

CSX CORP
Form 10-Q
July 21, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2011

OR

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

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

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(State or other jurisdiction of incorporation or organization)

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

500 Water Street, 15th Floor, Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip Code)

(Telephone number, including area code)

No Change

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

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

Yes No

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

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

There were 1,095,281,506 shares of common stock outstanding on July 1, 2011 (the latest practicable date that is closest to the filing date).

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CSX CORPORATION
 FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED JULY 1, 2011
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CSX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Second Quarters		Six Months	
	2011	2010	2011	2010
Revenue	\$3,019	\$2,663	\$5,829	\$5,154
Expense				
Labor and Fringe	764	721	1,529	1,450
Materials, Supplies and Other	557	551	1,087	1,070
Fuel	431	304	833	587
Depreciation	246	230	489	458
Equipment and Other Rents	95	89	192	189
Total Expense	2,093	1,895	4,130	3,754
Operating Income	926	768	1,699	1,400
Interest Expense	(134	)(135	)(274	)(277
Other Income - Net (Note 8)	—	9	5	20
Earnings Before Income Taxes	792	642	1,430	1,143
Income Tax Expense (Note 9)	(286	)(228	)(529	)(424
Net Earnings	\$506	\$414	\$901	\$719
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$0.46	\$0.36	\$0.81	\$0.62
Net Earnings Per Share, Assuming Dilution	\$0.46	\$0.36	\$0.81	\$0.61
Average Shares Outstanding (In millions)	1,102	1,149	1,105	1,161
Average Shares Outstanding, Assuming Dilution (In millions)	1,109	1,159	1,112	1,171
Cash Dividends Paid Per Common Share	\$0.12	\$0.08	\$0.21	\$0.16

All share and per share data were retroactively restated to reflect the stock split effective May 31, 2011.

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	(Unaudited)	
	July 1, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$1,252	\$1,292
Short-term Investments	43	54
Accounts Receivable - Net (Note 1)	1,112	993
Materials and Supplies	251	218
Deferred Income Taxes	186	192
Other Current Assets	123	106
Total Current Assets	2,967	2,855
Properties	32,777	32,065
Accumulated Depreciation	(8,575)	)(8,266
Properties - Net	24,202	23,799
Investment in Conrail	681	673
Affiliates and Other Companies	477	461
Other Long-term Assets	378	353
Total Assets	\$28,705	\$28,141
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$1,076	\$1,046
Labor and Fringe Benefits Payable	430	520
Casualty, Environmental and Other Reserves (Note 4)	180	176
Current Maturities of Long-term Debt (Note 7)	494	613
Income and Other Taxes Payable	137	85
Other Current Liabilities	168	97
Total Current Liabilities	2,485	2,537
Casualty, Environmental and Other Reserves (Note 4)	468	502
Long-term Debt (Note 7)	8,186	8,051
Deferred Income Taxes	7,340	7,053
Other Long-term Liabilities	1,285	1,298
Total Liabilities	19,764	19,441
Common Stock \$1 Par Value	1,095	370
Other Capital (Note 1)	—	—
Retained Earnings	8,582	9,087
Accumulated Other Comprehensive Loss (Note 1)	(747)(771

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Noncontrolling Interest	11	14
Total Shareholders' Equity	8,941	8,700
Total Liabilities and Shareholders' Equity	\$28,705	\$28,141

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

	Six Months 2011	2010	
OPERATING ACTIVITIES			
Net Earnings	\$901	\$719	
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	489	458	
Deferred Income Taxes	280	79	
Other Operating Activities	(10)	)79	
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(119)	)57	
Other Current Assets	(64)	)52)
Accounts Payable	35	(34))
Income and Other Taxes Payable	76	94	
Other Current Liabilities	(1)	)22	
Net Cash Provided by Operating Activities	1,587	1,422	
INVESTING ACTIVITIES			
Property Additions	(947)	)687)
Other Investing Activities	16	68	
Net Cash Used in Investing Activities	(931)	)619)
FINANCING ACTIVITIES			
Long-term Debt Issued (Note 7)	600	—	
Long-term Debt Repaid (Note 7)	(570)	)71)
Dividends Paid	(228)	)184)
Stock Options Exercised (Note 3)	24	16	
Shares Repurchased	(528)	)823)
Other Financing Activities	6	(137))
Net Cash Used in Financing Activities	(696)	)1,199)
Net Decrease in Cash and Cash Equivalents	(40)	)396)
CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents at Beginning of Period	1,292	1,029	
Cash and Cash Equivalents at End of Period	\$1,252	\$633	

