CSX CORP
Form 10-Q
October 15, 2008

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

FORM 10-Q

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

For the quarterly period ended September 26, 2008

OR

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

For the transition period from __________ to __________

Commission File Number 1-8022

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

Virginia (State or other jurisdiction of incorporation or organization)	62-1051971 (I.R.S. Employer Identification No.)

500 Water Street, 15th Floor, Jacksonville, FL	32202	(904) 359-3200
(Address of principal executive offices)	(Zip Code)	(Telephone number, including area code)

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

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

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

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)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, September 26, 2008: 394,469,360 shares.

CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 26, 2008
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CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS (Unaudited)
(Dollars in Millions, Except Per Share Amounts)

	Third Quarters		Nine Months	
	2008	2007	2008	2007
Operating Revenue	$2,961	$2,501	$8,581	$7,453
Operating Expense:				
Labor and Fringe	754	748	2,232	2,225
Materials, Supplies and Other	568	471	1,586	1,462
Fuel	508	330	1,486	930
Depreciation	227	220	676	663
Equipment and Other Rents	106	114	329	341
Inland Transportation	65	60	196	177
Total Operating Expense	2,228	1,943	6,505	5,798
Operating Income	733	558	2,076	1,655
Other Income and Expense				
Other Income (Expense) - Net (Note 9)	8	14	69	9
Interest Expense	(131)	(102)	(383)	(302)
Earnings from Continuing Operations before Income Taxes	610	470	1,762	1,362
Income Tax Expense (Note 8)	(228)	(173)	(644)	(501)
Earnings from Continuing Operations	382	297	1,118	861
Discontinued Operations (Note 8)	-	110	-	110
Net Earnings	$382	$407	$1,118	$971
Per Common Share (Note 2)				
Basic Earnings Per Share				
From Continuing Operations	$0.95	$0.69	$2.77	$1.98
Discontinued Operations	-	0.25	-	0.25
Net Earnings	$0.95	$0.94	$2.77	$2.23
Earnings Per Share, Assuming Dilution				
From Continuing Operations	$0.94	$0.67	$2.71	$1.89
Discontinued Operations	-	0.24	-	0.24
Net Earnings	$0.94	$0.91	$2.71	$2.13
Average Common Shares Outstanding (Thousands)	402,169	432,529	404,196	436,265
Average Common Shares Outstanding,				

Assuming Dilution (Thousands)	408,468	445,548	412,914	455,882
Cash Dividends Paid Per Common Share	$0.22	$0.15	$0.55	$0.39

See accompanying notes to Consolidated Financial Statements.

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CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	(Unaudited) September 26, 2008	December 28, 2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$895	$368
Short-term Investments	76	346
Accounts Receivable, net of allowance for doubtful accounts of $72 and $74, respectively	1,249	1,174
Materials and Supplies	251	240
Deferred Income Taxes	205	254
Other Current Assets	75	109
Total Current Assets	2,751	2,491
Properties	30,163	28,999
Accumulated Depreciation	(7,576)	(7,219)
Properties - Net	22,587	21,780
Investment in Conrail (Note 12)	647	639
Affiliates and Other Companies	401	365
Other Long-term Assets	251	259
Total Assets	$26,637	$25,534
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$1,087	$976
Labor and Fringe Benefits Payable	495	461
Casualty, Environmental and Other Reserves (Note 4)	248	247
Current Maturities of Long-term Debt (Note 6)	539	783
Short-term Debt	4	4
Income and Other Taxes Payable	133	113
Other Current Liabilities	323	87
Total Current Liabilities	2,829	2,671
Casualty, Environmental and Other Reserves (Note 4)	610	624
Long-term Debt (Note 6)	7,367	6,470
Deferred Income Taxes	6,383	6,096
Other Long-term Liabilities	875	988
Total Liabilities	18,064	16,849

Shareholders' Equity:		
Common Stock, $1 Par Value	394	408
Other Capital	-	37
Retained Earnings (Note 1)	8,499	8,565
Accumulated Other Comprehensive Loss (Note 1)	(320)	(325)
Total Shareholders' Equity	8,573	8,685
Total Liabilities and Shareholders' Equity	$26,637	$25,534

See accompanying notes to Consolidated Financial Statements.

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

	Nine Months 2008	Nine Months 2007
OPERATING ACTIVITIES		
Net Earnings	$1,118	$971
Adjustments to Reconcile Net Earnings to Net Cash Provided:		
Depreciation	686	666
Deferred Income Taxes	356	154
Non-cash Discontinued Operations	-	(110)
Other Operating Activities	(64)	6
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(76)	(17)
Other Current Assets	(4)	(54)
Accounts Payable	86	64
Income and Other Taxes Payable	54	153
Other Current Liabilities	35	(15)
Net Cash Provided by Operating Activities	2,191	1,818
INVESTING ACTIVITIES		
Property Additions	(1,308)	(1,195)
Purchases of Short-term Investments	(25)	(2,035)
Proceeds from Sales of Short-term Investments	280	1,914
Other Investing Activities	27	3
Net Cash Used in Investing Activities	(1,026)	(1,313)
FINANCING ACTIVITIES		
Short-term Debt - Net	-	(1)
Long-term Debt Issued (Note 6)	1,000	2,000
Long-term Debt Repaid (Note 6)	(220)	(714)
Dividends Paid	(222)	(170)
Stock Options Exercised (Note 3)	75	144
Shares Repurchased (Note 1)	(1,307)	(1,609)
Other Financing Activities	36	44
Net Cash Used in Financing Activities	(638)	(306)
Net Increase in Cash and Cash Equivalents	527	199
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	368	461
Cash and Cash Equivalents at End of Period	$895	$660

See accompanying notes to Consolidated Financial Statements.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. 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'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 company, CSX Transportation, Inc. ("CSXT"), provides a crucial 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 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, and CSX Hotels, Inc., a resort doing business as The Greenbrier, located in White Sulphur Springs, West Virginia.

Basis of Presentation

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

- Consolidated income statements for the quarters and nine months ended September 26, 2008 and September 28, 2007;
- Consolidated balance sheets at September 26, 2008 and December 28, 2007; and
- Consolidated cash flow statements for the nine months ended September 26, 2008 and September 28, 2007.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Significant Accounting Policies, continued

Beginning in 2008, certain items have been reclassified within the income statement. These reclassifications include reclassifying all items within other operating income and certain items within other income into the Rail segment. As a result of this change, CSX consolidated operating income and Surface Transportation operating income are now the same; therefore, the Company no longer reports separate Surface Transportation results. The Rail segment was not materially impacted by these reclassifications.

Additionally, beginning in 2008 the Company reclassified all non-locomotive fuel related costs previously included in materials, supplies and other into fuel on the Company's consolidated income statement so that it now includes all fuel used for operations and maintenance. These amounts were $39 million and $25 million for third quarters 2008 and 2007, respectively, and $114 million and $77 million for nine months 2008 and 2007, respectively. Certain other prior-year data have been reclassified to conform to the 2008 presentation.

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 most recent 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 third fiscal quarters of 2008 and 2007 consisted of 13 weeks ending on September 26, 2008 and September 28, 2007, respectively.

- The nine month periods of 2008 and 2007 consisted of 39 weeks ending on September 26, 2008 and September 28, 2007, respectively.

Except as otherwise specified, references to "third quarter(s)" or "nine months" indicate CSX's fiscal periods ending September 26, 2008 or September 28, 2007, and references to year-end indicate the fiscal year ending December 28, 2007.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. 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 distribution of dividends). Generally, for CSX, that calculation is net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represents the activity in a period and was $383 million and $414 million for third quarters 2008 and 2007, respectively, and $1.1 billion and $987 million for nine months 2008 and 2007, 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, 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 $320 million and $325 million as of September 2008 and December 2007, respectively.

Share Repurchases

In March 2008, CSX announced additional share repurchase authority of approximately $2.4 billion. This is in addition to the remaining share repurchase authority under the 2007 program of approximately $600 million for a new combined total of $3 billion. CSX intends to complete all authorized share repurchases by year-end 2009. While it is not the Company’s intention, the program could be suspended or discontinued at any time, based on market, economic or business conditions. The timing and amount of repurchase transactions will be determined by CSX’s management based on its evaluation of market conditions, share price and other factors.

Cumulatively since 2006 under various publicly announced repurchase programs, CSX has repurchased approximately $3.9 billion of its outstanding common stock through the third quarter of 2008. These repurchases, along with the remaining $2.0 billion available under the authority granted in March 2008, equal nearly $6 billion of CSX common stock expected to be repurchased through 2009.

Total share repurchases under all publicly announced plans were as follows:

	Third Quarters		Nine Months	
(In Millions)	2008	2007	2008	2007
Number of Shares Repurchased	14	21	24	38
Value of Shares Repurchased(a)	$836	$882	$1,287	$1,609

(a) The difference between shares repurchased on the cash flow statement for nine months 2008 of $1,307 million versus the $1,287 million noted in the table above is $20 million of shares repurchased to fund the Company’s contribution to a 401(k) plan that covers certain union employees.

