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CSX CORP  
Form 10-Q  
May 03, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

For the quarter ended March 30, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8022

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

Virginia  
(State or other jurisdiction of  
incorporation or organization)

62-1051971  
(I.R.S. Employer  
Identification No.)

901 East Cary Street, Richmond, Virginia  
(Address of principal executive offices)

23219-4031  
(Zip Code)

(804) 782-1400  
(Registrant's telephone number, including area code)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 30, 2001: 213,395,907 shares.

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CSX CORPORATION  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2001  
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CSX CORPORATION AND SUBSIDIARIES  
Consolidated Statement of Earnings  
(Millions of Dollars, Except Per Share Amounts)

	(Unaudited Quarters)
	March 30, 2001
Operating Revenue	\$ 2,025
Operating Expense	1,836
Operating Income	189
Other Expense	31
Interest Expense	131
Earnings before Income Taxes	27
Income Tax Expense	7
Earnings before Discontinued Operations	20
Earnings from Discontinued Operations, Net of Tax	-
Net Earnings	\$ 20
Earnings Per Share:	
Before Discontinued Operations	\$ .10
Earnings from Discontinued Operations	-
Including Discontinued Operations	\$ .10

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	=====
Earnings Per Share, Assuming Dilution	
Before Discontinued Operations	\$ .10
Earnings from Discontinued Operations	-
	-----
Including Discontinued Operations	\$ .10
	=====
Average Common Shares Outstanding (Thousands)	211,299
	=====
Average Common Shares Outstanding, Assuming Dilution (Thousands)	211,897
	=====
Cash Dividends Paid Per Common Share	\$ .30
	=====

See accompanying Notes to Consolidated Financial Statements.

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CSX CORPORATION AND SUBSIDIARIES  
Consolidated Statement of Cash Flows  
(Millions of Dollars)

	-----
	March 30,
	2001
	-----
OPERATING ACTIVITIES	
Net Earnings	\$ 20
Adjustments to Reconcile Net Earnings to Net Cash Provided:	
Depreciation	157
Deferred Income Taxes	4
Equity in Conrail Earnings - Net	(5)
Other Operating Activities	1
Changes in Operating Assets and Liabilities	
Accounts Receivable	10
Other Current Assets	(18)
Accounts Payable	(22)
Other Current Liabilities	(147)
	-----
Net Cash Used by Operating Activities	-
	-----
INVESTING ACTIVITIES	
Property Additions	(183)
Short-Term Investments - Net	(83)
Other Investing Activities	1
	-----
Net Cash Used by Investing Activities	(265)
	-----
FINANCING ACTIVITIES	
Short-Term Debt - Net	(271)
Long-Term Debt Issued	500
Long-Term Debt Repaid	(48)
Cash Dividends Paid	(64)
Other Financing Activities	8
	-----

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Net Cash Provided (Used) by Financing Activities	125	-----
Net Decrease in Cash and Cash Equivalents	(140)	-----
 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
Cash and Cash Equivalents at Beginning of Period	261	-----
Cash and Cash Equivalents at End of Period	121	-----
Short-Term Investments at End of Period	500	-----
Cash, Cash Equivalents and Short-Term Investments at End of Period	\$ 621	=====

See accompanying Notes to Consolidated Financial Statements.

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### CSX CORPORATION AND SUBSIDIARIES Consolidated Statement of Financial Position (Millions of Dollars)

	(Unaudited)	
	March 30,	
	2001	-----
 ASSETS		
Current Assets		
Cash, Cash Equivalents and Short-Term Investments	\$ 621	
Accounts Receivable	840	
Materials and Supplies	269	
Deferred Income Taxes	122	
Other Current Assets	148	-----
Total Current Assets	2,000	
 Properties		
Properties	17,981	
Accumulated Depreciation	(5,297)	-----
Properties-Net	12,684	
 Investment in Conrail		
Investment in Conrail	4,673	
Affiliates and Other Companies	344	
Other Long-Term Assets	737	-----
Total Assets	\$ 20,438	=====
 LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 1,057	
Labor and Fringe Benefits Payable	410	
Casualty, Environmental and Other Reserves	251	
Current Maturities of Long-Term Debt	188	
Short-Term Debt	478	
Income and Other Taxes Payable	250	
Other Current Liabilities	256	-----
Total Current Liabilities	2,890	
 Casualty, Environmental and Other Reserves		
Casualty, Environmental and Other Reserves	745	
Long-Term Debt	6,212	

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Deferred Income Taxes	3,391
Other Long-Term Liabilities	1,224
	-----
Total Liabilities	14,462
	-----
SHAREHOLDERS' EQUITY	
Common Stock, \$1 Par Value	213
Other Capital	1,470
Retained Earnings	4,293
	-----
Total Shareholders' Equity	5,976
	-----
Total Liabilities and Shareholders' Equity	\$ 20,438
	=====

See accompanying Notes to Consolidated Financial Statements.

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### CSX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)  
(All Tables in Millions of Dollars, Except Per Share Amounts)

#### NOTE 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position of CSX Corporation and subsidiaries (CSX or the "company") at March 30, 2001 and December 29, 2000, the results of its operations and cash flows for the quarters ended March 30, 2001 and March 31, 2000, such adjustments being of a normal recurring nature. Certain prior-year data have been reclassified to conform to the 2001 presentation.

While the company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the financial statements and the notes included in the company's latest Annual Report and Form 10-K.

