 2,641            | 2,612   | 1        |
| Minerals                   | 134    | 132   | 2        | 218     | 211   | 3        | 1,627            | 1,598   | 2        |
| Waste and Equipment        | 71     | 67    | 6        | 138     | 120   | 15       | 1,944            | 1,791   | 9        |
| Total Merchandise          | 1,440  | 1,368 | 5        | 3,758   | 3,499 | 7        | 2,610            | 2,558   | 2        |

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|            |       |       |   |   |         |         |    |   |         |         |    |    |
|------------|-------|-------|---|---|---------|---------|----|---|---------|---------|----|----|
| Coal       | 623   | 607   | 3 |   | 1,406   | 1,496   | (6 | ) | 2,257   | 2,465   | (8 | )  |
| Intermodal | 1,338 | 1,259 | 6 |   | 870     | 829     | 5  |   | 650     | 658     | (1 | )  |
| Other      | —     | —     | — |   | 222     | 185     | 20 |   | —       | —       | —  |    |
| Total      | 3,401 | 3,234 | 5 | % | \$6,256 | \$6,009 | 4  | % | \$1,839 | \$1,858 | (1 | )% |

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

Table of Contents

CSX CORPORATION

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

Second Quarter 2014

Revenue

Volume increased 8% year over year with growth across most markets. Revenue increased by 7% year over year driven by this broad-based volume growth.

Merchandise

Agricultural Sector

Agricultural Products - Volume growth was driven by increased shipments of export grain and ethanol. A combined record corn and soybean crop has reduced U.S. grain prices resulting in higher export grain shipments and has increased ethanol production.

Phosphates and Fertilizers - Volume was flat year over year as growth in finished fertilizer products was offset by lower phosphate rock shipments. Growth in fertilizers was driven by the recovery from the severe winter weather that delayed the planting season and fertilizer application, while phosphate rock declined due to maintenance at a customer's facility.

Food and Consumer - Volume was flat as growth in alcoholic beverage shipments was offset by lower rice shipments. Beverage shipments increased due to a customer's gain in market share as well as inventory accumulation for the summer season. Rice declined as customers substituted lower-priced corn.

Industrial Sector

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

Automotive - Automotive volume increased as North American light vehicle production grew, but rail equipment shortages due to network performance tempered this growth.

Metals - Volume growth was driven by an increase in sheet steel shipments due to growth in automotive production and competitive gains.

Housing and Construction Sector

Forest Products - Volume growth was led by an increase in building products and pulp board shipments. Building products increased year over year due to the continued recovery in the residential housing market as well as the recovery from shipping delays earlier this year. Pulp board shipments also rebounded from earlier delays and increased due to modal conversions.

Minerals - Volume increased year over year due to growth in aggregates (which include crushed stone, sand and gravel) and salt. Growth in aggregates was driven by the continued recovery in construction activity and shipping delays earlier this year caused by network performance. Strength in salt shipments was driven by inventory replenishment as a result of the increased application during the severe winter weather.

Waste and Equipment - Volume increased year over year due to growth in municipal solid waste shipments from a new service offering to a customer location.



Table of Contents

CSX CORPORATION

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

Coal

Coal volume increased due to higher shipments of domestic coal attributable to marketplace gains and utilities replenishing stockpiles. This growth was partially offset by a decrease in export coal as a result of softening global market conditions.

Intermodal

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

Expenses

Expenses in the second quarter 2014 increased \$141 million from the prior year's second quarter. Significant variances are described below.

Labor and Fringe expense increased \$32 million due to the following:

- Volume-related costs were \$25 million higher.

• Labor costs were \$14 million higher due to overtime and relief crews associated with network performance.

• Inflation was \$14 million higher.

• Other costs were \$21 million lower primarily due to reduced pension costs and incentive compensation costs that reflect lower expected award payments.

Materials, Supplies and Other expense increased \$61 million due to the following:

• No real estate gains were recognized in the current year, whereas, in the prior year, the Company realized gains of \$36 million.

• Volume-related costs rose \$19 million primarily due to higher volume and resource levels.

• Inflation was \$10 million higher.

• Costs for locomotives from other railroads were \$9 million higher due to efforts to improve network performance.