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CSX CORPORATION
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NOTE 1. Significant Accounting Policies, continued

Retained Earnings

During nine months 2008, CSX's other capital balance was reduced to zero as a result of share repurchases. As noted in Accounting Principles Board ("APB") Opinion 6, Status of Accounting Research Bulletins, CSX's other capital balance cannot be negative. As a result, retained earnings was reduced by $963 million during nine months 2008, which represented share repurchases occurring after the other capital balance had been reduced to zero. Generally, retained earnings is only impacted by net earnings and dividends.

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CSX CORPORATION
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NOTE 2. Earnings Per Share

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

	Third Quarters 2008	Third Quarters 2007	Nine Months 2008	Nine Months 2007
Numerator (Millions):				
Net Earnings	$382	$297	$1,118	$861
Interest Expense on Convertible Debt - Net of Tax	-	-	1	2
Net Earnings from Continuing Operations, If-Converted	382	297	1,119	863
Discontinued Operations - Net of Tax (a)	-	110	-	110
Net Earnings, If-Converted	382	407	1,119	973
Interest Expense on Convertible Debt - Net of Tax	-	-	(1)	(2)
Net Earnings	$382	$407	$1,118	$971
Denominator (Thousands):				
Average Common Shares Outstanding	402,169	432,529	404,196	436,265
Convertible Debt	1,390	6,547	3,612	13,238
Stock Option Common Stock Equivalents (b)	3,634	4,722	4,055	5,171
Other Potentially Dilutive Common Shares	1,275	1,750	1,051	1,208
Average Common Shares Outstanding, Assuming Dilution	408,468	445,548	412,914	455,882
Basic Earnings Per Share:				
Income from Continuing Operations	$0.95	$0.69	$2.77	$1.98
Discontinued Operations (a)	-	0.25	-	0.25
Net Earnings	$0.95	$0.94	$2.77	$2.23
Earnings Per Share, Assuming Dilution:				
Income from Continuing Operations	$0.94	$0.67	$2.71	$1.89
Discontinued Operations (a)	-	0.24	-	0.24
Net Earnings	$0.94	$0.91	$2.71	$2.13

(a) For additional information regarding discontinued operations, see Note 8, Income Taxes.

(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.

Basic earnings per share is based upon 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 unvested restricted stock and long-term incentive awards.

Emerging Issues Task Force (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.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2. Earnings Per Share, continued

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 when conversions occur on a weighted average basis. During third quarters 2008 and 2007, $15 million and $37 million, respectively, of face value of convertible debentures were converted into approximately 530,000 and 1.3 million shares of CSX common stock, respectively. As of September 2008, $32 million of convertible debentures at face value remained outstanding, convertible into 1.1 million shares of CSX common stock.

NOTE 3. Share-Based Compensation

CSX share-based compensation plans primarily include long-term incentive plans, 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.

On May 6, 2008, 340,000 target performance units were granted to certain layers of management under a new long-term incentive plan adopted under the CSX Omnibus Incentive Plan. The payout range for participants will be between 0% and 200% of the original target grant based upon CSX's attainment of pre-established operating ratio targets for fiscal year 2010. This plan provides for a three-year cycle ending in fiscal year 2010. Similar to the two existing plans, the financial target upon which payments are based is operating ratio, which is defined as operating expenses divided by operating revenue and is calculated excluding certain non-recurring items. Target grants were made in performance units, with each unit being equivalent to one share of CSX stock, and payouts will be made in CSX common stock. Payouts to certain senior executive officers are subject to a reduction of up to 30% at the discretion of the Compensation Committee of the Board of Directors based upon Company performance against certain CSX strategic initiatives.

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

	Third Quarters		Nine Months	
(Dollars in Millions)	2008	2007	2008	2007
Share-Based Compensation Expense	$24	$14	$48	$45
Income Tax Benefit	9	5	18	17

The following table provides information about stock options exercised.

	Third Quarters		Nine Months	
(In Thousands)	2008	2007	2008	2007
Number of Stock Options Exercised	521	732	3,940	7,206

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NOTE 3. Share-Based Compensation, continued

As of May 2008, all options are vested and therefore there will be no future expense related to these options. As of September 2008, CSX had approximately 8 million stock options outstanding.

NOTE 4. Casualty, Environmental and Other Reserves

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

	September 26, 2008			December 28, 2007		
(Dollars in Millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	$113	$244	$357	$113	$225	$338
Occupational	36	164	200	44	164	208
Total Casualty	149	408	557	157	389	546
Separation	16	77	93	16	87	103
Environmental	42	56	98	42	58	100
Other	41	69	110	32	90	122
Total	$248	$610	$858	$247	$624	$871

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

Casualty

Casualty reserves represent accruals for personal injury and occupational injury claims. Currently, no individual claim is expected to exceed the Company's self-insured retention amount. 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. Personal injury and occupational claims are presented on a gross basis and in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"). These reserves fluctuate based upon changes in estimates and the timing of payments. Most of the claims were related to CSXT unless otherwise noted.

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NOTE 4. Casualty, Environmental and Other Reserves, continued

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. The Company is presently self-insured up to $25 million per injury for personal injury and occupational-related claims.

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.

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

Occupational

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

An analysis is performed semi-annually. The methodology used includes an estimate of future anticipated claims based on the Company's trends in average historical claim filing rates, future anticipated dismissal rates and settlement rates.

Separation

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

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Environmental

The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings, involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 247 environmentally impaired sites. Many of those are, or may be, subject to remedial action under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. However, a number of these proceedings are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

In accordance with Statement of Position 96-1, Environmental Remediation Liabilities, the Company reviews its role with respect to each site identified at least once a quarter. Based on the review process, the Company has recorded amounts to cover anticipated contingent future environmental remediation costs with respect to each site to the extent such costs are estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted and include amounts representing the Company's estimate of unasserted claims, which the Company believes to be immaterial. 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.

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

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 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 fund remedial actions to comply with present laws and regulations, and that the ultimate liability for these matters, if any, will not materially affect its overall results of operations, financial condition or liquidity.

Other

Other reserves include liabilities for various claims, such as longshoremen disability claims, freight claims and claims for property, automobile and general liability. These liabilities are accrued at the estimable and probable amount in accordance with SFAS 5.

NOTE 5. Commitments and Contingencies

Purchase Commitments

CSXT has a commitment under a long-term maintenance program that currently covers 47% of CSXT's fleet of locomotives. The agreement is based upon the maintenance cycle for each locomotive. Under CSXT's current obligations, the agreement expires no earlier than 2028 and may last until 2031 depending upon when certain locomotives are placed in service. The costs expected to be incurred throughout the duration of the agreement fluctuate as locomotives are placed into, or removed from, service or as required maintenance schedules are revised. CSXT may terminate the agreement at its option after 2012, although such action would trigger significant liquidated damages provisions.

The following table summarizes CSXT's payments under the long-term maintenance program:

	Third Quarters		Nine Months	
(Dollars in Millions)	2008	2007	2008	2007
Amounts Paid	$64	$57	$189	$158

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CSX CORPORATION
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NOTE 5. Commitments and Contingencies, continued

Insurance

The Company maintains numerous insurance programs, most notably for third-party casualty liability and for Company property damage and business interruption, with substantial limits. A certain amount of risk is retained by the Company on each of the casualty and property programs. Specifically, the Company has a $25 million deductible for each of the casualty and non-catastrophic property programs and a $50 million deductible for the catastrophic property program. These deductibles only apply to the first event. If a property or liability event occurs in excess of the Company's deductible and the Company does not elect to purchase additional insurance coverage, then the deductible for the second covered event will equal the amount of the claim in the first event. For information on insurance issues resulting from the effects of Hurricane Katrina on the Company's operations and assets, see Note 7, Hurricane Katrina.

Guarantees

CSX and certain of its subsidiaries are contingently liable, individually and jointly with others, as guarantors of approximately $58 million in obligations principally relating to leased equipment, vessels and joint facilities used by the Company in its current and former business operations. Utilizing the Company's guarantee for these obligations allows the obligor to take advantage of lower interest rates and obtain other favorable terms. Guarantees are contingent commitments issued by the Company that could require CSX or one of its affiliates to make payment to, or to perform certain actions for, the beneficiary of the guarantee based on another entity's failure to perform.

As of third quarter 2008, the Company's guarantees primarily related to the following:

- Guarantee of approximately $50 million of obligations of a former subsidiary, CSX Energy, in connection with a sale-leaseback transaction. CSX is, in turn, indemnified by several subsequent owners of the subsidiary against payments made with respect to this guarantee. Management does not expect that CSX will be required to make any payments under this guarantee for which CSX will not be reimbursed. CSX's obligation under this guarantee will be completed in 2012.

- Guarantee of approximately $8 million of lease commitments assumed by A.P. Moller-Maersk ("Maersk") for which CSX is contingently liable. CSX believes Maersk will fulfill its contractual commitments with respect to such lease commitments, and CSX will have no further liabilities for those obligations. CSX's obligation under this guarantee will be completed in 2011.

