QUANTUM GROUP INC /FL
Form 10KSB/A
March 22, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-KSB/A

(Mark One)

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

For the Twelve Month Period Ended October 31, 2006

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-31727

THE QUANTUM GROUP, INC.

(Name of registrant as specified in its charter)

Nevada	**20-0774748**
(State or other jurisdiction of Incorporation or organization)	*(I.R.S. Employer Identification No)*

3420 Fairlane Farms Road, Suite C

Wellington, Florida 33414

(Address of principal executive offices) (Zip Code)

Registrant s telephone number: (561) 798-9800

Securities registered under Section 12(b) of the Exchange Act: none

Securities registered under Section 12(g) of the Exchange Act:

Title of Each Class

Common Stock, $.001 par value

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ý No ¨

Check whether there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ¨

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

Revenues for the most recent fiscal year: $95,253

The aggregate market value of the Registrant s voting Common Stock held by non-affiliates of the registrant was approximately $3,412,260 (computed using the closing price of $.18 per share of Common Stock on March 13, 2007, as reported by OTCBB, based on the assumption that directors, officers and more than 5% stockholders are affiliates).

There were 41,218,583 shares of the registrant s Common Stock, par value $.001 per share, outstanding on March 13, 2007.

Explanatory Note

The following sets forth an explanatory note of the changes to the Company s Form 10-KSB.

We are filing this Form 10-KSB/A to reflect corrections made to our financial statements and related Management s Discussion and Analysis. The financial statements included have been restated to reflect the appropriate allocation of the components of the sale of units which included secured convertible debentures with a beneficial conversion feature and common stock and the resulting amortization of the corresponding costs. In addition, the unearned shares of common stock granted to employees were incorrectly included in the outstanding common shares. Also, the Company has reclassified accrued interest.

General

Unless other wise indicated or the context otherwise requires, all references in the Form 10-KSB/A to we , us , our , Quantum or the Company refer to The Quantum Group, Inc. and its consolidated subsidiaries. All references to a Fiscal year refer to our fiscal year which ends October 31. As used herein, Fiscal 2007 refers to the fiscal year ended October 31, 2007, Fiscal 2006 refers to fiscal year ended October 31, 2006 and Fiscal 2005 refers to the fiscal year ended October 31, 2005

FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain statements contained herein, which are not historical facts, are forward-looking statements with respect to events, the occurrence of which involve risks and uncertainties. These forward-looking statements may be impacted, either positively or negatively, by various factors. Information concerning potential factors that could affect us is frequently detailed in our Company s reports filed with the Commission. This Report contains forward-looking statements relating to our current expectations and beliefs. These include statements concerning operations, performance, financial condition, anticipated acquisitions and anticipated growth. For this purpose, any statements contained in this Form 10-KSB/A, Form 10QSB, Form 8K, Form 14-C and other reports filed with the Commission referred to herein that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as may, will, would, expect, believe, anticipate, intend, could, estimate, or c negative or other variation thereof or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, which are beyond our Company s control. Should one or more of these risks or uncertainties materialize or should our underlying assumptions prove incorrect, actual outcomes and results could materially differ from those indicated in the forward-looking statements.

The Quantum Group, Inc.

FORM 10-KSB/A FOR THE YEAR ENDED OCTOBER 31, 2006

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PART I

Item 1.

Description of Business

Introduction

The Quantum Group, Inc. (the terms Company , us , Quantum and/or we and other similar terms as used herein refer collectively to the Company together with its principal operating subsidiaries) is a Nevada corporation based in Wellington, Florida.

We currently have nominal revenues as we are building our Provider Systems and Provider Support Services. From inception, management s efforts have been primarily focused on negotiations of managed care contacts, contracting a base of physicians, building support staff, market research, business development, developing a utilization team, developing system procedures and training personnel, and due diligence on potential acquisitions, joint ventures and licensing agreements In other types of industries, all of these may have been referred to as research and development, in healthcare it is generally referred to as infrastructure development. During 2005 and 2006, we negotiated contracts with five Managed Care Organizations (MCOs), three of which are currently operational; the remaining two are currently in development. We have assembled a provider relations department that has contracted with over 1,200 physicians, ancillary providers and hospitals. We believe we are Florida s largest independent provider network, and we expect to be doing business only in Florida for the next few years.

Our business model is to become Florida s leading provider of support services to the healthcare industry in three complementary areas: providing leading edge healthcare *provider systems* to consumers; *provider support services* for physicians, MCOs, healthcare facilities and physician associations; and developing *provider technology solutions* to create a more effective and responsive healthcare system.