• Various other costs decreased \$13 million during the quarter.

Fuel expense was \$19 million higher as increased volume was partially offset by lower price and improved efficiency.

Depreciation expense increased \$11 million due to a larger asset base.

Equipment and Other Rents expense was \$18 million higher due to increased car hire costs of \$9 million related to network performance and \$3 million due to greater volume as well as \$6 million from inflation.

Interest expense decreased \$5 million to \$135 million due to lower average interest rates as well as lower average debt balances.

Other (expense) income - net decreased \$21 million to an expense of \$12 million primarily due to an increase in estimated environmental cleanup costs related to non-operating activities.

Income tax expense increased \$33 million to \$321 million primarily due to higher earnings as well as the prior year impacts of a deferred tax adjustment, resolution of certain tax matters and a change in state tax legislation that did not repeat in the current year.

Table of Contents

## CSX CORPORATION

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

## Six Months Results of Operations

Revenue increased \$247 million to \$6,256 million as a result of volume growth in most of the markets CSX serves along with higher yields resulting from pricing gains across many markets. Other revenue also increased primarily due to higher revenue from customers who did not meet minimum contractual volumes.

Operating income decreased \$84 million to \$1,736 million primarily due to higher costs related to network performance and volume, prior year gains on operating properties that did not repeat in the current year and inflation. These declines were partially offset by higher revenue.

Interest expense decreased \$12 million to \$275 million primarily due to lower average interest rates as well as lower average debt balances.

Other (expense) income-net decreased \$11 million to an expense of \$5 million primarily due to an increase in estimated environmental cleanup costs related to non-operating activities.

Income tax expense decreased \$27 million to \$529 million primarily due to lower earnings as well as a current year benefit which resulted from a change in state tax legislation.

## Operating Statistics (Estimated)

|                                           | Second Quarters |         | Improvement /<br>(Deterioration) | Six Months |         | Improvement /<br>(Deterioration) |      |    |
|-------------------------------------------|-----------------|---------|----------------------------------|------------|---------|----------------------------------|------|----|
|                                           | 2014            | 2013    |                                  | 2014       | 2013    |                                  |      |    |
| Safety and Service Measurements           |                 |         |                                  |            |         |                                  |      |    |
| FRA Personal Injury Frequency Index       | 0.90            | 1.00    | 10                               | %          | 0.93    | 0.90                             | (3   | )% |
| FRA Train Accident Rate                   | 2.07            | 2.18    | 5                                | %          | 2.26    | 1.98                             | (14  | )% |
|                                           |                 |         |                                  |            |         |                                  |      |    |
| On-Time Originations                      | 56              | %91     | %(38                             | )%         | 59      | %91                              | %(35 | )% |
| On-Time Arrivals                          | 42              | %82     | %(49                             | )%         | 46      | %84                              | %(45 | )% |
|                                           |                 |         |                                  |            |         |                                  |      |    |
| Train Velocity                            | 19.3            | 23.0    | (16                              | )%         | 19.9    | 23.3                             | (15  | )% |
| Dwell                                     | 25.9            | 21.9    | (18                              | )%         | 26.3    | 22.1                             | (19  | )% |
|                                           |                 |         |                                  |            |         |                                  |      |    |
| Cars-On-Line <sup>(a)</sup>               | 207,141         | 181,929 | (14                              | )%         | 202,005 | 182,572                          | (11  | )% |
|                                           |                 |         |                                  |            |         |                                  |      |    |
| Resources                                 |                 |         | Increase /<br>(Decrease)         |            |         |                                  |      |    |
| Route Miles                               | 20,771          | 20,864  | —                                | %          |         |                                  |      |    |
| Locomotives (owned and long-term leased)  | 4,259           | 4,212   | 1                                | %          |         |                                  |      |    |
| Freight Cars (owned and long-term leased) | 67,381          | 68,983  | (2                               | )%         |         |                                  |      |    |
| Containers                                | 18,249          | 17,965  | 2                                | %          |         |                                  |      |    |