CSX follows a 52/53 week fiscal reporting calendar. Fiscal year 2001 consists of 52 weeks ending on December 28, 2001. Fiscal year 2000 consisted of 52 weeks ended December 29, 2000. The financial statements presented are for the 13-week quarter ended March 30, 2001, the 13-week quarter ended March 31, 2000, and as of December 29, 2000.

Comprehensive income approximates net earnings for all periods presented in the accompanying consolidated statement of earnings.

#### NOTE 2. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of common shares outstanding, as defined by Financial Accounting Standards Board (FASB) Statement No. 128, "Earnings per Share," for the fiscal quarters ended March 30, 2001 and March 31, 2000. Earnings per share, assuming dilution, are based on the weighted average number of common shares outstanding adjusted for the effect of potential common shares outstanding that were dilutive during the period, principally arising from employee stock plans. For the fiscal quarters ended March 30, 2001 and March 31, 2000, potential common shares that were dilutive totaled 0.6 and 0.8 million, respectively.

Certain potential common shares outstanding at March 30, 2001 and March 31, 2000 were not included in the computation of earnings per share, assuming dilution, since their exercise prices were greater than the average market price of the common shares during the period and, accordingly, their effect is antidilutive. These shares totaled 17.0 million at a weighted-average exercise price of \$43.76 per share at March 30, 2001 and 23.9 million with a weighted-

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average exercise price of \$41.89 per share at March 31, 2000.

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 3. INVESTMENT IN AND INTEGRATED RAIL OPERATIONS WITH CONRAIL

Background

-----

CSX and Norfolk Southern Corporation (Norfolk Southern) completed the acquisition of Conrail Inc. (Conrail) in May 1997. Conrail owns the primary freight railroad system serving the northeastern United States, and its rail network extends into several mid-western states and into Canada. CSX and Norfolk Southern, through a jointly owned acquisition entity, hold economic interests in Conrail of 42% and 58%, respectively, and voting interests of 50% each. CSX and Norfolk Southern received regulatory approval from the Surface Transportation Board (STB) to exercise joint control over Conrail in August 1998 and subsequently began integrated operations over allocated portions of the Conrail lines in June 1999.

The rail subsidiaries of CSX and Norfolk Southern operate their respective portions of the Conrail system pursuant to various operating agreements that took effect on June 1, 1999. Under these agreements, the railroads pay operating fees to Conrail for the use of right-of-way and rent for the use of equipment. Conrail continues to provide rail service in certain shared geographic areas for the joint benefit of CSX and Norfolk Southern for which it is compensated on the basis of usage by the respective railroads.

Conrail Financial Information

-----

Summary financial information for Conrail for its fiscal periods ended March 31, 2001 and 2000, and at December 31, 2000, is as follows:

		Q ----- March 31, 2001 -----
Income Statement Information:		
Revenues	\$	233
Income from Operations		64
Net Income		45
----- March 31, 2001 -----		
Balance Sheet Information:		
Current Assets	\$	608
Property and Equipment and Other Assets		7,463
Total Assets		8,071
Current Liabilities		476
Long-Term Debt		1,208
Total Liabilities		4,024

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

## NOTE 3. INVESTMENT IN AND INTEGRATED RAIL OPERATIONS WITH CONRAIL, Continued

## Conrail Financial Information, Continued

Conrail's results for the quarter ended March 31, 2000 benefited from a non-recurring gain on the sale of property of \$61 million, \$37 million after-tax.

## CSX's Accounting for its Investment in and Integrated Rail Operations with

## Conrail

CSX and Norfolk Southern assumed substantially all of Conrail's customer freight contracts at the June 1999 integration date. CSX's rail and intermodal operating revenues include revenue from traffic previously moving on Conrail. Operating expenses reflect costs incurred to operate the former Conrail lines. Rail operating expenses also include an expense category, "Conrail Operating Fee, Rent and Services," which reflects payment to Conrail for the use of right-of-way and equipment, as well as charges for transportation, switching, and terminal services in the shared areas Conrail operates for the joint benefit of CSX and Norfolk Southern. This expense category also includes amortization of the fair value write-up arising from the acquisition of Conrail, as well as CSX's proportionate share of Conrail's net income or loss recognized under the equity method of accounting.

## Transactions with Conrail

The agreement under which CSX operates its allocated portion of the Conrail route system has an initial term of 25 years and may be renewed at CSX's option for two five-year terms. Operating fees paid to Conrail under the agreement are subject to adjustment every six years based on the fair value of the underlying system. Lease agreements for the Conrail equipment operated by CSX cover varying terms. CSX is responsible for all costs of operating, maintaining, and improving the routes and equipment under these agreements.

At March 30, 2001 and December 29, 2000, CSX had \$4 million and \$2 million, respectively, in amounts receivable from Conrail, principally for reimbursement of certain capital improvement costs. Conrail advances its available cash balances to CSX and Norfolk Southern under variable-rate demand loan agreements. At March 30, 2001 and December 29, 2000, Conrail had advanced \$98 million and \$40 million, respectively, to CSX under this arrangement at interest rates of 4.75% and 5.90%, respectively. CSX also had amounts payable to Conrail of \$104 million and \$127 million at March 30, 2001 and December 29, 2000, respectively, representing expenses incurred under the operating, equipment, and shared area agreements.

## NOTE 4. DISCONTINUED OPERATIONS

On September 22, 2000, CSX completed the sale of CTI Logistx, Inc., its wholly-owned logistics subsidiary, for \$650 million. The contract logistics segment is now reported as a discontinued operation and all prior periods in the statement of earnings have been restated accordingly. Revenues from the contract logistics segment for the quarter ended March 31, 2000 were \$126 million.

