

CSX CORP
Form 10-Q
October 23, 2007

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 September 28, 2007

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**

(Address of principal executive offices)

32202

(Zip Code)

(904) 359-3200

(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 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

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, September 28, 2007: 420,425,477 shares.

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CSX CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2007
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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	
	2007	2006	2007	2006
Operating Revenue	\$ 2,501	\$ 2,418	\$ 7,453	\$ 7,170
Operating Expense:				
Labor and Fringe	747	737	2,224	2,175
Materials, Supplies and Other	501	496	1,566	1,455
Fuel	304	300	853	841
Depreciation	220	214	663	641
Equipment and Other Rents	115	134	342	387
Inland Transportation	60	63	177	181
Gain on Insurance Recoveries (Note 8)	(1)	(15)	(19)	(141)
Total Operating Expense	1,946	1,929	5,806	5,539
Operating Income	555	489	1,647	1,631
Other Income and Expense				
Other Income - Net (Note 11)	17	25	17	33
Interest Expense	(102)	(97)	(302)	(293)
Earnings from Continuing Operations before Income Taxes	470	417	1,362	1,371
Income Tax Expense	(173)	(89)	(501)	(408)
Earnings From Continuing Operations	297	328	861	963
Discontinued Operations (Note 4)	110	-	110	-
Net Earnings	\$ 407	\$ 328	\$ 971	\$ 963
Per Common Share (Note 2)				
Basic Earnings Per Share:				
From Continuing Operations	\$ 0.69	\$ 0.75	\$ 1.98	\$ 2.18
Discontinued Operations	0.25	-	0.25	-
Net Earnings	\$ 0.94	\$ 0.75	\$ 2.23	\$ 2.18
Earnings Per Share, Assuming Dilution:				
From Continuing Operations	\$ 0.67	\$ 0.71	\$ 1.89	\$ 2.07
Discontinued Operations	0.24	-	0.24	-
Net Earnings	\$ 0.91	\$ 0.71	\$ 2.13	\$ 2.07
Average Common Shares Outstanding (Thousands)	432,529	440,088	436,265	441,088

Average Common Shares Outstanding, Assuming Dilution (Thousands)	445,548	465,641	455,882	466,737
Cash Dividends Paid Per Common Share	\$ 0.15	\$ 0.10	\$ 0.39	\$ 0.23

See accompanying Notes to Consolidated Financial Statements.

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CSX CORPORATION
ITEM 1: FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	September 28, 2007	December 29, 2006
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 660	\$ 461
Short-term Investments	576	439
Accounts Receivable, net of allowance for doubtful accounts of \$76 and \$82, respectively	1,173	1,174
Materials and Supplies	244	204
Deferred Income Taxes	229	251
Other Current Assets	98	143
Total Current Assets	2,980	2,672
Properties	28,569	27,715
Accumulated Depreciation	(7,141)	(6,792)
Properties - Net	21,428	20,923
Investment in Conrail (Note 14)	624	607
Affiliates and Other Companies	355	336
Other Long-term Assets	218	591
Total Assets	\$ 25,605	\$ 5,129
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 1,002	974
Labor and Fringe Benefits Payable	480	495
Casualty, Environmental and Other Reserves (Note 5)	241	253
Current Maturities of Long-term Debt	230	592
Short-term Debt	5	8
Income and Other Taxes Payable	109	114
Other Current Liabilities	101	86
Total Current Liabilities	2,168	2,522
Casualty, Environmental and Other Reserves (Note 5)	666	668
Long-term Debt (Note 7)	6,678	5,362
Deferred Income Taxes	5,931	6,110
Other Long-term Liabilities	1,385	1,525
Total Liabilities	16,828	16,187
Shareholders' Equity:		
Common Stock, \$1 Par Value	420	438
Other Capital	471	1,469
Retained Earnings (Note 4)	8,262	7,427

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Accumulated Other Comprehensive Loss	(376)	(392)
Total Shareholders' Equity	8,777	8,942
Total Liabilities and Shareholders' Equity	\$ 25,605	\$ 25,129