The Company is organized in three key operating divisions:

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Renaissance Health Systems (RHS) (*Provider Systems*). Renaissance Health Systems which contracts with MCOs in Florida to coordinate the delivery of healthcare services via its proprietary model, the *Community Health System* (CHS), generally in return for a percentage of Medicare reimbursement rates. We deliver our services through a network of over 1,200 affiliated physicians in south and central Florida, an area that represents 22 counties, with access to over 50 hospitals. As we expand further into Florida, we anticipate securing an additional 1,300 individual providers over the next twelve months. Similar companies engage in exclusive contracts with one managed care organization (in rare cases two), while we have executed five managed care contracts; three of which are active, and are generating minimal revenues, two are expected to be operational January 1, 2008. We are also in discussions with two additional plans. The Renaissance model allows for contracts with a multitude of MCOs thereby increasing its reach, diversification and potential for continued growth.

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Quantum Provider Support Services (PSS) (Provider Support Services). Quantum Provider Support Services provides healthcare support services, systems, technology solutions and management to physicians (with expected expansion to hospitals in 2007). The Company currently has, and is in development of, a range of strategic services including: managed care contracting, privacy consulting, human resources management, government compliance and financial management. Through its network of subsidiary companies which includes Renaissance Health Systems, Quantum Medical Technologies, QMed BILLING and The Quantum Agency, the Company intends to strategically address many of the administrative needs of physicians, physician associations and hospitals that bring increased and highly valued efficiencies to this rapidly growing industry. We have recently negotiated to manage two medical billing and collections operations in South and Central Florida. The managed operations currently provide services to over 200 Florida Physicians.

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Quantum Medical Technologies (QMT) (Provider Technology Solutions). In addition to acquiring and developing medical technologies to provide solutions in managed care, Quantum Medical Technologies was created to support the continued growth and development of RHS and PSS, in addition to acquiring licensing and developing medical technologies to provide solutions in managed care organizations, hospitals and physician support services - including medical billing, web services, and electronic health record management. As a result, we are growing an integrated practice management platform that will provide a full Health Insurance Portability and Accountability Act of

1996 (HIPAA) compliant health information system to connect physicians with their patients, hospitals, and payers. The opportunity is to leverage and cross-market this platform into the existing client base of RHS, as well as those physicians and future hospitals utilizing the support services offered by The Quantum Group. We executed an agreement with Biocard Corporation of Miami to acquire its Biocard $_{sm}$ and Biorecord $_{sm}$ products (electronic patient medical record management). QMT has also recently developed a new aggregation of medical billing and electronic health records under the brand name of *Q-Care* $_{sm}$ systems.

Success in our development will be highly dependant on our ability to attract substantial capital, qualified people and on management s ability to manage an integrated but diverse business structure. Our Management Team believes we have assembled the foundation to become one of Florida s largest Provider Systems.

Mission Statement:

To identify and pursue leading edge opportunities within the healthcare industry, to develop efficient and cost effective healthcare solutions, to manage our patient s treatment outcomes through a wellness concept.

Vision Statement:

The Company seeks to develop productive and cost effective and innovative healthcare solutions through the integration of products, services, technology, and partnering with healthcare professionals thus permitting the healthcare professional to effectively deliver highly personal, quality-focused healthcare services in a cost effective and profitable manner.

Values Statement:

Provide leadership to our industry, our community and our employees; provide our patients with the products and services needed to ensure their wellness; and to ensure adherence to a high standard of corporate governance and ethics.

Industry Background

Current healthcare spending in the United States accounts for 16.7% of the nation s gross domestic product (GDP). The Department of Health and Human Services (HHS) announced that healthcare spending increased 6.9% in 2005 and 7.3% in 2006, to a total surpassing $2 trillion. That represents an average of over $6,600 for each person in the United States. Healthcare as a portion of our national gross domestic product (GDP) has risen from 5.7% in 1966 to 16.7% in 2005. The GDP has grown 1640% during the same period. Healthcare is the only net growth sector over the last 10 years, as Healthcare spending has risen from 13.3% of GNP to 16.7%, while housing, food, technology, auto and defense have remained flat as a percent of GDP. Medicare Advantage growth is projected to increase nearly 100% over the next four years. In addition, Medicare spending increased 8.9% to a record high of $400 billion in 2006.

The healthcare industry in the state of Florida is a $100+ billion industry[1], with over 56,000 licensed physicians[2]. Florida today is the fourth largest state in population in the union and will likely be the third largest within the next decade. With a population just under 18 million, current demographers estimate that over 10 million people will move into Florida over the next 20 years[3]. As of today, over 1,000 people move here every single day[4]. In our primary service areas of Dade, Broward and Palm Beach Counties, which correspond to the major cities of Miami, Ft. Lauderdale and West Palm Beach, there are over 20,000 physicians and a population near 5.5 million[5]. In excess of 15% of this population is over the age of 65. This senior population is our primary target today and in the future.