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CSX CORPORATION
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NOTE 5. Commitments and Contingencies, continued

As of third quarter 2008, the Company has not recognized any liabilities in its financial statements in connection with any guarantee arrangements. The maximum amount of future payments the Company could be required to make under these guarantees is the sum of the guaranteed amounts.

Fuel Surcharge Antitrust Litigation

Since May 2007, at least 30 putative class action suits have been filed in various federal district courts against CSXT and three other U.S.-based Class I railroads. The lawsuits contain substantially similar allegations to the effect that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. The suits seek unquantified treble damages (three times the amount of actual damages) allegedly sustained by purported class members, attorneys' fees and other relief. All but three of the lawsuits purport to be filed on behalf of a class of shippers that allegedly purchased rail freight transportation services from the defendants through the use of contracts or through other means exempt from rate regulation during defined periods commencing as early as June 2003 and that were assessed fuel surcharges. Three of the lawsuits purport to be on behalf of indirect purchasers of rail services.

The class action suits have been consolidated in federal district court in the District of Columbia. The defendants filed a Motion to Dismiss and oral arguments were heard on October 10, 2008. The Court is expected to rule on the Motion to Dismiss within the next six months. The Court granted the defendants' Motion for Protective Order, holding that no discovery should take place until after the Motion to Dismiss is decided.

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

In July 2007, CSXT received a grand jury subpoena from the New Jersey Office of the Attorney General seeking information related to the same fuel surcharges that are the subject of the civil actions. In July 2008, the New Jersey Office of the Attorney General formally notified CSXT that it had decided not to proceed with its investigation at this time. It is possible that the New Jersey Attorney General could reopen the investigation or that other federal or state agencies could initiate investigations into similar matters.

CSX CORPORATION
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NOTE 5. Commitments and Contingencies, continued

CSXT believes that its fuel surcharge practices are lawful. Accordingly, CSXT intends to vigorously defend itself against the purported class actions, which it believes are without merit. CSXT cannot predict the outcome of the private lawsuits, which are in their preliminary stages, or of any government investigations, charges or additional litigation that may be filed in the future. Penalties for violating antitrust laws can be severe, involving both potential criminal and civil liability. CSXT is unable to assess at this time the possible financial impact of this litigation. CSXT has not accrued any liability for an adverse outcome in the litigation. If a material adverse outcome were to occur and be sustained, it could have a material adverse impact on the Company's results of operations, financial condition or liquidity.

STB Rate Case

On October 3, 2008, Seminole Electric Cooperative, Inc. ("Seminole") filed a complaint before the U.S. Surface Transportation Board ("STB") against CSXT. CSXT and Seminole are parties to an existing railroad transportation contract that is set to expire on December 31, 2008. Seminole is contesting tariff rates that, absent a new or extended contract, could apply commencing January 1, 2009 for movements of coal to its existing and planned facilities. Because of the preliminary nature of this case, CSXT is not able to assess at this time the possible financial impact of the STB proceeding. However, the Company will continue to consider and pursue all available legal defenses in this matter.

Other Legal Proceedings

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

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NOTE 6. Debt and Credit Agreements

Total activity related to long-term debt for nine months 2008 was as follows:

(Dollars in Millions)	Current Portion	Long-term Portion	Total Long-term Debt Activity
Total long-term debt at December 28, 2007	$783	$6,470	$7,253
2008 activity:			
Issued	-	1,000	1,000
Repaid	(220)	-	(220)
Reclassifications	99	(99)	-
Converted into CSX stock	(142)	-	(142)
Discount amortization and other	19	(4)	15
Total long-term debt at September 26, 2008	$539	$7,367	$7,906

Revolving Credit Facility

CSX has a $1.25 billion unsecured revolving credit facility with a diverse portfolio of banks. As of September 2008, this facility was not drawn on, and CSX was in compliance with all covenant requirements under the facility. This facility expires in 2012.

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NOTE 7. Hurricane Katrina

In August 2005, Hurricane Katrina caused extensive damage to Company assets on the Gulf Coast, including damage to track infrastructure and bridges. Operations were returned to pre-hurricane conditions by the end of first quarter 2006. In 2005, the Company had insurance coverage of $535 million, after a $25 million deductible (per occurrence), for fixed asset replacement, incremental expenses, and lost profits. Management’s loss estimate has been updated to be $445 million. During the quarter, the Company submitted final proofs of loss to its insurance and reinsurance carriers. Through September 2008, the Company had collected insurance payments of $373 million.

In May 2008, the Company filed a lawsuit in federal court against a number of companies that provide insurance and reinsurance coverage to the Company. The insurance companies have refused to cover certain losses totaling approximately $50 million that the Company has incurred as a result of Hurricane Katrina and which the Company believes are covered by the policies at issue. The specific claims relate to lost profits following the storm, costs associated with replacing two diesel locomotives and claims adjustment expenses. The Company has asked the court to determine whether its damages are covered by the policies. If the Company prevails, a separate proceeding will determine the amount of the Company’s recovery. The Company will not recognize gains related to these disputed amounts until they are resolved by the courts.

Gains on insurance from claims related to Hurricane Katrina are attributable to recovering amounts in excess of the net book value of damaged fixed assets and to recording recoveries related to lost profits. These gains, which are included in materials, supplies and other, were as follows:

	Third Quarters		Nine Months	
(Dollars in Millions)	2008	2007	2008	2007
Gain on Insurance Recoveries	$-	$1	$5	$19

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NOTE 8. Income Taxes

As of September 2008 and December 2007, the Company had approximately $59 million and $58 million, respectively, of total unrecognized tax benefits. After consideration of the impact of federal tax benefits, $51 million and $50 million, respectively, could favorably affect the effective income tax rate. The Company estimates that approximately $17 million of the net unrecognized tax benefits as of September 2008 for various state and federal income tax matters will be resolved over the next 12 months. Approximately $9 million of this total would be closed upon the expiration of statutes. The final outcome of the remaining uncertain tax positions, however, is not yet determinable.

During 2008, the Internal Revenue Service (“IRS”) completed its examination of tax years 2004 through 2006. The Company has appealed a tax adjustment proposed by the IRS with respect to these tax years of which the amount is included in the uncertain tax positions above. This appeals process is expected to last more than one year. The IRS began its examination of the 2007 tax year during third quarter 2008. All other federal prior tax year audits are settled.

In third quarter 2007, the IRS completed its review of the Company’s pre-filing agreement, which is an early review of specific transactions. The Company recorded an income tax benefit of $110 million in third quarter 2007, primarily associated with the resolution of income tax matters related to former activities of the container shipping and marine service businesses. This third quarter benefit is recorded as discontinued operations as the Company no longer operates in these businesses. This benefit is associated with tax basis adjustments, foreign dividends and foreign tax credits from operations over a multi-year period.

CSX’s continuing practice is to recognize net interest and penalties related to income tax matters in income tax expense. As of September 2008 and December 2007, the Company had a $2 million payable and a $4 million payable, respectively, accrued for interest and penalties.

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NOTE 9. Other Income (Expense) – Net

Other Income (Expense) – Net consists of the following:

	Third Quarters		Nine Months	
(Dollars in Millions)	2008	2007	2008	2007
Interest Income(a)	$10	$13	$31	$41
Income (Expense) from Real Estate and Resort Operations(b)	6	5	11	(9)
Miscellaneous(c)	(8)	(4)	27	(23)
Total Other Income (Expense) - Net	$8	$14	$69	$9

(a) Interest income includes amounts earned from CSX's cash, cash equivalents and investments.

(b) Income from real estate and resort operations includes the results of operations of the Company's real estate sales, leasing, acquisition and management and development activities as well as the results of operations from CSX Hotels, Inc., a resort doing business as The Greenbrier, located in White Sulphur Springs, West Virginia. Income from real estate may fluctuate as a function of timing of real estate sales. Results from resort operations were down in 2008 because of decreased group business resulting from the uncertainty of labor negotiations, and an inability to sufficiently reduce contractual labor costs accordingly.

(c) Miscellaneous income is comprised of equity earnings, minority interest, investment gains and losses and other non-operating activities. In first quarter 2008, CSX recorded a non-cash adjustment to correct equity earnings from a non-consolidated subsidiary. This correction resulted in additional income of $30 million. The impact of this adjustment is expected to be immaterial in future reporting periods.

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NOTE 10. Business Segments

The Company's consolidated operating income results are comprised of two business segments: Rail and Intermodal. The Rail segment provides rail freight transportation over a network of approximately 21,000 route miles in 23 states, the District of Columbia and the Canadian provinces of Ontario and Quebec. The Intermodal segment provides integrated rail and truck transportation services and operates a network of dedicated intermodal facilities across North America. These segments are strategic business units that offer different services and are managed separately. Performance is evaluated and resources are allocated based on several factors, of which the principal financial measures are business segment operating income and operating ratio. The accounting policies of the segments are the same as those described in Note 1, Nature of Operations and Significant Accounting Policies, in CSX's most recent Annual Report on Form 10-K.