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

### NOTE 5. SALE OF INTERNATIONAL CONTAINER-SHIPPING ASSETS

In December 1999, CSX sold certain assets comprising Sea-Land's international liner business to A. P. Moller-Maersk Line (Maersk). In addition to vessels and containers, Maersk acquired certain terminal facilities and various other assets and related liabilities of the international liner business. The agreement with Maersk provided for a post-closing adjustment to the sales price based on the change in working capital, as defined in the agreement, between June 25, 1999, and December 10, 1999. The company has recorded a receivable of approximately \$60 million in connection with the post-closing adjustment and this amount is currently in dispute. This matter, together with other disputed issues, has been submitted to arbitration. Management is not yet in a position to assess fully the likely outcome of this process but believes it will prevail in the arbitrations. During 1999, the company recorded a net loss of \$360 million, \$271 million after-tax, related to this transaction. Included in this amount were estimated costs to terminate various contractual obligations of the company. These matters could affect the determination of the final loss on sale.

### NOTE 6. ACCOUNTS RECEIVABLE

The company sells revolving interests in its rail accounts receivable to public investors through a securitization program and to financial institutions through commercial paper conduit programs. The accounts receivable are sold, without recourse, to a wholly-owned, special-purpose subsidiary, which then transfers the receivables, with recourse, to a master trust. The securitization and conduit programs are accounted for as sales in accordance with FASB Statement No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Receivables sold under these arrangements are excluded from accounts receivable in the consolidated statement of financial position. At March 30, 2001, the agreements provide for the sale of up to \$350 million in receivables through the securitization program and \$250 million through the conduit programs.

At March 30, 2001 and December 29, 2000, the company had sold \$547 million of accounts receivable; \$300 million through the securitization program and \$247 million through the conduit programs. The certificates issued under the securitization program bear interest at 6% annually and mature in June 2003. Receivables sold under the conduit programs require yield payments based on prevailing commercial paper rates plus incremental fees. Losses recognized on the sale of accounts receivable totaled \$12 million and \$8 million for the quarters ended March 30, 2001 and March 31, 2000, respectively.

The company has retained the responsibility for servicing accounts receivable transferred to the master trust. The average servicing period is approximately one month. No servicing asset or liability has been recorded since the fees the company receives for servicing the receivables approximate the related costs.

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Statement No. 140 replaces the earlier Statement No. 125 in its entirety. While the new statement revises certain accounting guidance for transfers of financial assets, most of the provisions of Statement No. 125 have been carried over without reconsideration. Statement No. 140 is effective for transfers and servicing of financial assets occurring after March 31, 2001, but requires certain disclosures relating to securitizations for fiscal years ending after December 15, 2000. The accounting provisions of Statement No. 140 will not impact the company's financial statements.

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 7. OPERATING EXPENSE

	Quarters
	----- March 30, 2001 -----
Labor and Fringe Benefits	\$ 736
Materials, Supplies and Other	459
Conrail Operating Fee, Rent & Services	83
Building and Equipment Rent	155
Inland Transportation	85
Depreciation	148
Fuel	170
	-----
Total	\$ 1,836 =====

NOTE 8. OTHER EXPENSE

	Quarte
	----- March 30, 2001 -----
Interest Income	\$ 11
Income (Loss) from Real Estate and Resort Operations/(1)/	(3)
Net Losses from Accounts Receivable Sold	(12)
Minority Interest	(8)
Equity Losses in Other Affiliates/(2)/	(16)
Miscellaneous	(3)
	-----
Total	\$ (31) =====

/(1)/ Gross revenue from real estate and resort operations was \$25 million and \$29 million for the quarters ended March 30, 2001 and March 31, 2000, respectively.

/(2)/ Included in equity losses in other affiliates was the \$14 million write-off of an investment in a non-rail affiliate, during the quarter ended March 30, 2001.

NOTE 9. DEBT AND CREDIT AGREEMENTS

During the quarter ended March 30, 2001, the company issued \$500 million of 6.75% notes due in 2011.

CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

## NOTE 10. COMMITMENTS AND CONTINGENCIES

## Self-Insurance

-----

Although the company obtains substantial amounts of commercial insurance for potential losses for third-party liability and property damage, reasonable levels of risk are retained on a self-insurance basis. A portion of the insurance coverage, \$25 million limit above \$100 million per occurrence from rail and certain other operations, is provided by a company partially owned by CSX.

## Environmental

-----

CSXT is a party to various proceedings involving private parties and regulatory agencies related to environmental issues. CSXT has been identified as a potentially responsible party (PRP) at 104 environmentally impaired sites that are or may be subject to remedial action under the Federal Superfund statute (Superfund) or similar state statutes. A number of these proceedings are based on allegations that CSXT, or its railroad predecessors, sent hazardous substances to the facilities in question for disposal. Such proceedings arising under Superfund or similar state statutes can involve numerous other waste generators and disposal companies and seek to allocate or recover costs associated with site investigation and cleanup, which could be substantial.

CSXT is involved in a number of administrative and judicial proceedings and other clean-up efforts at 243 sites, including the sites addressed under the Federal Superfund statute or similar state statutes, where it is participating in the study and/or clean-up of alleged environmental contamination. The assessment of the required response and remedial costs associated with most sites is extremely complex. Cost estimates are based on information available for each site, financial viability of other PRPs, where available, and existing technology, laws and regulations. CSXT's best estimates of the allocation method and percentage of liability when other PRPs are involved are based on assessments by consultants, agreements among PRPs, or determinations by the U.S. Environmental Protection Agency or other regulatory agencies.