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)

	Nine Months	
	2007	2006
OPERATING ACTIVITIES		
Net Earnings	\$ 971	\$ 963
Adjustments to Reconcile Net Earnings to Net Cash Provided:		
Depreciation	666	648
Deferred Income Taxes	154	46
Non-cash Discontinued Operations (Note 4)	(110)	-
Gain on Insurance Recoveries (Note 8)	(19)	(141)
Insurance Proceeds (Note 8)	10	104
Other Operating Activities	15	(63)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(17)	(133)
Other Current Assets	(54)	73
Accounts Payable	64	51
Income and Other Taxes Payable	153	(61)
Other Current Liabilities	(15)	(120)
Net Cash Provided by Operating Activities	1,818	1,367
INVESTING ACTIVITIES		
Property Additions	(1,195)	(1,204)
Insurance Proceeds (Note 8)	12	130
Purchases of Short-term Investments	(2,035)	(1,023)
Proceeds from Sales of Short-term Investments	1,914	1,072
Other Investing Activities	(9)	(9)
Net Cash Used in Investing Activities	(1,313)	(1,034)
FINANCING ACTIVITIES		
Short-term Debt - Net	(3)	12
Long-term Debt Issued (Note 7)	2,000	473
Long-term Debt Repaid	(712)	(499)
Dividends Paid	(170)	(101)
Stock Options Exercised (Note 3)	144	237
Shares Repurchased (Note 1)	(1,609)	(422)
Other Financing Activities	44	46
Net Cash Used in Financing Activities	(306)	(254)
Net Increase in Cash and Cash Equivalents	199	79
CASH AND CASH EQUIVALENTS		

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Cash and Cash Equivalents at Beginning of Period		461		309
Cash and Cash Equivalents at End of Period	\$	660	\$	388

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. Surface Transportation, which includes the Company’s rail and intermodal businesses, provides 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 21,000 mile rail network, which serves every major population center 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, a stand-alone, integrated company linking customers to railroads via trucks and terminals.

CSX’s other holdings include CSX Hotels, Inc., a resort doing business as The Greenbrier, located in White Sulphur Springs, West Virginia, and CSX Real Property, Inc., an organization responsible for real estate sales, leasing, acquisition and management and development activities.

Basis of Presentation

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

- Consolidated Balance Sheets at September 28, 2007 and December 29, 2006;
- Consolidated Income Statements for the quarters and nine months ended September 28, 2007 and September 29, 2006; and
- Consolidated Cash Flow Statements for the nine months ended September 28, 2007 and September 29, 2006.

Certain prior-year data have been reclassified to conform to the 2007 presentation.

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Significant Accounting Policies, continued

Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent Annual Report on Form 10-K, prior 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 2007 and 2006 consisted of 13 weeks ending on September 28, 2007 and September 29, 2006, respectively.
- The nine month periods of 2007 and 2006 consisted of 39 weeks ending on September 28, 2007 and September 29, 2006, respectively.

Except as otherwise specified, references to “third quarter(s)” or “nine months” indicate CSX’s fiscal periods ending September 28, 2007 or September 29, 2006, and comparisons are to the corresponding period of the prior year.

Other Items – Share Repurchases

Currently, CSX has the authority to purchase up to \$3 billion of its outstanding common stock. CSX intends to complete the \$3 billion repurchase program by the end of 2008. The timing, method, amount of repurchase transactions and the source of funds to effect any repurchase will be determined by the Company's management based on its evaluation of market conditions, share price and other factors. While it is not management’s intention, the program may be suspended or discontinued at any time.

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

<i>(In Millions)</i>	Third Quarters		Nine Months	
	2007	2006	2007	2006
Number of Shares Repurchased	21	9	38	13
Value of Shares Repurchased	\$ 882	\$ 272	\$ 1,609	\$ 422

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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		Nine Months	
	2007	2006	2007	2006
Numerator (Millions):				
Earnings from Continuing Operations	\$ 297	\$ 328	\$ 861	\$ 963
Interest Expense on Convertible Debt - Net of Tax	-	1	2	