

CSX CORP
Form 10-Q
July 15, 2009

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 26, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation or organization)

62-1051971

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

500 Water Street, 15th Floor,
Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip Code)

(Telephone number, including area code)

No Change

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

There were 392,190,182 shares of common stock outstanding on June 26, 2009 (the latest practicable date that is closest to the filing date).

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CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 26, 2009
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CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in Millions, Except Per Share Amounts)

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	Second Quarters		Six Months	
	2009	2008	2009	2008
Revenue	\$2,185	\$2,907	\$4,432	\$5,620
Expense				
Labor and Fringe	654	733	1,316	1,478
Materials, Supplies and Other	368	513	845	1,018
Fuel	185	537	376	978
Depreciation	229	227	453	449
Equipment and Other Rents	98	112	211	223
Inland Transportation	69	68	127	131
Total Expense	1,603	2,190	3,328	4,277
Operating Income	582	717	1,104	1,343
Interest Expense	(139)	(133)	(280)	(252)
Other Income - Net (Note 8)	10	17	13	89
Earnings From Continuing Operations				
Before Income Taxes	453	601	837	1,180
Income Tax Expense (Note 9)	(168)	(209)	(298)	(426)
Earnings From Continuing Operations	285	392	539	754
Discontinued Operations (Note 11)	23	(7)	15	(18)
Net Earnings	\$308	\$385	\$554	\$736
Per Common Share (Note 2)				
Net Earnings Per Share, Basic				
Continuing Operations	\$0.73	\$0.97	\$1.37	\$1.86
Discontinued Operations	0.06	(0.02)	0.04	(0.04)
Net Earnings	\$0.79	\$0.95	\$1.41	\$1.82
Net Earnings Per Share, Assuming Dilution				
Continuing Operations	\$0.72	\$0.95	\$1.36	\$1.82
Discontinued Operations	0.06	(0.02)	0.04	(0.04)
Net Earnings	\$0.78	\$0.93	\$1.40	\$1.78
Average Shares Outstanding (Thousands)	392,027	406,205	391,594	405,278
Average Shares Outstanding, Assuming Dilution (Thousands)	395,370	415,112	394,735	415,161
Cash Dividends Paid Per Common Share	\$0.22	\$0.18	\$0.44	\$0.33

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	(Unaudited) June 26, 2009	December 26, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$1,108	\$669
Short-term Investments	70	76
Accounts Receivable - Net (Note 1)	885	1,107
Materials and Supplies	254	217
Deferred Income Taxes	159	203
Other Current Assets	160	119
Total Current Assets	2,636	2,391
Properties	30,584	30,208
Accumulated Depreciation	(7,697)	(7,520)
Properties - Net	22,887	22,688
Investment in Conrail (Note 10)	622	609
Affiliates and Other Companies	405	406
Other Long-term Assets	185	194
Total Assets	\$26,735	\$26,288
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$904	\$973
Labor and Fringe Benefits Payable	349	465
Casualty, Environmental and Other Reserves (Note 4)	181	236
Current Maturities of Long-term Debt (Note 7)	318	319
Income and Other Taxes Payable	110	125
Other Current Liabilities	99	286
Total Current Liabilities	1,961	2,404
Casualty, Environmental and Other Reserves (Note 4)	579	643
Long-term Debt (Note 7)	7,933	7,512
Deferred Income Taxes	6,417	6,235
Other Long-term Liabilities	1,389	1,426
Total Liabilities	18,279	18,220
Common Stock \$1 Par Value	392	391

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Other Capital	29	-
Retained Earnings	8,757	8,398
Accumulated Other Comprehensive Loss (Note 1)	(735)	(741)
Noncontrolling Minority Interest	13	20
Total Shareholders' Equity	8,456	8,068
Total Liabilities and Shareholders' Equity	\$26,735	\$26,288

See accompanying notes to consolidated financial statements.

CSX CORPORATION
ITEM 1. FINANCIAL STATEMENTS

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

	Six Months	
	2009	2008
OPERATING ACTIVITIES		
Net Earnings	\$554	\$736
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	454	456
Deferred Income Taxes	212	201
Other Operating Activities	(172)	(30)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	202	(44)
Other Current Assets	(83)	(16)
Accounts Payable	(56)	35
Income and Other Taxes Payable	(13)	9
Other Current Liabilities	(117)	(4)
Net Cash Provided by Operating Activities	981	1,343
INVESTING ACTIVITIES		
Property Additions	(667)	(912)
Purchases of Short-term Investments	-	(25)
Proceeds from Sales of Short-term Investments	-	280
Other Investing Activities	49	(1)
Net Cash Used in Investing Activities	(618)	(658)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	500	1,000
Long-term Debt Repaid (Note 7)	(83)	(176)
Dividends Paid	(176)	(134)
Stock Options Exercised (Note 3)	12	65
Shares Repurchased	-	(453)
Other Financing Activities	(177)	43
Net Cash Provided by Financing Activities	76	345
Net Increase in Cash and Cash Equivalents	439	1,030
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	669	368
Cash and Cash Equivalents at End of Period	\$1,108	\$1,398

See accompanying notes to consolidated financial statements.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

CSX Corporation (“CSX”) together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation suppliers. The Company’s rail and intermodal businesses provide 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. CSX Intermodal, Inc. (“Intermodal”), one of the nation’s largest coast-to-coast intermodal transportation providers, is a stand-alone, integrated intermodal company linking customers to railroads via trucks and terminals.

Other entities

In addition to CSXT, the rail segment includes non-railroad subsidiaries Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. Technology and other support services are provided by CSX Technology and other subsidiaries.

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. In May 2009, CSX sold the stock of The Greenbrier Hotel Corporation, owner of The Greenbrier resort. For more information, see Note 11, Discontinued Operations.