At least once each quarter, CSXT reviews its role, if any, with respect to each such location, giving consideration to the nature of CSXT's alleged connection to the location (i.e., generator, owner or operator), the extent of CSXT's alleged connection (i.e., volume of waste sent to the location and other relevant factors), the accuracy and strength of evidence connecting CSXT to the location, and the number, connection and financial position of other named and unnamed PRPs at the location. The ultimate liability for remediation can be difficult to determine with certainty because of the number and creditworthiness of PRPs involved. Through the assessment process, CSXT monitors the creditworthiness of such PRPs in determining ultimate liability.

Based upon such reviews and updates of the sites with which it is involved, CSXT has recorded, and reviews at least quarterly for adequacy, reserves to cover estimated contingent future environmental costs with respect to such sites. The recorded liabilities for estimated future environmental costs at March 30, 2001 and Dec. 29, 2000 were \$41 million. These recorded liabilities, which are undiscounted, include amounts representing CSXT's estimate of unasserted claims, which CSXT believes to be immaterial. The liability has

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 10. COMMITMENTS AND CONTINGENCIES, Continued

Environmental, Continued  
-----

been accrued for future costs for all sites where the company's obligation is probable and where such costs can be reasonably estimated. 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. The majority of the March 30, 2001 environmental liability is expected to be paid out over the next five to seven years, funded by cash generated from operations.

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

New Orleans Tank Car Fire  
-----

In September 1997, a state court jury in New Orleans, Louisiana returned a \$2.5 billion punitive damages award against CSX Transportation, Inc. (CSXT), the wholly-owned rail subsidiary of CSX. The award was made in a class-action lawsuit against a group of nine companies based on personal injuries alleged to have arisen from a 1987 fire. The fire was caused by a leaking chemical tank car parked on CSXT tracks and resulted in the 36-hour evacuation of a New Orleans neighborhood. In the same case, the court awarded a group of 20 plaintiffs compensatory damages of approximately \$2 million against the defendants, including CSXT, to which the jury assigned 15 percent of the responsibility for the incident. CSXT's liability under that compensatory damages award is not material, and adequate provision has been made for the award.

In October 1997, the Louisiana Supreme Court set aside the punitive damages judgment, ruling the judgment should not have been entered until all liability issues were resolved. In February 1999, the Louisiana Supreme Court issued a further decision, authorizing and instructing the trial court to enter individual punitive damages judgments in favor of the 20 plaintiffs who had received awards of compensatory damages, in amounts representing an appropriate share of the jury's award. The trial court on April 8, 1999 entered judgment awarding approximately \$2 million in compensatory damages and approximately \$8.5 million in punitive damages to those 20 plaintiffs. Approximately \$6.2 million of the punitive damages awarded were assessed against CSXT. CSXT then filed post-trial motions for a new trial and for judgment notwithstanding the verdict as to the April 8 judgment.

The new trial motion was denied by the trial court in August 1999. On November 5, 1999, the trial court issued an opinion that granted CSXT's motion for judgment notwithstanding the verdict and effectively reduced the amount of the punitive damages verdict from \$2.5 billion to \$850 million. CSXT believes that this amount (or any amount of punitive damages) is unwarranted and intends to pursue its full appellate remedies with respect to the 1997 trial as well as the trial judge's decision on the motion for judgment notwithstanding

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 10. COMMITMENTS AND CONTINGENCIES, Continued

New Orleans Tank Car Fire, Continued  
-----

the verdict. The compensatory damages awarded by the jury in the 1997 trial were also substantially reduced by the trial judge. A judgment reflecting the \$850 million punitive award has been entered against CSXT. CSXT has obtained and posted an appeal bond in the amount of \$895 million, which will allow it to appeal the 1997 compensatory and punitive awards, as reduced by the trial judge.

A trial for the claims of 20 additional plaintiffs for compensatory damages began on May 24, 1999. In July 1999, the jury in that trial rendered verdicts totaling approximately \$330 thousand in favor of eighteen of those twenty plaintiffs. Two plaintiffs received nothing; that is, the jury found that they had not proved any damages. Management believes that this result, while still excessive, supports CSXT's contention that the punitive damages award was unwarranted.

In 1999, six of the nine defendants in the case reached a tentative settlement with the plaintiffs group. The basis of that settlement is an agreement that all claims for compensatory and punitive damages against the six defendants would be compromised for the sum of \$215 million. That settlement was approved by the trial court in early 2000.

In 2000, the City of New Orleans was granted permission by the trial court to assert an amended claim against CSXT, including a newly asserted claim for punitive damages. The City's case was originally filed in 1988, and while based on the 1987 tank car fire, is not considered to be part of the class action.

Oral argument in the Louisiana Court of Appeals for the Fourth Circuit with regard to CSXT's appeal was held on January 12, 2001. A ruling is expected some time this year. Any review beyond that court is by discretionary writ.

CSXT continues to pursue an aggressive legal strategy. At the present time, management is not in a position to determine whether the resolution of this case will have a material adverse effect on the Company's financial position or results of operations in any future reporting period.