Certain segment information has been reclassified to conform to current year presentation. See Note 1, Significant Accounting Policies, for further details. Business segment information for third quarters 2008 and 2007 is as follows:

(Dollars in Millions)	Rail(a)	Intermodal	Total Operating
Third Quarter - 2008			
Revenues from External Customers	$2,562	$399	$2,961
Segment Operating Income	636	97	733
Third Quarter - 2007			
Revenues from External Customers	$2,164	$337	$2,501
Segment Operating Income	495	63	558
Nine Months - 2008			
Revenues from External Customers	$7,449	$1,132	$8,581
Segment Operating Income	1,842	234	2,076
Nine Months - 2007			
Revenues from External Customers	$6,455	$998	$7,453
Segment Operating Income	1,472	183	1,655

(a) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as TDSI, Transflo, CSX Technology and other subsidiaries.

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NOTE 11. Employee Benefit Plans

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

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

The following table describes the components of expense/(income) related to net periodic benefit cost:

	Pension Benefits			
(Dollars in Millions)	Third Quarters		Nine Months	
	2008	2007	2008	2007
Service Cost	$8	$8	$25	$25
Interest Cost	29	29	89	86
Expected Return on Plan Assets	(36)	(29)	(108)	(88)
Amortization of Prior Service Cost	1	1	2	3
Amortization of Net Loss	6	8	17	23
Net Periodic Benefit Cost	$8	$17	$25	$49

	Other Post-retirement Benefits			
(Dollars in Millions)	Third Quarters		Nine Months	
	2008	2007	2008	2007
Service Cost	$2	$2	$5	$5
Interest Cost	5	5	15	15
Amortization of Prior Service Cost	-	(1)	(1)	(4)
Amortization of Net Loss	-	1	2	3
Net Periodic Benefit Cost	$7	$7	$21	$19

During nine months 2008, the Company made total contributions of approximately $51 million to its defined benefit plans.

In accordance with the Pension Protection Act of 2006 ("the Act"), companies are required to be 94% funded for their outstanding qualified pension obligations as of January 1, 2009 in order to avoid a scheduled series of required annual contributions to reach 100% funding over seven years. As of December 2007, qualified pension liabilities were nearly fully funded; however, recent market volatility and overall investment losses of pension assets for 2008, make it likely that CSX will need to make additional contributions to maintain at least a 94% funding target. Offsetting this investment loss activity for 2008 is an expected increase in discount rates that will reduce measured liabilities and thus mitigate the underfunded amount. Discount rates affect the amount of liability that will be effectively settled and for CSX are determined based on a hypothetical portfolio of high quality bonds.

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CSX CORPORATION
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NOTE 11. Employee Benefit Plans, continued

Because asset values and discount rates that will apply cannot be accurately measured at this time, the amount of contributions that would be required to reach minimum targeted levels is not yet determinable. If the Company were to estimate a funding amount based on the value of pension assets and interest rates as of October 7, 2008, the estimated additional after tax contribution needed to reach 94% funding would be approximately $200 million. The Company would have until September 2009 to make this additional contribution and believes it could be funded using ongoing cash from operations. Separate from these funding estimates, as of the end of 2008, the Company also will re-measure its assets and liabilities as required annually by accounting rules which will determine expense levels going forward. Because of the complexity of actuarial calculations, the change in expense for 2009 is not yet determinable.

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NOTE 12. Related Party Transactions

Through a limited liability company, CSX and Norfolk Southern Corporation ("NS") jointly own Conrail Inc. ("Conrail"). CSX has a 42% economic interest and 50% voting interest in the jointly-owned entity, and NS has the remainder of the economic and voting interests. Pursuant to APB Opinion 18, The Equity Method of Accounting for Investments in Common Stock, CSX applies the equity method of accounting to its investment in Conrail. Conrail's equity earnings are included in materials, supplies and other in the consolidated income statements.

Conrail owns and operates rail infrastructure for the joint benefit of CSX and NS. This is known as the shared asset area. Conrail charges fees for right-of way usage, equipment rentals and transportation, switching and terminal service charges in the shared asset area. Historically, these expenses were included as an expense category called Conrail rents, fees and services, in the consolidated income statements. Beginning in 2007, these amounts have been included in materials, supplies and other on the consolidated income statements.

As required by SFAS 57, Related Party Disclosures, the Company has identified below amounts owed to Conrail, or its affiliates, representing liabilities under operating, equipment and shared area agreements with Conrail. The Company also executed two promissory notes with a subsidiary of Conrail which are included in long-term debt on the consolidated balance sheets.

(Dollars in Millions)	September 26, 2008	December 28, 2007
Balance Sheet Information:		
CSX Payable to Conrail (a)	$71	$49
Promissory Notes Payable to Conrail Subsidiary		
4.40% CSX Promissory Note due October 2035 (b)	$73	$73
4.52% CSXT Promissory Note due March 2035 (b)	$23	$23

(a) Included on the consolidated balance sheet of CSX as accounts payable because it is short term in nature.
(b) Included on the consolidated balance sheet of CSX as long-term debt.

Interest expense from the promissory notes with a subsidiary of Conrail and Conrail rents, fees, and services expense was as follows:

	Third Quarters		Nine Months	
(Dollars in Millions)	2008	2007	2008	2007
Income Statement Information:				
Interest Expense Related to Conrail	$1	$1	$3	$3
Conrail Rents, Fees and Services (a)	$31	$26	$84	$72

(a) The amounts disclosed above do not include CSX's 42% portion of Conrail's earnings, which are also included in materials, supplies and other and amounted to $5 million and $7 million for third quarters 2008 and 2007, respectively, and $15 million and $13 million for nine months 2008 and 2007, respectively.

Additional information about the investment in Conrail is included in CSX's most recent Annual Report on Form 10-K.

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CSX CORPORATION
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NOTE 13. Summarized Consolidating Financial Data

In 2007, CSXT sold $381 million of Secured Equipment Notes due 2023 in a registered public offering pursuant to an existing shelf registration statement. 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 and parent guarantor is as follows:

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CSX CORPORATION
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NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in Millions)

Quarter Ended September 26, 2008	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Revenue	$-	$2,544	$448	$(31)	$2,961
Operating Expense	(33)	1,963	327	(29)	2,228
Operating Income	33	581	121	(2)	733
Equity in Earnings of Subsidiaries	444	-	-	(444)	-
Other Income (Expense)	62	16	(18)	(52)	8
Interest Expense	(142)	(38)	(5)	54	(131)
Earnings from Continuing Operations before Income Taxes	397	559	98	(444)	610
Income Tax Benefit (Expense)	(15)	(192)	(21)	-	(228)
Net Earnings	$382	$367	$77	$(444)	$382

Quarter Ended September 28, 2007	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Revenue	$-	$2,144	$383	$(26)	$2,501
Operating Expense	(55)	1,730	291	(23)	1,943
Operating Income	55	414	92	(3)	558
Equity in Earnings of Subsidiaries	230	-	-	(230)	-
Other Income (Expense)	158	24	(57)	(111)	14
Interest Expense	(143)	(61)	(12)	114	(102)
Earnings from Continuing Operations before Income Taxes	300	377	23	(230)	470
Income Tax Benefit (Expense)	(3)	(144)	(26)	-	(173)
Earnings from Continuing Operations	297	233	(3)	(230)	297
Discontinued Operations - Net of Tax	110	-	-	-	110
Net Earnings	$407	$233	$(3)	$(230)	$407

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CSX CORPORATION
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NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in Millions)

Nine Months Ended September 26, 2008	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Revenue	$-	$7,389	$1,293	$(101)	$8,581
Operating Expense	(123)	5,755	966	(93)	6,505
Operating Income	123	1,634	327	(8)	2,076
Equity in Earnings of Subsidiaries	1,236	-	-	(1,236)	-
Other Income (Expense)	126	106	(7)	(156)	69
Interest Expense	(414)	(115)	(18)	164	(383)
Earnings from Continuing Operations before Income Taxes	1,071	1,625	302	(1,236)	1,762
Income Tax Benefit (Expense)	47	(593)	(98)	-	(644)
Net Earnings	$1,118	$1,032	$204	$(1,236)	$1,118

Nine Months Ended September 28, 2007	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Revenue	$-	$6,392	$1,142	$(81)	$7,453
Operating Expense	(159)	5,149	881	(73)	5,798
Operating Income	159	1,243	261	(8)	1,655
Equity in Earnings of Subsidiaries	829	-	-	(829)	-
Other Income (Expense)	264	72	5	(332)	9
Interest Expense	(422)	(186)	(34)	340	(302)
Earnings from Continuing Operations before Income Taxes	830	1,129	232	(829)	1,362
Income Tax Benefit (Expense)	31	(424)	(108)	-	(501)
Earnings from Continuing Operations	861	705	124	(829)	861
Discontinued Operations - Net of Tax	110	-	-	-	110
Net Earnings	$971	$705	$124	$(829)	$971

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CSX CORPORATION
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NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in Millions)