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 26, 2009 and June 27, 2008;
- Consolidated balance sheets at June 26, 2009 and December 26, 2008; and
- Consolidated cash flow statements for the six months ended June 26, 2009 and June 27, 2008.

In addition, management has evaluated and disclosed all material events occurring subsequent to the date of the financial statements up to the date this quarterly report is filed on Form 10-Q.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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 accounting principles generally accepted in the United States of America 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, its subsequent Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Fiscal Year

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

- The second fiscal quarter of 2009 and 2008 consisted of 13 weeks ending on June 26, 2009 and June 27, 2008, respectively.
- The six month periods of 2009 and 2008 consisted of 26 weeks ending on June 26, 2009 and June 27, 2008, respectively.
 - Fiscal year 2008 consisted of 52 weeks ending on December 26, 2008.
 - Fiscal year 2009 will consist of 52 weeks ending on December 25, 2009.

Except as otherwise specified, references to “second quarter(s)” or “six months” indicate CSX’s fiscal periods ending June 26, 2009 or June 27, 2008, and references to year-end indicate the fiscal year ended December 26, 2008.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Comprehensive Earnings

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 (i.e., 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 related tax effects and were \$314 million and \$387 million for second quarters 2009 and 2008, respectively, and \$560 million and \$740 million for six months 2009 and 2008, 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 specifically the cumulative balance related to the pension and other post-retirement adjustments and reduced overall equity by \$735 million and \$741 million as of June 2009 and December 2008, respectively.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible accounts related to freight receivables, public projects (work done by CSX on behalf of a government agency), claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$60 million and \$70 million is included in the Consolidated Balance Sheets as of June 2009 and December 2008.

New Accounting Pronouncements and Changes in Accounting Policy

In 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 160, Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51 ("SFAS 160"). This statement requires that noncontrolling minority interests should be reported as equity instead of a liability on the balance sheet. Additionally, it requires disclosure of consolidated net income attributable to the parent and to the noncontrolling interest on the face of the income statement. CSX has noncontrolling minority interests primarily in its investments in Four Rivers Transportation Inc. and The Indiana Rail Road Company. For CSX, SFAS 160 is effective beginning fiscal year 2009 and resulted in a \$20 million reclassification of noncontrolling minority interests from other long-term liabilities to shareholders' equity on the December 2008 consolidated balance sheet. Noncontrolling minority interest expense is included in other income in the consolidated income statements and is not material to CSX. Therefore, the Company did not present income attributable to non-controlling interests separately in the consolidated income statements.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments and APB Opinion No. 28, Interim Financial Reporting, to require disclosures about fair value of financial instruments in quarterly reports as well as in annual reports, as previously required. For CSX, this statement applies to certain investments and long-term debt and is effective beginning second quarter 2009. (See Note 12, Fair Value Measurements.)

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	
	2009	2008	2009	2008
Numerator (Dollars in millions):				
Earnings from Continuing Operations	\$285	\$392	\$539	\$754
Interest Expense on Convertible Debt - Net of Tax	-	-	-	1
Earnings from Continuing Operations, If Converted	285	392	539	755
Discontinued Operations - Net of Tax (a)	23	(7)	15	(18)
Net Earnings, If Converted	308	385	554	737
Interest Expense on Convertible Debt - Net of Tax	-	-	-	(1)
Net Earnings	\$308	\$385	\$554	\$736
Denominator (Units in thousands):				
Average Common Shares Outstanding	392,027	406,205	391,594	405,278
Convertible Debt	1,118	3,729	1,118	4,723
Stock Option Common Stock Equivalents (b)	1,989	4,170	1,906	4,266
Other Potentially Dilutive Common Shares	236	1,008	117	894
Average Common Shares Outstanding, Assuming Dilution	395,370	415,112	394,735	415,161
Net Earnings Per Share, Basic:				
Continuing Operations	\$0.73	\$0.97	\$1.37	\$1.86
Discontinued Operations	0.06	(0.02)	0.04	(0.04)
Net Earnings	\$0.79	\$0.95	\$1.41	\$1.82
Net Earnings Per Share, Assuming Dilution:				
Continuing Operations	\$0.72	\$0.95	\$1.36	\$1.82
Discontinued Operations	0.06	(0.02)	0.04	(0.04)
Net Earnings	\$0.78	\$0.93	\$1.40	\$1.78

- (a) For additional information regarding discontinued operations, see Note 11, Discontinued Operations.
- (b) In calculating diluted earnings per share, SFAS 128, Earnings Per Share requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. This number is different from outstanding stock options, which is included in Note 3, Share-Based Compensation. All stock options were dilutive for the periods presented; therefore no stock options were excluded from the diluted earnings per share calculation.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, continued

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

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

EITF 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings Per Share, requires CSX to include additional shares in the computation of earnings per share, assuming dilution. The amount, included in diluted earnings per share, represents the number of shares that would be issued if all of CSX's outstanding convertible debentures were converted into CSX common stock.

As a result, diluted shares outstanding are not impacted when debentures are converted into CSX common stock because those shares were already included in the diluted shares calculation. Shares outstanding for basic earnings per share, however, are impacted on a weighted average basis when conversions occur. During second quarter 2008, \$102 million of face value of convertible debentures were converted into 4 million shares of CSX common stock. There were no conversions of convertible debentures during 2009. As of June 2009, approximately \$32 million of convertible debentures at face value remained outstanding, which are convertible into approximately 1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

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

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

(Dollars in millions)	Second Quarters		Six Months	
	2009	2008	2009	2008
Share-Based Compensation Expense (a)	\$11	\$10	\$3	\$24
Income Tax Benefit	(4)	(4)	(1)	