ECT Dispute  
-----

Recently, CSX received a claim amounting to approximately \$180 million plus interest from Europe Container Terminals bv (ECT), owner of the Rotterdam Container Terminal previously operated by Sea-Land prior to its sale to Maersk in December 1999. ECT has claimed that the sale of the international liner business to Maersk resulted in a breach of the Sea-Land terminal agreements. ECT has refused to accept containers at the former Sea-Land facility tendered by Maersk Sea-Land and is seeking compensation from CSX related to the alleged breach. CSX has also advised Maersk that CSX holds them responsible for any damages that may result from this case. Management's initial evaluation of the claim indicates that valid defenses exist, but at this point management cannot estimate what, if any losses may result from this case.

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

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### NOTE 10. COMMITMENTS AND CONTINGENCIES, Continued

#### Other Legal Proceedings

-----

A number of legal actions are pending against CSX and certain subsidiaries in which claims are made in substantial amounts. While the ultimate results of environmental investigations, lawsuits and claims against the company cannot be predicted with certainty, management does not currently expect that resolution of these matters will have a material adverse effect on the company's consolidated financial position, results of operations or cash flows. The company is also party to a number of actions, the resolution of which could result in gain realization in amounts that could be material to results of operations in the quarter received.

### NOTE 11. BUSINESS SEGMENTS

The company operates in four business segments: Rail, Intermodal, Domestic Container Shipping, and International Terminals. The Rail segment provides rail freight transportation over a network of more than 23,400 route miles in 23 states, the District of Columbia and two Canadian provinces. The Intermodal segment provides transcontinental intermodal transportation services and operates a network of dedicated intermodal facilities across North America. The Domestic Container Shipping segment consists of a fleet of 16 ocean vessels and 27,000 containers serving the trade between ports on the United States mainland and Alaska, Guam, Hawaii and Puerto Rico. The International Terminals segment operates container freight terminal facilities at 12 locations in Hong Kong, China, Australia, Europe, Russia, and the Dominican Republic. The company's segments are strategic business units that offer different services and are managed separately based on the differences in these services. Because of their close interrelationship, the Rail and Intermodal segments are viewed on a combined basis as Surface Transportation operations and the Domestic Container Shipping and International Terminals segments are viewed on a combined basis as Marine Services operations.

The company evaluates performance and allocates resources based on several factors, of which the primary financial measure is business segment operating income, defined as income from operations, excluding the effects of non-recurring charges and gains. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 1), except that for segment reporting purposes, CSX includes minority interest expense on the international terminals segment's joint venture businesses in operating expense. These amounts are reclassified in CSX's consolidated financial statements to other expense. Intersegment sales and transfers are generally accounted for as if the sales or transfers were to third parties, that is, at current market prices.

Business segment information for the quarters ended March 30, 2001 and March 31, 2000 is as follows:

Quarter ended March 30, 2001:

-----

	Surface Transportation			Domestic Container Shipping	Marine S In
	Rail	Intermodal	Total		
Revenues from external customers	\$ 1,532	\$ 265	\$ 1,797	\$ 161	\$
Intersegment revenues	-	5	5	-	
Segment operating income	166	16	182	(3)	
Assets	12,911	418	13,329	299	

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CSX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited), Continued  
(All Tables in Millions of Dollars, Except Per Share Amounts)

NOTE 11. BUSINESS SEGMENTS, Continued

Quarter ended March 31, 2000:

-----

	Surface Transportation			Marine S	
	-----			Domestic	Inte
	Rail	Intermodal	Total	Container	Te
			Shipping	Te	
	-----			-----	
Revenues from external customers	\$ 1,515	\$ 283	\$ 1,798	\$ 162	\$
Intersegment revenues	-	5	5	-	
Segment operating income	147	13	160	(1)	
Assets	12,976	389	13,365	338	

A reconciliation of the totals reported for the business segments to the applicable line items in the consolidated financial statements is as follows:

	March 30, 2001	March 200
	-----	-----
Revenues:		
-----		
Total external revenues for business segments	\$ 2,025	\$
Intersegment revenues for business segments	6	
Elimination of intersegment revenues	(6)	
Total consolidated revenues	\$ 2,025	\$
	=====	=====
Operating Income:		
-----		
Total operating income for business segments	\$ 191	\$
Reclassification of minority interest expense for International terminals segment	8	
Unallocated corporate expenses	(10)	
Total consolidated operating income	\$ 189	\$
	=====	=====
Assets:		
-----		
Assets for Business Segments	\$ 14,423	\$
Investment in Conrail	4,673	
Elimination of Intercompany Receivables	180	
Non-segment Assets	1,162	
	\$ 20,438	\$
	=====	=====

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

RESULTS OF OPERATIONS

CSX follows a 52/53-week fiscal calendar. Fiscal years 2001 and 2000 consist of 52 weeks. The quarters ended March 30, 2001 and March 31, 2000 consisted of 13 weeks.

First Quarter 2001 Compared with 2000  
-----

CSX reported net earnings from continuing operations of \$20 million, 10 cents per diluted share, for the quarter ended March 30, 2001 as compared to \$25 million, 12 cents per diluted share for the quarter ended March 31, 2000.

Operating income for the first quarter of 2001 totaled \$189 million, compared with \$174 million in the first quarter of 2000 on revenues of \$2.03 billion in both years. Operating expenses for the first quarter of 2001 totaled \$1.84 billion compared to \$1.86 billion in the prior year, a 1% decrease.