September 26, 2008	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$782	$75	$38	$-	$895
Short-term Investments	15	-	61	-	76
Accounts Receivable - Net	6	1,169	74	-	1,249
Materials and Supplies	-	240	11	-	251
Deferred Income Taxes	14	193	(2)	-	205
Other Current Assets	26	66	80	(97)	75
Total Current Assets	843	1,743	262	(97)	2,751
Properties	6	28,674	1,483	-	30,163
Accumulated Depreciation	(9)	(6,683)	(884)	-	(7,576)
Properties - Net	(3)	21,991	599	-	22,587
Investment in Conrail	-	-	647	-	647
Affiliates and Other Companies	-	517	(116)	-	401
Investment in Consolidated Subsidiaries	15,526	-	39	(15,565)	-
Other Long-term Assets	52	102	152	(55)	251
Total Assets	$16,418	$24,353	$1,583	$(15,717)	$26,637
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Accounts Payable	$134	$883	$70	$-	$1,087
Labor and Fringe Benefits Payable	39	407	49	-	495
Payable to Affiliates	881	1,256	(2,070)	(67)	-
Casualty, Environmental and Other Reserves	-	226	22	-	248
Current Maturities of Long-term Debt	431	105	3	-	539
Short-term Debt	-	-	4	-	4
Income and Other Taxes Payable	6	162	(35)	-	133
Other Current Liabilities	3	315	34	(29)	323
Total Current Liabilities	1,494	3,354	(1,923)	(96)	2,829
Casualty, Environmental and Other Reserves	1	546	63	-	610
Long-term Debt	6,230	1,129	8	-	7,367
Deferred Income Taxes	(355)	6,555	183	-	6,383
Long-term Payable to Affiliates	-	-	56	(56)	-
Other Long-term Liabilities	475	504	(62)	(42)	875

Total Liabilities	7,845	12,088	(1,675)	(194)	18,064
Shareholders' Equity:					
Common Stock, $1 Par Value	394	181	-	(181)	394
Other Capital	-	5,565	2,711	(8,276)	-
Retained Earnings	8,499	6,556	597	(7,153)	8,499
Accumulated Other Comprehensive Loss	(320)	(37)	(50)	87	(320)
Total Shareholders' Equity	8,573	12,265	3,258	(15,523)	8,573
Total Liabilities and Shareholders' Equity	$16,418	$24,353	$1,583	$(15,717)	$26,637

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NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet
(Dollars in Millions)

December 28, 2007	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$298	$55	$15	$-	$368
Short-term Investments	270	-	76	-	346
Accounts Receivable - Net	10	1,069	95	-	1,174
Materials and Supplies	-	230	10	-	240
Deferred Income Taxes	23	232	(1)	-	254
Other Current Assets	25	60	96	(72)	109
Total Current Assets	626	1,646	291	(72)	2,491
Properties	6	27,606	1,387	-	28,999
Accumulated Depreciation	(9)	(6,400)	(810)	-	(7,219)
Properties - Net	(3)	21,206	577	-	21,780
Investment in Conrail	-	-	639	-	639
Affiliates and Other Companies	-	470	(105)	-	365
Investment in Consolidated Subsidiaries	14,524	-	34	(14,558)	-
Other Long-term Assets	(50)	203	162	(56)	259
Total Assets	$15,097	$23,525	$1,598	$(14,686)	$25,534
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Accounts Payable	$90	$799	$87	$-	$976
Labor and Fringe Benefits Payable	36	374	51	-	461
Payable to Affiliates	747	1,325	(2,000)	(72)	-
Casualty, Environmental and Other Reserves	-	226	21	-	247
Current Maturities of Long-term Debt	669	111	3	-	783
Short-term Debt	-	2	2	-	4
Income and Other Taxes Payable	(761)	572	302	-	113
Other Current Liabilities	8	72	7	-	87
Total Current Liabilities	789	3,481	(1,527)	(72)	2,671
Casualty, Environmental and Other Reserves	-	540	84	-	624
Long-term Debt	5,229	1,230	11	-	6,470
Deferred Income Taxes	(176)	6,291	(19)	-	6,096

Long-term Payable to Affiliates	-	-	56	(56)	-
Other Long-term Liabilities	570	541	(85)	(38)	988
Total Liabilities	6,412	12,083	(1,480)	(166)	16,849
Shareholders' Equity:					
Common Stock, $1 Par Value	408	181	-	(181)	408
Other Capital	37	5,525	2,705	(8,230)	37
Retained Earnings	8,565	5,769	420	(6,189)	8,565
Accumulated Other Comprehensive Loss	(325)	(33)	(47)	80	(325)
Total Shareholders' Equity	8,685	11,442	3,078	(14,520)	8,685
Total Liabilities and Shareholders' Equity	$15,097	$23,525	$1,598	$(14,686)	$25,534

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

Nine Months Ended September 26, 2008	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by (Used in) Operating Activities	$501	$1,947	$12	$(269)	$2,191
Investing Activities					
Property Additions	1	(1,234)	(75)	-	(1,308)
Purchases of Short-term Investments	(25)	-	-	-	(25)
Proceeds from Sales of Short-term Investments	280	-	-	-	280
Other Investing Activities	(247)	92	148	34	27
Net Cash Provided by (Used in) Investing Activities	9	(1,142)	73	34	(1,026)
Financing Activities					
Short-term Debt - Net	-	(2)	2	-	-
Long-term Debt Issued	1,000	-	-	-	1,000
Long-term Debt Repaid	(113)	(102)	(5)	-	(220)
Dividends Paid	(227)	(244)	(20)	269	(222)
Stock Options Exercised	75	-	-	-	75
Shares Repurchased	(1,307)	-	-	-	(1,307)
Other Financing Activities	546	(437)	(39)	(34)	36
Net Cash Provided by (Used in) Financing Activities	(26)	(785)	(62)	235	(638)
Net Increase (Decrease) in Cash and Cash Equivalents	484	20	23	-	527
Cash and Cash Equivalents at Beginning of Period	298	55	15	-	368
Cash and Cash Equivalents at End of Period	$782	$75	$38	$-	$895

Nine Months Ended September 28, 2007	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by (Used in) Operating Activities	$(456)	$1,861	$642	$(229)	$1,818

Investing Activities					
Property Additions	-	(1,107)	(88)	-	(1,195)
Purchases of Short-term Investments	(2,035)	-	-	-	(2,035)
Proceeds from Sales of Short-term Investments	1,914	-	-	-	1,914
Other Investing Activities	420	128	(597)	52	3
Net Cash (Used in) Provided by Investing Activities	299	(979)	(685)	52	(1,313)
Financing Activities					
Short-term Debt - Net	-	(3)	2	-	(1)
Long-term Debt Issued	2,000	-	-	-	2,000
Long-term Debt Repaid	(620)	(94)	-	-	(714)
Dividends Paid	(173)	(90)	(21)	114	(170)
Stock Options Exercised	144	-	-	-	144
Shares Repurchased	(1,609)	-	-	-	(1,609)
Other Financing Activities	590	(677)	68	63	44
Net Cash (Used in) Provided by Financing Activities	332	(864)	49	177	(306)
Net (Decrease) Increase in Cash and Cash Equivalents	175	18	6	-	199
Cash and Cash Equivalents at Beginning of Period	416	17	28	-	461
Cash and Cash Equivalents at End of Period	$591	$35	$34	$-	$660

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

STRATEGIC OVERVIEW

The Company provides customers access to an increasingly modernized transportation network that connects ports, production facilities and distribution centers to markets in the Northeast, Midwest and the rapidly growing southern states. The Company transports a diversified portfolio of products, from coal to new energy sources such as ethanol, from automobiles produced by traditional American manufacturers to "new domestic" factories owned by European, Japanese and Korean automotive companies, and from chemicals to consumer electronics. Additionally, the Company serves every major market in the eastern United States and has direct access to all Atlantic and Gulf Coast ports, as well as the Mississippi River, the Great Lakes and the St. Lawrence Seaway. Furthermore, the Company has access to Pacific ports through alliances with western railroads. Overall, the CSXT transportation network encompasses approximately 21,000 route miles of track in 23 states, the District of Columbia and the Canadian provinces of Ontario and Quebec.

The Company's transportation network, located in some of the largest and fastest-growing population centers in the nation, is well-positioned to capitalize on consumption growth trends. In this regard, more than two-thirds of Americans live within the Company's service territory, accounting for about three-quarters of the nation's consumption. As the nation consumes increasingly higher quantities of imported goods, those products must be transported across the country in a way that minimizes the impact on the environment, takes traffic off an already congested highway system and minimizes fuel consumption and transportation costs.

The Company has made substantial strides in improving operating performance in order to capitalize on consumption growth trends. In 2004, CSXT implemented the ONE Plan, which continues to focus on optimizing the train network and utilizing rail assets more efficiently. Anchored by the ONE Plan and a variety of other initiatives implemented after the ONE Plan was introduced, the Company has achieved significant operational improvements that have enhanced safety, service reliability and productivity.

In addition to the ONE Plan, the Company continues to implement its Total Service Integration initiative, which aims to better align the Company's capabilities with customer demands. Total Service Integration aims to optimize train size and increase asset utilization while delivering more reliable service to customers.