See accompanying notes to consolidated financial statements.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

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

Other entities

In addition to CSXT, the Company's subsidiaries include CSX Intermodal Terminals, Inc. (“CSX Intermodal Terminals”), Total Distribution Services, Inc. (“TDSI”), Transflo Terminal Services, Inc. (“Transflo”), CSX Technology, Inc. (“CSX Technology”) and other subsidiaries. CSX Intermodal Terminals owns and operates a system of intermodal terminals, predominantly in the eastern United States and also performs drayage services (the door to door pickup and delivery of intermodal shipments) and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations, while Transflo provides logistical solutions for transferring products from rail to trucks. CSX Technology and other subsidiaries provide support services for the Company.

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

Basis of Presentation

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

- Consolidated income statements for the quarter and six months ended July 1, 2011 and June 25, 2010;
- Consolidated balance sheets at July 1, 2011 and December 31, 2010; and
- Consolidated cash flow statements for the six months ended July 1, 2011 and June 25, 2010.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Fiscal Year

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

• The second fiscal quarter of 2011 and 2010 consisted of 13 weeks ending on July 1, 2011 and June 25, 2010, respectively.

• The six month periods of 2011 and 2010 consisted of 26 weeks ending on July 1, 2011 and June 25, 2010, respectively.

• Fiscal year 2010 consisted of 53 weeks ending on December 31, 2010. Therefore, fourth quarter 2010 consisted of 14 weeks.

• Fiscal year 2011 will consist of 52 weeks ending on December 30, 2011.

Except as otherwise specified, references to “second quarter(s)” or “six months” indicate CSX's fiscal periods ending July 1, 2011 and June 25, 2010, and references to year-end indicate the fiscal year ended December 31, 2010.

Comprehensive Earnings

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the Accounting Standards Codification (“ASC”) in the Consolidated Statement of Changes in Shareholders' Equity. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g., issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$519 million and \$424 million for second quarters 2011 and 2010, respectively, and \$925 million and \$741 million for six months 2011 and 2010, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss (“AOCI”) represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement adjustments and reduced overall equity by \$747 million and \$771 million as of the end of second quarter 2011 and December 2010, respectively.

Beginning in first quarter 2012, the Comprehensive Income Topic in the ASC will require comprehensive income to be presented in a single continuous statement following net income or in two consecutive statements reporting net income and other comprehensive income. See the New Accounting Pronouncements section of Note 1, Nature of Operations and Significant Accounting Policies for further information.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$43 million and \$38 million is included in the consolidated balance sheets as of the end of second quarter 2011 and December 2010, respectively.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued an Accounting Standards Update to the Comprehensive Income Topic in the ASC aimed at increasing the prominence of items reported in other comprehensive income in the financial statements. This update requires companies to present comprehensive income in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. Companies will no longer be allowed to present comprehensive income on the statement of changes in shareholders' equity. In both options, companies must present the components of net income, total net income, the components of other comprehensive income, total other comprehensive income and total comprehensive income. This update does not change which items are reported in other comprehensive income or the requirement to report reclassifications of items from other comprehensive income to net income. This requirement will become effective for CSX beginning with the first quarter 2012 10-Q filing and will require retrospective application for all periods presented.

Other Items

Stock Split

In May 2011, CSX announced a three-for-one split of its common stock. All shareholders of record on May 31, 2011 received two additional shares of CSX common stock that were distributed on June 15, 2011. See Note 2, Earnings Per Share.

Dividend Increase and Share Repurchases

During the quarter, the Company increased its quarterly cash dividend 38% to \$0.12 per share on a post-split basis. In addition, CSX announced a new \$2 billion share repurchase program expected to be completed by the end of 2012.

Other Capital

During second quarter 2011, CSX's other capital balance was reduced to zero as a result of share repurchases and the stock split. In accordance with the Equity Topic in the ASC, other capital cannot be negative. Therefore, a reclassification of \$929 million was made between retained earnings and other capital to bring the other capital balance to zero. Generally, retained earnings is only impacted by net earnings and dividends.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2. Earnings Per Share

In May 2011, CSX announced a three-for-one split of its common stock. All shareholders of record on May 31, 2011 received two additional shares of CSX common stock that were distributed on June 15, 2011. Pursuant to the Earnings Per Share Topic in the ASC, all share and per share disclosures have been retroactively restated to reflect the stock split.

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

	Second Quarters		Six Months	
	2011	2010	2011	2010
Numerator (Dollars in millions):				
Net Earnings	\$506	\$		