Other expense totaled \$31 million in the first quarter of 2001 compared to \$5 million in the first quarter of 2000, more than offsetting the year over year increase in operating income. This was due primarily to the \$14 million write-off of an investment in a non-rail affiliate along with a decrease in interest income and an increase in net losses from sales of accounts receivable and expenses from real estate and resort operations.

Surface Transportation Results  
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Rail

Rail operating income for the first quarter of 2001 totaled \$166 million, compared to \$147 million in the prior year quarter, an increase of 13%. Operating revenue totaled \$1.53 billion, an increase of \$17 million, or 1%, due primarily to the exceptionally strong demand for coal. Operating expense was consistent at \$1.37 billion in both years.

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

RESULTS OF OPERATIONS, Continued

Surface Transportation Results, Continued  
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Rail, Continued

The following table provides rail carload and revenue data by service group and commodity for the quarters ended March 30, 2001 and March 31, 2000:

Carloads  
(Thousands)

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	March 30, 2001	March 31, 2000	March 31, 2001
	-----	-----	-----
Merchandise			
Phosphates and Fertilizer	119	131	\$
Metals	82	91	
Food and Consumer Products	40	41	
Paper and Forest Products	122	137	
Agricultural Products	100	92	
Chemicals	150	149	
Minerals	95	101	
Government	3	3	
	-----	-----	-----
Total Merchandise	711	745	
Automotive	127	158	
Coal, Coke & Iron Ore			
Coal	439	396	
Coke	10	12	
Iron Ore	5	8	
	-----	-----	-----
Total Coal, Coke & Iron Ore	454	416	
Other	-	-	
	-----	-----	-----
Total Rail	1,292	1,319	\$ 1
	=====	=====	=====

Overall freight revenue was significantly higher than the first quarter of 2000 due primarily to an increase in coal revenue and strategic price initiatives. Merchandise demand decreased from prior year, particularly in the phosphates and fertilizer group and the paper and forest products commodity group. Automotive revenue decreased significantly, due primarily to automotive plant shut downs relating to a weak economy.

As compared to the first quarter of 2000, operations of the railroad are running smoother in 2001. During the first quarter of 2000, CSX's rail unit was still experiencing operating difficulties and diminished service performance relating to the initial integration of operations over the Conrail territories. In 2001, primarily the result of strategic initiatives begun in mid-2000, CSX's rail unit has seen improvement in operations and service performance and the railroad has seen significant improvements in most operating

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

RESULTS OF OPERATIONS, Continued

Surface Transportation Results, Continued

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Rail, Continued

measures. The improved performance allowed the Company to selectively raise rates helping offset decreased demand while also enabling the Company to realize savings in certain operating expense categories. Increases in fuel expense due to price increases year over year and labor costs somewhat offset the savings in other operating expense categories.

Intermodal

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Intermodal operating income totaled \$16 million for the first quarter of 2001, compared to \$13 million in the prior year quarter. Revenue for the quarter decreased \$18 million, or 6%, to \$270 million. Operating expense decreased \$21 million, or 8%, to \$254 million. The decrease in revenues represent a slight loss in market share year over year along with the weakening economy, but this was offset by increased savings in certain operating expense categories.

### Marine Services Results

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#### Domestic Container Shipping

The domestic container shipping unit reported an operating loss of \$3 million for the first quarter of fiscal 2001 as compared to an operating loss of \$1 million in the prior year. Operating revenues were relatively constant at \$161 million for the first quarter of 2001 and \$162 million in the prior year. The Puerto Rico tradelane is continuing to experience excess capacity which is putting pressure on rates. The results for both the Alaska and Hawaii tradelanes have improved compared to first quarter 2000.

#### International Terminals

The international terminals unit reported operating income of \$12 million for the first quarter as compared to \$14 million in the prior year. Operating revenues were \$68 million for the first quarter of 2001 as compared to \$74 million in the prior year. The decrease in operating revenues and income was primarily due to the economic slowdown which hit particularly strong at the Company's main terminal in Hong Kong early in the quarter.

### FINANCIAL CONDITION

Cash, cash equivalents and short-term investments totaled \$621 million at March 30, 2001, a decrease of \$63 million since December 29, 2000.

The primary source of cash and cash equivalents during the first quarter of 2001 was the issuance of \$500 million of notes. Cash flow from operations was neutral reflecting customary seasonal weakness. Primary uses of cash and cash equivalents during the quarter were property additions, repayments of short-term debt, and the payment of dividends on the company's outstanding common stock.

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

#### FINANCIAL CONDITION, Continued

CSX's working capital deficit at March 30, 2001 was \$890 million, down from \$1.2 billion at December 29, 2000. The working capital deficit at both dates includes approximately \$300 million of commercial paper that is classified as short-term debt due to the fact that it is supported by the Company's line of credit agreement which expires in November 2001. A working capital deficit is not unusual for the company and does not indicate a lack of liquidity. The company continues to maintain adequate current assets to satisfy current liabilities when they are due and has sufficient liquidity and financial resources to manage its day-to-day cash needs.

CSX also has \$300 million of remaining capacity under a shelf registration that may be used to issue debt or other securities at the company's discretion.