These initiatives delivered strong results for shareholders while higher levels of customer service have led to improved pricing. These efforts combined with operational efficiencies have resulted in substantial improvements in CSX's operating income and operating ratio since 2004.

In addition to driving better financial results to create value for shareholders, CSX employs a balanced approach in deploying its capital for the benefit of shareholders. This approach includes strategic investment, share repurchases and dividends. Through this balanced use of financial resources, CSX will strive to capitalize on an economic environment that is increasingly favoring rail transportation.

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

THIRD QUARTER 2008 HIGHLIGHTS

- Revenue of nearly $3 billion grew $460 million or 18%.
- Expenses increased $285 million or 15% to $2.2 billion driven primarily by rising fuel costs.
- Operating income was $733 million, an increase of $175 million or 31%.

CSX delivered impressive financial results in a challenging economy. Revenue and revenue-per-unit increased 18% and 21%, respectively, driven by the value CSX provides to its customers through better service as well as higher fuel recovery due to higher fuel prices. The Company was able to achieve pricing gains predominantly due to the overall cost advantages that the Company's rail-based solutions provide to customers versus other modes of transportation.

These results in revenue were achieved despite a 2% overall decline in volume, which was primarily driven by continued weakness in housing construction, domestic automotive production and related markets. Certain lines of business, though, such as coal, agricultural products and metals, still showed volume growth during the quarter, highlighting the benefit of providing diversified shipping services.

Expenses increased 15% during third quarter 2008 driven by a $178 million increase in fuel due to the effects of rising fuel prices. All other expenses excluding fuel, increased 7% largely driven by inflation and weather related costs.

For additional information, refer to Rail and Intermodal Results of Operations discussed on pages 37 through 40.

Safety statistics remained solid with both FRA personal injuries and FRA train accidents showing a 12% improvement and a 10% improvement respectively versus the same period last year. These statistics remained at historically strong levels. The Company remains committed to its safety program, which has a proven track record of improving results, and expects continued improvement in safety performance.

During the quarter, hurricanes Gustav and Ike resulted in numerous network service interruptions including track outages, flooding and reroutes. The storms caused significant damage to the New Orleans line, putting it out of service for over 5 weeks. As a result, interchange volumes to western rail partners were rerouted through alternative gateways, causing congestion. Currently, the New Orleans line has been restored and volumes are now flowing through normal gateways. In addition, heavy rains caused service disruptions in key terminals in the Midwest, including Chicago, Indianapolis and Louisville. Also, the surge in export coal demand created further congestion in key lanes connecting coal production to coal piers on the coast. Actions have been taken to position additional resources where required to handle this continued coal demand.

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CSX CORPORATION

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

Key service metrics reflected the impact of these challenges as the Company worked to improve continuously over last year's performance. As of September 2008, velocity was 20.1 mph, on-time train originations were 77%, dwell was 24.1 hours and on-time destination arrivals for customers was 67%. The Company's strong focus on achieving results through proactive actions, rules compliance, coaching and increased safety awareness continues.

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CSX CORPORATION

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

RAIL OPERATING STATISTICS (Estimated)		Third Quarters		Improvement
		2008	2007	(Decline) %
Service Measurements	FRA Personal Injuries Frequency Index	1.12	1.27	12%
	FRA Train Accident Rate	2.75	3.06	10
	On-Time Train Originations	77%	83%	(7)
	On-Time Destination Arrivals	67%	76%	(12)
	Dwell	24.1	22.7	(6)
	Cars-On-Line	226,425	220,604	(3)
	System Train Velocity	20.1	21.4	(6)
				Increase/ (Decrease)
Resources	Route Miles	21,203	21,224	-%
	Locomotives (owned and long-term leased)	4,133	3,925	5
	Freight Cars (owned and long-term leased)	91,833	96,866	(5)%

Key Performance Measures Definitions

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

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

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

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

Dwell – 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 – A count of all cars on the CSX network (does not include locomotives, cabooses, trailers, containers or maintenance equipment).

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

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

FINANCIAL RESULTS OF OPERATIONS

Results of Operations(Unaudited)(a)
(Dollars in Millions)
Third Quarters

	Rail(b)		Intermodal		Operating Income		
	2008	2007	2008	2007	2008	2007	$ Change
Revenue	$2,562	$2,164	$399	$337	$2,961	$2,501	$460
Operating Expense:							
Labor and Fringe	735	728	19	20	754	748	(6)
Materials, Supplies and Other (c)	521	424	47	47	568	471	(97)
Fuel (c)	506	329	2	1	508	330	(178)
Depreciation	221	211	6	9	227	220	(7)
Equipment and Other Rents	78	88	28	26	106	114	8
Inland Transportation	(135)	(111)	200	171	65	60	(5)
Total Expense	1,926	1,669	302	274	2,228	1,943	(285)
Operating Income	$636	$495	$97	$63	$733	$558	$175
Operating Ratio	75.2%	77.1%	75.7%	81.3%	75.2%	77.7%	

(a) Beginning in 2008, certain items have been reclassified within the income statement. These reclassifications include reclassifying all items within other operating income and certain items within other income into the Rail segment. As a result of this change, CSX consolidated operating income and Surface Transportation operating income are now the same; therefore, the Company no longer reports separate Surface Transportation results. The Rail segment was not materially impacted by these reclassifications. Certain prior-year data have been reclassified to conform to the 2008 presentation.

(b) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as TDSI, Transflo, CSX Technology and other subsidiaries.

(c) Beginning in 2008, the Company reclassified all non-locomotive fuel related costs previously included in materials, supplies and other into fuel on the Company's consolidated income statement so that it now includes all fuel used for operations and maintenance. For third quarters 2008 and 2007, these amounts were $39 million and $25 million, respectively.

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

VOLUME AND REVENUE (Unaudited)
Volume (Thousands of Units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)
Third Quarters

	Volume			Revenue			Revenue Per Unit		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Chemicals	124	130	(5) %	$381	$336	13 %	$3,073	$2,585	19%
Emerging Markets	112	128	(13)	171	157	9	1,527	1,227	24
Forest Products	82	87	(6)	196	182	8	2,390	2,092	14
Agricultural Products	106	101	5	259	190	36	2,443	1,881	30
Metals	92	89	3	215	181	19	2,337	2,034	15
Phosphates and Fertilizers	87	89	(2)	116	100	16	1,333	1,124	19
Food and Consumer	50	52	(4)	119	112	6	2,380	2,154	10
Total Merchandise	653	676	(3)	1,457	1,258	16	2,231	1,861	20
Coal	440	441	-	802	619	30	1,823	1,404	30
Coke and Iron Ore	28	24	17	48	30	60	1,714	1,250	37
Total Coal	468	465	1	850	649	31	1,816	1,396	30
Automotive	79	102	(23)	195	198	(2)	2,468	1,941	27
Other	-	-	-	60	59	2	-	-	-
Total Rail	1,200	1,243	(3)	2,562	2,164	18	2,135	1,741	23
International	258	280	(8)	137	129	6	531	461	15
Domestic	274	250	10	255	202	26	931	808	15
Other	-	-	-	7	6	17	-	-	-
Total Intermodal	532	530	-	399	337	18	750	636	18
Total	1,732	1,773	(2) %	$2,961	$2,501	18 %	1,710	1,411	21 %

Prior periods have been reclassified to conform to the current presentation.

CSX CORPORATION

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

Third Quarter Rail Results of Operations

Rail Operating Revenue

The Company was able to achieve continued pricing gains during the third quarter 2008 predominantly due to the overall cost advantages that rail-based solutions provide versus other modes of transportation. These pricing gains, and higher fuel recovery due to higher fuel prices, more than offset the continuing volume weakness in housing construction, domestic automobile production and related markets.

Merchandise

Chemicals – Improved pricing and increased fuel recovery continued to drive revenue and revenue-per-unit gains. Volume was down due to weakness in plastic shipments and chemicals used in construction and automobile production. Additionally, hurricanes forced a temporary shutdown of many chemical plants and refineries across the Texas and Louisiana Gulf coast late in the quarter.

Emerging Markets, Forest Products, and Food and Consumer – Revenue and revenue-per-unit increases were driven by pricing initiatives and favorable fuel recoveries. Volume declines in lumber, building products, appliances and aggregates, which include crushed stone, sand and gravel were due to continued softness in residential construction.

Agricultural Products – Volume growth was driven by increased shipments of ethanol and feed grain. Gains in price and fuel surcharge recovery led to increases in revenue and revenue per unit.

Metals – Volume growth was driven by increased shipments of scrap metal, steel used for non-residential construction, pipe and plate shipments. Domestic production was strong, in part, due to declining imports. Revenue and revenue-per-unit increases were driven primarily by improved pricing and increased fuel recovery.

Phosphates and Fertilizers – Revenue and revenue per unit increased due to favorable pricing actions and fuel recovery. Large carryover fertilizer inventories from the first half of the year resulted in a decline in fertilizer moves.