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

## Key Performance Measures Definitions

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

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

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

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

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

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

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

Table of Contents

CSX CORPORATION

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

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

The Company routinely collaborates with the Federal Railroad Administration ("FRA") and industry organizations as well as federal, state and local governments on the development and implementation of safety programs and initiatives. For example, earlier this year, CSX and other major freight railroads have met with the U.S. Department of Transportation ("DOT") and other key stakeholders to discuss potential safety enhancements to our nation's freight railroad network. CSX and other railroads voluntarily committed to take certain actions to make railroads even safer. Among other things, CSX agreed to reduce the speed of certain trains to 40 miles per hour through high threat urban areas, increase the frequency of track inspections, and work collaboratively and proactively with local communities to address area-specific concerns. Furthermore, CSX, Operation Lifesaver, Inc., the DOT and other major railroads from across the country have partnered in the Common Sense campaign to reduce the number of injuries and deaths around tracks and trains. Also, CSXT has an ongoing public safety program to clear-cut trees and vegetation at public passive highway-rail intersections (crossings with no flashing lights or gates) to improve the public's ability to discern rail hazards.

CSX remains an industry leader in employee safety. The FRA reportable personal injury frequency index improved 10 percent year over year to 0.90, and the reported FRA train accident frequency rate improved 5 percent year over year to 2.07.

CSX's service performance remained challenged in the quarter as significant volume growth immediately followed a difficult winter, which negatively impacted the fluidity of the network, and drove shortages in locomotives and crews. On-time performance was down significantly, with on-time originations at 56 percent and on-time arrivals at 42 percent. Average train velocity declined 16 percent to 19.3 miles per hour, and dwell worsened 18 percent to 25.9 hours. In response, the Company is adding more locomotives and train crews to support a gradual recovery in key service measures.

**LIQUIDITY AND CAPITAL RESOURCES**

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

**Material Changes in Consolidated Balance Sheets and Significant Cash Flows**

**Consolidated Balance Sheets**

Total assets as well as total liabilities and shareholders' equity increased \$193 million from year end. Total assets increased primarily due to the increase in net properties of \$394 million resulting from capital investments partially offset by the decline in cash of \$290million (including short-term investment activity). Total liabilities and shareholders' equity increased primarily driven by net earnings of \$927 million partially offset by dividends paid of \$311 million, share repurchases of \$257 million and payout of incentive compensation of \$175 million.



Table of Contents

CSX CORPORATION

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

Significant Cash Flows

Cash and cash equivalents decreased in both years. However, the decrease in the current year was \$151 million less than in prior year primarily due to the following:

- Lower debt repayments of \$211 million
- Lower property additions of \$129 million
- Partially offset by higher share repurchases of \$162 million

In July 2014, CSX announced an increase in 2014 capital investments from \$2.3 billion to \$2.4 billion to support long-term growth through investment in infrastructure and freight cars. Planned capital investments include expected 2014 spending of approximately \$300 million for Positive Train Control ("PTC"). It excludes investments related to partially or wholly reimbursable public-private partnerships where reimbursements may not be fully received in a given year.

Over half of the 2014 investment will be used for core infrastructure. The remaining amounts will be allocated to locomotives, freight cars, and high return projects that support long-term profitable growth and productivity initiatives that improve the returns of the business, such as intermodal terminal capacity projects. CSX intends to fund capital investments through cash generated from operations.

Over the long term, the Company expects to incur significant capital costs in connection with the implementation of PTC. CSX estimates that the total multi-year cost of PTC implementation will be at least \$1.7 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending through June 2014 was \$1 billion.

Liquidity and Working Capital

As of the end of second quarter 2014, CSX had \$789 million of cash, cash equivalents and short-term investments. CSX has a \$1 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016 and as of the date of this filing, the Company has no outstanding balances under this facility. CSX uses current cash balances for general corporate purposes, which may include reduction or refinancing of outstanding indebtedness, capital expenditures, working capital requirements, contributions to the Company's qualified pension plan, redemptions and repurchases of CSX common stock and dividends to shareholders. See Note 7, Debt and Credit Agreements.

The Company's \$250 million receivables securitization facility has a three-year term expiring in June 2017. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. As of the date of this filing, the Company has no outstanding balances under this facility.