### FINANCIAL DATA

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	(Millions of D	
	March 30,	
	2001	
	-----	
Cash, Cash Equivalents and		
Short-Term Investments	\$	621
Commercial Paper Outstanding -		
Short-Term	\$	478
Working Capital (Deficit)	\$	(890)
Current Ratio		.7
Debt Ratio		53%
Ratio of Earnings to Fixed Charges		1.2 x

OUTLOOK

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In the remainder of 2001, the challenge will be to continue to improve the financial performance of the railroad. This will be accomplished through continued service improvements, aggressive cost cutting initiatives and taking full advantage of revenue synergy opportunities from the Conrail transaction. Despite an economy that is showing clear signs of at least a short-term slow down, if not a contraction, CSX expects to produce full year earnings that will show an increase from previous years. The coal unit is expected to continue to offset the decreased demand in other sectors through the remainder of the year. CSX is hopeful that the second half of 2001 will produce some year over year increases in rail volumes. On the cost side, the impact of higher fuel costs is expected to have a negative impact on cost comparisons during the first part of the year but could be favorable if prices decline throughout the year.

Although CSX World Terminals encountered a difficult first quarter, especially its main terminal in Hong Kong, it is still expected to produce both earnings and cash flow levels above 2000's results. Results in Hong Kong improved late in the first quarter and are expected to continue improving throughout the remainder of 2001.

CSX Lines continues to struggle with price competition in Puerto Rico, but other trade-lanes continue to be strong.

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

INVESTMENT IN AND INTEGRATED RAIL OPERATIONS WITH CONRAIL

Background

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CSX and Norfolk Southern Corporation (Norfolk Southern) completed the acquisition of Conrail Inc. (Conrail) in May 1997. Conrail owns the primary freight railroad system serving the northeastern United States, and its rail network extends into several midwestern states and into Canada. CSX and Norfolk Southern, through a jointly owned acquisition entity, hold economic interests in Conrail of 42% and 58%, respectively, and voting interests of 50% each. CSX and Norfolk Southern received regulatory approval from the Surface Transportation Board (STB) to exercise joint control over Conrail in August 1998 and subsequently began integrated operations over allocated portions of the Conrail lines in June 1999.

The rail subsidiaries of CSX and Norfolk Southern operate their respective

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portions of the Conrail system pursuant to various operating agreements. Under these agreements, the railroads pay operating fees to Conrail for the use of right-of-way and rent for the use of equipment. Conrail continues to provide rail service in certain shared geographic areas for the joint benefit of CSX and Norfolk Southern for which it is compensated on the basis of usage by the respective railroads.

### Accounting and Financial Reporting Effects

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CSX and Norfolk Southern have assumed substantially all of Conrail's former customer freight contracts. CSX's rail and intermodal operating revenue include revenue from traffic previously moving on Conrail. Operating expenses reflect corresponding increases for costs incurred to operate the former Conrail lines. Rail operating expenses after the integration also include an expense category, "Conrail Operating Fee, Rent and Services," which reflects payment to Conrail for the use of right-of-way and equipment, as well as charges for transportation, switching, and terminal services in the shared areas Conrail operates for the joint benefit of CSX and Norfolk Southern. This expense category also includes amortization of the fair value write-up arising from the acquisition of Conrail, as well as CSX's proportionate share of Conrail's net income or loss recognized under the equity method of accounting.

### Conrail's Results of Operations

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Conrail reported net income of \$45 million on revenues of \$233 million for the first quarter of 2001, compared to net income of \$65 million on revenues of \$259 million for the prior year quarter. Results for the first quarter of 2000 benefited from a non-recurring gain on the sale of property of \$61 million, \$37 million after-tax.

Conrail's operating activities provided net cash of \$121 million in the first quarter of 2001, compared with a net use of cash of \$112 million in the first quarter of 2000.

Conrail's working capital was \$132 million at March 31, 2001, compared with \$85 million at December 31, 2000.

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

### OTHER MATTERS

#### Surface Transportation Board Moratorium on Rail Merger Applications and Proposed

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#### New Rules for Rail Mergers

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In March 2000, the Surface Transportation Board (STB) issued a decision establishing a moratorium on rail merger applications for a 15-month time period. The STB's deliberations on this matter were prompted by significant public concerns expressed following the December 1999 announcement by the Burlington Northern Santa Fe and Canadian National railroads of plans to merge and combine their respective rail systems. The moratorium was instituted to allow the STB time to address the potential downstream effects that a rail merger might have on the railroad industry at the present time, and to consider changes in the rules by which future rail mergers will be evaluated. In October 2000, the STB issued proposed new rules for rail mergers that would require companies to demonstrate how future mergers would enhance competition and make companies more accountable for claimed merger benefits and service. After considering public comments on the proposed new rules, the STB anticipates issuing final rules in June 2001.

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Federal Court Decision Affecting Coal Mining Operations  
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In October 1999, a federal district court judge ruled that certain mountaintop coal mining practices in West Virginia were in violation of the federal Clean Water Act and the federal Surface Mining and Control Reclamation Act. The decision, if enforced, could have adversely affected CSX's coal traffic and revenues if upheld. A federal appeals court overturned the decision on April 24, 2001, ruling that the case should properly have been brought in the West Virginia state courts.

New Orleans Tank Car Fire Litigation  
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In September 1997, a state court jury in New Orleans, Louisiana returned a \$2.5 billion punitive damages award against CSX Transportation, Inc. (CSXT), the wholly-owned rail subsidiary of CSX. The award was made in a class-action lawsuit against a group of nine companies based on personal injuries alleged to have arisen from a 1987 fire. The fire was caused by a leaking chemical tank car parked on CSXT tracks and resulted in the 36-hour evacuation of a New Orleans neighborhood. In the same case, the court awarded a group of 20 plaintiffs compensatory damages of approximately \$2 million against the defendants, including CSXT, to which the jury assigned 15 percent of the responsibility for the incident. CSXT's liability under that compensatory damages award is not material, and adequate provision has been made for the award.