Coal

Sustained growth in yield and improved fuel recovery positively influenced revenue and revenue per unit. Volumes increased in the export market due to continued strong overseas demand. These gains were partially offset by lower shipments to electric utilities.

Automotive

Revenue and volume were down due to declining sales of trucks and SUV's resulting from high fuel prices, the weak economic environment and tight credit conditions. Revenue per unit improved due to price increases and higher fuel recoveries.

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

Rail Operating Expense

Labor and Fringe expense increased $7 million. This increase was primarily driven by wage and benefit inflation which was mostly offset by a reduction of train crew headcount due to lower volumes.

Materials, Supplies and Other expenses increased $97 million primarily as a result of the storms during the quarter, mostly the write-off of assets that were damaged, inflation and proxy-related costs. Additionally, there was an increase in cost of risk, primarily driven by higher train-accident related expenses and various other items.

Fuel expense increased $177 million due to higher fuel prices which more than offset increased fuel efficiency and volume.

Depreciation expense increased $10 million. A larger asset base related to higher capital spending was partially offset by lower depreciation rates resulting from a previous periodic review of asset useful lives.

Equipment and Other Rents expense decreased $10 million primarily due to the impacts of lower volume and reduced locomotive lease expense.

Third Quarter Intermodal Results of Operations

Intermodal Operating Revenue

International – Revenue-per-unit increases were primarily driven by increased fuel recovery and yield management. Volumes were down due to continued import softness as well as changes in international shipping patterns.

Domestic – Volume gains were driven by continued strength in truckload, transcontinental and short-haul services. Revenue-per-unit increases were primarily driven by increased fuel recovery as yield and mix impacts were relatively flat year-over-year.

Intermodal Operating Expense

Intermodal operating expense increased due to higher inland transportation expense. This was driven by higher fuel expense charged by CSXT for purchased transportation services and increased purchased transportation services from other railroads to support Intermodal's growing coast-to-coast business. A continued focus on managing controllable costs kept remaining operating expenses flat.

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

Additional Third Quarter Consolidated Results

Other Income

Other income decreased $6 million to $8 million in third quarter 2008. This was largely driven by lower investment returns due to a gradual shift towards investing in lower risk, more liquid securities versus traditional short-term investments.

Interest Expense

Interest expense increased $29 million to $131 million due primarily to higher average debt balances in third quarter 2008.

Income Tax Expense

Income tax expense increased $55 million to $228 million, which was driven by higher operating income in third quarter 2008.

Net Earnings

Consolidated net earnings decreased $25 million to $382 million primarily due to a $110 million prior year gain related to the resolution of certain tax matters associated with previously discontinued operations. This was mostly offset by an increase in net earnings from continuing operations of $85 million. Earnings per diluted share increased $.03 to $.94 due to the impact on shares outstanding of CSX's share repurchase program.

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

Results of Operations(Unaudited)(a)
(Dollars in Millions)
Nine Months

	Rail(b)		Intermodal		Operating Income		
	2008	2007	2008	2007	2008	2007	$ Change
Revenue	$7,449	$6,455	$1,132	$998	$8,581	$7,453	$1,128
Operating Expense:							
Labor and Fringe	2,175	2,165	57	60	2,232	2,225	(7)
Materials, Supplies and Other (c)	1,439	1,328	147	134	1,586	1,462	(124)
Fuel (c)	1,481	926	5	4	1,486	930	(556)
Depreciation	658	635	18	28	676	663	(13)
Equipment and Other Rents	248	259	81	82	329	341	12
Inland Transportation	(394)	(330)	590	507	196	177	(19)
Total Expense	5,607	4,983	898	815	6,505	5,798	(707)
Operating Income	$1,842	$1,472	$234	$183	$2,076	$1,655	$421
Operating Ratio	75.3%	77.2%	79.3%	81.7%	75.8%	77.8%	

(a) Beginning in 2008, certain items have been reclassified within the income statement. These reclassifications include reclassifying all items within other operating income and certain items within other income into the Rail segment. As a result of this change, CSX consolidated operating income and Surface Transportation operating income are now the same; therefore, the Company no longer reports separate Surface Transportation results. The Rail segment was not materially impacted by these reclassifications. Certain prior-year data have been reclassified to conform to the 2008 presentation.

(b) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as TDSI, Transflo, CSX Technology and other subsidiaries.

(c) The Company reclassified all non-locomotive fuel related costs previously included in materials, supplies and other into fuel on the Company's consolidated income statement so that it now includes all fuel used for operations and maintenance. For nine months 2008 and 2007, these amounts were $114 million and $77 million, respectively.

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CSX CORPORATION

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

VOLUME AND REVENUE (Unaudited)
Volume (Thousands of Units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)
Nine Months

	Volume			Revenue			Revenue Per Unit		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Chemicals	381	397	(4) %	$1,115	$980	14 %	$2,927	$2,469	19%
Emerging Markets	330	376	(12)	479	458	5	1,452	1,218	19
Forest Products	245	271	(10)	558	553	1	2,278	2,041	12
Agricultural Products	323	301	7	740	560	32	2,291	1,860	23
Metals	280	276	1	622	539	15	2,221	1,953	14
Phosphates and Fertilizers	269	270	-	374	310	21	1,390	1,148	21
Food and Consumer	151	163	(7)	343	335	2	2,272	2,055	11
Total Merchandise	1,979	2,054	(4)	4,231	3,735	13	2,138	1,818	18
Coal	1,330	1,324	-	2,299	1,829	26	1,729	1,381	25
Coke and Iron Ore	78	69	13	137	91	51	1,756	1,319	33
Total Coal	1,408	1,393	1	2,436	1,920	27	1,730	1,378	26
Automotive	267	330	(19)	602	624	(4)	2,255	1,891	19
Other	-	-	-	180	176	2	-	-	-
Total Rail	3,654	3,777	(3)	7,449	6,455	15	2,039	1,709	19
International	773	872	(11)	397	402	(1)	514	461	11
Domestic	797	706	13	717	580	24	900	822	9
Other	-	-	-	18	16	13	-	-	-
Total Intermodal	1,570	1,578	(1)	1,132	998	13	721	632	14
Total	5,224	5,355	(2) %	$8,581	$7,453	15 %	$1,643	$1,392	18 %

Prior periods have been reclassified to conform to the current presentation.

Nine Month Consolidated Results

Operating Revenue

Operating revenue increased $1.1 billion to $8.6 billion for the nine months ended 2008 due to continued pricing gains and higher fuel recoveries.

Operating Income

Operating income increased $421 million to $2.1 billion as operating revenue gains were partially offset by significant increases in fuel expenses.

Other Income

Other income increased $60 million to $69 million due to higher income from real estate sales and a $30 million non-cash adjustment to correct equity earnings from a non-consolidated subsidiary in first quarter 2008. The impact of this adjustment is expected to be immaterial in future reporting periods.

Interest Expense

Interest expense increased $81 million to $383 million primarily due to higher average debt balances in 2008.

Income Tax Expense

Income tax expense increased $143 million to $644 million, which was driven by higher operating income in 2008. This increase in expense was partially offset by an $18 million income tax benefit during the second quarter principally related to the resolution of various income tax matters.

Net Earnings

Consolidated net earnings increased $147 million to $1.1 billion and earnings per diluted share increased $.58 to $2.71. The principal elements of the after-tax change in earnings are a $110 million prior year gain related to the resolution of certain tax matters associated with previously discontinued operations, and an increase in net earnings from continuing operations of $257 million.

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

LIQUIDITY AND CAPITAL RESOURCES

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

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.

Long-term debt increased $897 million driven by a $1 billion debt issuance in first quarter 2008. This increase was partially offset by a $244 million decrease in current maturities of long-term debt due mainly to debt repayments and convertible debt being converted into CSX common stock. For additional information, see Note 6, Debt and Credit Agreements, under Part I, Item 1 of this Quarterly Report on Form 10-Q.

Cash provided by operating activities increased to $2.2 billion due in part to strong earnings from continuing operations during 2008. These earnings were partially offset by property additions of $1.3 billion. Additionally, cash used in financing activities changed to $638 million as the Company's $1 billion debt issuance in 2008 was more than offset by share repurchases of $1.3 billion, dividends and long-term debt repaid. Furthermore, purchases and sales of short-term investments were significantly reduced in 2008 due to a shift towards investing in lower risk, more liquid securities that are considered cash equivalents.

Liquidity and Working Capital

The credit markets have recently experienced adverse conditions, and volatility within these markets may increase the costs associated with issuing debt because of increased spreads over relevant interest rate benchmarks. Nevertheless, CSX continues to be well positioned to weather the current crisis in financial markets. At the end of the third quarter 2008, the Company had nearly $900 million of cash on hand and expects free cash flow to remain strong. Additionally, CSX had a $1.25 billion credit facility with a diverse portfolio of banks. Also at the end of the third quarter 2008, this facility was not drawn on. The Company believes that generally it should continue to retain access to capital markets.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital deficit of $78 million and $180 million at September 2008 and December 2007, respectively. The favorable change was primarily due to increased earnings.