CSX had a working capital deficit of \$425 million and a surplus of \$178 million as of June 2014 and December 2013, respectively. While working capital can also be considered a measure of a company's ability to meet its short-term needs, the second quarter 2014 deficit is not unusual to CSX or other companies in the industry and does not indicate a lack of liquidity. This decline since year end is primarily due to long-term debt that will mature within one year as well as cash used for dividends paid, share repurchases and incentive compensation payouts.

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

liquidity 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.

Table of Contents

CSX CORPORATION

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and certain revenues and expenses during the reporting period. Actual results may differ from those estimates. These estimates and assumptions are discussed with the Audit Committee of the Board of Directors on a regular basis. Consistent with the prior year, significant estimates using management judgment are made for the areas below. For further discussion of CSX's critical accounting estimates, see the Company's most recent annual report on Form 10-K.

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

FORWARD-LOOKING STATEMENTS

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

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

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

Table of Contents

CSX CORPORATION

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 CSX's most recent annual report on Form 10-K and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

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

Table of Contents

CSX CORPORATION

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

• adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;

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

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

• changes in operating conditions and costs or commodity concentrations; and

• the inherent uncertainty associated with projecting economic and business conditions.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

As of June 27, 2014, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of June 27, 2014, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the second quarter of 2014 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

CSX CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Environmental Proceedings That Could Result in Fines Above \$100,000

In April 2014, following a CSXT train derailment in Lynchburg, VA, a single tank car released less than 30,000 gallons of crude oil into the James River. The Company is working cooperatively with the U.S. EPA and the Commonwealth of Virginia to resolve inquiries relating to the release. We do not expect the resolution of this matter will have a material impact on our financial condition, results of operations or liquidity.



Table of Contents

## CSX CORPORATION

## PART II

## Item 1A. Risk Factors

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

## Item 2. CSX Purchases of Equity Securities

CSX purchases its own shares for two primary reasons: to enhance shareholder returns and to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan that covers certain union employees. In April 2013, CSX announced a new \$1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and pertinent facts guide the timing and volume of all repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Share repurchase activity of \$131 million for the second quarter 2014 was as follows:

CSX Purchases of Equity Securities  
for the Quarter

| Second Quarter <sup>(a)</sup> | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(b)</sup> | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------------------|----------------------------------|------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Beginning Balance             |                                  |                              |                                                                                                 | \$520,734,056                                                                            |
| April                         | 1,384,100                        | \$28.49                      | 1,384,100                                                                                       | 481,305,048                                                                              |
| May                           | 1,455,800                        | 28.51                        | 1,455,800                                                                                       | 439,806,700                                                                              |
| June                          | 1,660,075                        | 30.00                        | 1,660,000                                                                                       | 390,000,998                                                                              |
| Ending Balance                | 4,499,975                        | \$29.05                      | 4,499,900                                                                                       | \$390,000,998                                                                            |

(a) Second quarter 2014 consisted of the following fiscal periods: April (March 29, 2014 - April 25, 2014), May (April 26, 2014 - May 23, 2014), June (May 24, 2014 - June 27, 2014).

(b) The difference of 75 shares between the "Total Number of Shares Purchased" and the "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" for the quarter represents shares purchased to fund the Company's contribution to a 401(k) plan that covers certain union employees.

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not Applicable

## Item 5. Other Information

None



Table of Contents

CSX CORPORATION

PART II

Item 6. Exhibits

10.1 CSX 2014-2016 Long-term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on May 8, 2014)

10.2 Form of Change of Control Agreement (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on May 8, 2014)

31\* Rule 13a-14(a) Certifications

32\* Section 1350 Certifications

101\* The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended June 27, 2014 filed with the SEC on July 15, 2014, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended June 27, 2014 and June 28, 2013, (ii) consolidated comprehensive income statements for the fiscal periods ended June 27, 2014 and June 28, 2013, (iii) consolidated balance sheets at June 27, 2014 and December 27, 2013, (iv) consolidated cash flow statements for the fiscal periods ended June 27, 2014 and June 28, 2013, and (v) the notes to consolidated financial statements.

\* Filed herewith



Table of Contents

CSX CORPORATION

PART II

SIGNATURE

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

CSX CORPORATION

(Registrant)

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

Dated: July 15, 2014