In October 1997, the Louisiana Supreme Court set aside the punitive damages judgment, ruling the judgment should not have been entered until all liability issues were resolved. In February 1999, the Louisiana Supreme Court issued a further decision, authorizing and instructing the trial court to enter individual punitive damages judgments in favor of the 20 plaintiffs who had received awards of compensatory damages, in amounts representing an appropriate share of the jury's award. The trial court on April 8, 1999 entered judgment awarding approximately \$2 million in compensatory damages and approximately \$8.5 million in punitive damages to those 20 plaintiffs. Approximately \$6.2 million of the punitive damages awarded were assessed against CSXT. CSXT then filed post-trial motions for a new trial and for judgment notwithstanding the verdict as to the April 8 judgment.

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

OTHER MATTERS, Continued

New Orleans Tank Car Fire Litigation, Continued  
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The new trial motion was denied by the trial court in August 1999. On November 5, 1999, the trial court issued an opinion that granted CSXT's motion for judgment notwithstanding the verdict and effectively reduced the amount of the punitive damages verdict from \$2.5 billion to \$850 million. CSXT believes that this amount (or any amount of punitive damages) is unwarranted and intends to pursue its full appellate remedies with respect to the 1997 trial as well as the trial judge's decision on the motion for judgment notwithstanding the verdict. The compensatory damages awarded by the jury in the 1997 trial were also substantially reduced by the trial judge. A judgment reflecting the \$850 million punitive award has been entered against CSXT. CSXT has obtained and posted an appeal bond in the amount of \$895 million, which will allow it to appeal the 1997 compensatory and punitive awards, as reduced by the trial judge.

A trial for the claims of 20 additional plaintiffs for compensatory damages began on May 24, 1999. In July 1999, the jury in that trial rendered verdicts totaling approximately \$330 thousand in favor of eighteen of those twenty plaintiffs. Two plaintiffs received nothing; that is, the jury found that they

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had not proved any damages. Management believes that this result, while still excessive, supports CSXT's contention that the punitive damages award was unwarranted.

In 1999, six of the nine defendants in the case reached a tentative settlement with the plaintiffs group. The basis of that settlement is an agreement that all claims for compensatory and punitive damages against the six defendants would be compromised for the sum of \$215 million. That settlement was approved by the trial court in early 2000.

In 2000, the City of New Orleans was granted permission by the trial court to assert an amended claim against CSXT, including a newly asserted claim for punitive damages. The City's case was originally filed in 1988, and while based on the 1987 tank car fire, is not considered to be part of the class action.

Oral argument in the Louisiana Court of Appeals for the Fourth Circuit with regard to CSXT's appeal was held on January 12, 2001. A ruling is expected some time this year. Any review beyond that court is by discretionary writ.

CSXT continues to pursue an aggressive legal strategy. At the present time, management is not in a position to determine whether the resolution of this case will have a material adverse effect on the Company's financial position or results of operations in any future reporting period.

ECT Dispute

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Recently, CSX received a claim amounting to approximately \$180 million plus interest from Europe Container Terminals bv (ECT), owner of the Rotterdam Container Terminal previously operated by Sea-Land prior to its sale to Maersk in December 1999. ECT has claimed that the sale of the international liner business to Maersk resulted in a breach of the Sea-Land terminal agreements. ECT has refused to accept containers at the former Sea-Land facility tendered by Maersk and is seeking compensation from CSX relating to the alleged breach. CSX has advised Maersk that CSX holds them responsible for any damages that may arise from this case. Management's initial evaluation of the claim indicates that valid defenses exist, but at this point management cannot estimate what, if any, losses may result from this case.

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

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Estimates and forecasts in Management's Discussion and Analysis and in other sections of this Quarterly Report are based on many assumptions about complex economic and operating factors with respect to industry performance, general business and economic conditions and other matters that cannot be predicted accurately and that are subject to contingencies over which the company has no control. Such forward-looking statements are subject to uncertainties and other factors that may cause actual results to differ materially from the views, beliefs, and projections expressed in such statements. The words "believe", "expect", "anticipate", "project", and similar expressions signify forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of the company. Any such statement speaks only as of the date the statement was made. The company undertakes no obligation to update or revise any forward-looking statement.

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (i) costs and operating difficulties related to the integration of Conrail may not be eliminated or resolved within the time frame currently anticipated; (ii) revenue and cost synergies expected from the

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integration of Conrail may not be fully realized or realized within the timeframe anticipated; (iii) general economic or business conditions, either nationally or internationally, an increase in fuel prices, a tightening of the labor market or changes in demands of organized labor resulting in higher wages, or increased benefits or other costs or disruption of operations may adversely affect the businesses of the company; (iv) legislative or regulatory changes, including possible enactment of initiatives to reregulate the rail industry, may adversely affect the businesses of the company; (v) possible additional consolidation of the rail industry in the near future may adversely affect the operations and businesses of the company; and (vi) changes may occur in the securities and capital markets.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

Form 8-K filed on 1/31/01 to restate CSX Corporation's financial statements to reflect the sale of CTI Logistx as a discontinued operation.

Form 8-K filed on 3/12/01 to announce the public offering of \$500,000,000 aggregate principal amount of the Company's 6.75% Notes due 2011.

Signature

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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/ JAMES L. ROSS

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James L. Ross  
Vice President and Controller  
(Principal Accounting Officer)

Dated: May 2, 2001

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