The Company's working capital balance varies from quarter to quarter due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. A working capital deficit is not unusual for CSX or other companies in the industry and does not indicate a lack of liquidity. The Company continues to maintain adequate current assets to satisfy current liabilities and maturing obligations when they come due. Furthermore, CSX has sufficient financial capacity, including the credit facility and shelf registration statement, to manage its day-to-day cash requirements and any anticipated obligations.

CSX CORPORATION
ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Credit Ratings

Credit ratings reflect an independent agency’s judgment on the likelihood that a borrower will repay a debt obligation at maturity. The ratings reflect many considerations, such as the nature of the borrower’s industry and its competitive position, the size of the company, its liquidity and access to capital and the sensitivity of a company’s cash flows to changes in the economy. The two largest rating agencies, Standard & Poor’s (“S&P”) and Moody’s Investors Service (“Moody’s”), use alphanumeric codes to designate their ratings. The highest quality rating for long-term credit obligations is AAA+ and Aaa1 for S&P and Moody’s, respectively. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

Long-term ratings of BBB- and Baa3 or better by S&P and Moody’s, respectively, reflect ratings on debt obligations that fall within a band of credit quality considered to be “investment grade.” Currently, the long-term ratings for CSX’s obligations are BBB- and Baa3. In the third quarter of 2008 following CSX’s annual meeting, S&P issued a release noting its outlook for CSX changed to negative as a result of four of The Children’s Investment Master Fund’s (TCI) director nominees being elected to CSX’s Board of Directors; however, S&P further noted it does not anticipate downgrading the rating as a result of such director changes unless CSX is no longer committed to targeting an investment grade capital structure and adopts a more aggressive financial policy. Moody’s outlook for CSX continues to be stable. For more information regarding the annual meeting, see Part II, Item 4 of this Quarterly Report on Form 10-Q.

If CSX's credit ratings were to decline to lower levels, the Company could experience significant increases in its interest cost for new debt. In addition, the market’s demand, and thus the Company’s ability to readily issue new debt, could become further influenced by the economic and credit market environment.

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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 following areas:

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

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

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

FORWARD-LOOKING STATEMENTS

Certain statements in this report and in other materials filed with the SEC, as well as information included in oral statements or other written statements made by the Company, are forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements include, among others, statements regarding:

- expectations as to results of operations and operational improvements;
- expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition;
- management's plans, goals, strategies and objectives for future operations and other similar expressions concerning matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and
- future economic, industry or market conditions or performance.

Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "project," "estimate" 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.

Forward-looking statements are subject to a number of risks and uncertainties and actual performance or results could differ materially from those anticipated by these 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 elsewhere, may cause actual results to differ materially from those contemplated by these forward-looking statements:

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, including the outcome of tax claims and litigation, the potential enactment of initiatives to re-regulate the rail industry and the ultimate outcome of shipper and rate claims subject to adjudication;
- the outcome of litigation and claims, including, but not limited to, those related to fuel surcharge, environmental contamination, personal injuries and occupational illnesses;

- material changes in domestic or international economic or business conditions, including those affecting the transportation industry such as access to capital markets, ability to revise debt arrangements as contemplated, customer demand, customer acceptance of price increases, effects of adverse economic conditions affecting shippers and adverse economic conditions in the industries and geographic areas that consume and produce freight;
- worsening conditions in the financial markets that may affect timely access to capital markets, as well as the cost of capital;
- changes in fuel prices, surcharges for fuel and the availability of fuel;
- the impact of increased passenger activities in capacity-constrained areas or regulatory changes affecting when CSXT can transport freight or service routes;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property or equipment;
- an unintentional failure to comply with applicable laws or regulations;
- the inherent risks associated with safety and security, including the availability and cost of insurance, the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- labor costs and labor difficulties, including stoppages affecting either the Company's operations or the customers' ability to deliver goods to the Company for shipment;
- competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;
- the Company's success in implementing its strategic plans and operational objectives and improving operating efficiency; and
- changes in operating conditions and costs or commodity concentrations.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, accessible on the SEC's website at www.sec.gov and the Company's website at www.csx.com.

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CSX CORPORATION

ITEM 3: QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided under “Quantitative and Qualitative Disclosures about Market Risk” in Item 7A of CSX’s most recent Annual Report on Form 10-K.

ITEM 4: CONTROLS AND PROCEDURES

As of September 26, 2008, 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 third quarter 2008, the Company’s disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX’s periodic SEC reports. There were no changes in the Company’s internal controls over financial reporting during third quarter 2008 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

For information relating to the Company’s legal proceedings, see Note 5, Commitments and Contingencies under Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 “Management's Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of CSX’s most recent Annual Report on Form 10-K. See also “Forward-Looking Statements” included in Item 2 of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in CSX’s most recent Annual Report on Form 10-K.

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CSX CORPORATION

ITEM 2: CSX PURCHASES OF EQUITY SECURITIES

CSX is required to disclose any purchases of its own common stock for the most recent quarter. CSX purchases its own shares for two primary reasons: to further its goals under its share repurchase program and to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan that covers certain union employees.

Beginning in March 2008, CSX has had the authority to purchase $3 billion of its outstanding common stock under its share repurchase program. CSX intends to complete all authorized share repurchases by year-end 2009. While it is not the Company's intention, the program could be suspended or discontinued at any time, based on market, economic or business conditions. The timing and amount of repurchase transactions will be determined by CSX's management based on its evaluation of market conditions, share price and other factors.

Cumulatively since 2006 under various publicly announced repurchase programs, CSX has bought approximately $3.9 billion of its outstanding common stock through the third quarter of 2008. These repurchases, along with the remaining $2.0 billion available under the authority granted in March 2008, equal nearly $6 billion of CSX common stock expected to be repurchased through 2009.

Share repurchase activity of $836 million for third quarter 2008 was as follows:

CSX Purchases of Equity Securities
for the Quarter

Third Quarter	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				$2,849,212,239
July (June 28, 2008 - July 25, 2008)	2,564,100	59.42	2,435,000	2,704,454,816
August (July 26, 2008 - August 22, 2008)	5,110,000	61.92	4,940,000	2,398,351,151
September (August 23 - September 26, 2008)	6,529,400	59.02	6,529,400	2,013,000,965
Total/Ending Balance	14,203,500	$60.13	13,904,400	$2,013,000,965

(a) The difference of 299,100 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.

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CSX CORPORATION

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Annual Shareholders' meeting held June 25, 2008 and completed on September 24, 2008.

(b) Not applicable.

(c) There were 404,783,890 shares of CSX common stock outstanding as of April 21, 2008, the record date for the 2008 annual meeting of shareholders, and 295,504,762 shares of CSX common stock were represented at the meeting.

ITEM 1—Election of Directors

CSX Nominee	Votes For	Votes Withheld
John D. McPherson	289,502,300	5,805,855
Donna Alvarado	289,484,637	5,823,518
Donald J. Shepard	289,477,087	5,831,069
Edward J. Kelly, III	289,342,513	5,965,642
Michael J. Ward	288,896,892	6,411,263
David M. Ratcliffe	288,342,970	5,808,773
John B. Breaux	288,276,159	5,936,196
Steven T. Halverson	132,288,805	5,650,485
Frank S. Royal	129,715,745	7,067,133
William C. Richardson	129,365,392	5,756,423
Elizabeth E. Bailey	121,616,420	5,828,336
Robert D. Kunisch	120,061,421	5,722,271

TCI Group Nominee	Votes For	Votes Withheld
Gilbert H. Lamphere	170,353,891	523,610
Alexandre Behring	159,839,867	1,638,900
Timothy T. O'Toole	147,824,964	19,140,262
Christopher Hohn	130,506,157	28,155,134
Gary L. Wilson	82,543,104	75,022,386

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CSX CORPORATION

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS, CONTINUED

ITEM 2—Ratification of Ernst & Young LLP as the Independent Registered Public Accounting Firm for 2008

Votes For	Votes Against	Abstentions
212,272,408	5,775,313	77,457,018

ITEM 3—Approval of the bylaw amendments adopted by the Board of Directors allowing shareholders to request special shareholder meetings

Votes For	Votes Against	Abstentions
111,726,741	179,422,927	4,355,084

ITEM 4—Shareholder proposal regarding special shareholder meetings

Votes For	Votes Against	Abstentions
184,270,535	105,308,447	5,924,142

ITEM 5—Shareholder proposal regarding nullification of certain bylaw provisions

Votes For	Votes Against	Abstentions
186,319,966	102,184,737	7,000,042

(d) None.

ITEM 5: OTHER INFORMATION

None

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CSX CORPORATION

ITEM 6: EXHIBITS

Exhibits

3.2 Bylaws of the Registrant, amended effective as of September 24, 2008 (incorporated herein by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the Commission on September 25, 2008).

31.1* Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2* Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

SIGNATURE

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

By: /s/ CAROLYN T. SIZEMORE
Carolyn T. Sizemore
Vice President and Controller
(Principal Accounting Officer)
Dated: October 14, 2008

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