Medicare is the health insurance program for retired United States citizens or qualified legal permanent residents aged 65 and older, qualifying disabled persons, and persons suffering from end-stage renal disease. Medicare is funded by the federal government and administered by the Centers for Medicare and Medicaid Services (CMS). The Medicare eligible population is large and growing. During 2005, approximately 41.5 million people, or approximately 14% of the United States population, were enrolled in Medicare according to CMS. The Henry J.

[1]

Florida Hospital Association, Facts About Florida's Health Care System, http://www.fha.org/facts.html.

[2]

Florida Department of Health, Health Professional Licensure, http://www.doh.state.fl.us/.

[3]

US Census Bureau, Press Release April 21, 2005. Florida, California and Texas to Dominate Future Populations Growth, Census Bureau Reports .

[4]

Florida Trend Magazine, April 2006, The Mega-Trends: Good Migration .

[5]

Florida Department of Health, Health Professional Licensure, http://www.doh.state.fl.us/.

Kaiser Family Foundation estimates that the number of Medicare enrollees will increase to 43.1 million in 2006, 46 million by 2010, 61 million by 2020, and 78 million by 2030. The Congressional Budget Office expects Medicare expenditures, without taking into account the new prescription drug benefit, will rise at a compounded annual growth rate of 8.9%, from approximately $342 billion in 2005 to approximately $800 billion in 2015.

We expect that most of our revenue will be derived, directly or indirectly, from medical services to Medicare Advantage members. Medicare is offered to eligible beneficiaries on a fee-for-service basis or through a managed care plan that has contracted with CMS pursuant to the Medicare Advantage program. In 2005, nationwide Medicare Advantage penetration, expressed as a percentage of total Medicare eligible beneficiaries who belong to a Medicare Advantage plan, is approximately 13%. Medicare Advantage penetration is anticipated to grow to almost 30% by 2013, according to the Henry J. Kaiser Family Foundation. We believe that the projected favorable Medicare Advantage enrollment trends and the reforms proposed by the MMA will have a positive impact on our Medicare Advantage plans.

MEDICARE SPENDING

	Spending in Billions		Medicare as
Year	GDP	Medicare	a % of GDP
1966	787.8	1.8	0.2%
1976	1,825.3	19.7	1.1%
1986	4,462.8	76.4	1.7%
1996	7,816.9	198.7	2.5%
2006	12,906.8	400.0	3.1%
2015	20,000.0	800.0	4.0%

According to the 2005 Federal Budget, Medicare Advantage (formerly Medicare + Choice) growth was projected to increase nearly 100% over the following 4 years. In addition, actual per member per month (PMPM) payments to MCOs were increased by a record 10.6% nationwide. Medicare spending increased 8.9% to a record high of $309 billion in 2005. In Palm Beach County Florida, where the Company is based, federal funding to Medicare MCOs was increased about 16 percent in 2005. MCOs receive a base of $734.51 per member per month from the federal government, up from $633.86 per member per month.

Federal officials and members of Congress are on the record stating that they hoped the increase, five times as large as the typical annual increase in recent years, would reverse the exodus of private plans from the Medicare program. The administration, trying to enhance competition and efficiency in the Medicare marketplace, wants to triple enrollment in private plans within three years.

With Medicare payments to MCOs rising two percent annually in recent years, many insurance executives decided that they could no longer do business with the program because their Medicare-related costs were rising about 10 percent a year. From 1999 to 2003, health plans dropped more than 2.4 million Medicare beneficiaries. Some withdrew from Medicare entirely, while others curtailed their participation by withdrawing from specific counties. The Federal Centers for Medicare and Medicaid Services predicted publicly that as a result of the increased payments, which took effect March 1, 2004, many private plans would return to the Medicare program.

Currently, of nearly 40 million Americans in Medicare, about 4.6 million (12 percent of all beneficiaries) have chosen to be in a Medicare & Choice Plan.[6]

The federal government predicts that due to the Medicare law enacted in December 2003 to encourage people to enroll in MCOs by 2007 and similar private plans called Preferred Provider Organizations (PPOs), 35 percent of beneficiaries will be members of such plans. Tommy G. Thompson, Secretary of Health and Human Services described the increased payments as an investment in our seniors. As a result of the increase, Medicare beneficiaries will have more options and better services. Private plans will be able to use the additional money to

[6]

Centers for Medicare & Medicaid Services, Press Release September 1, 2003, More Choices, Better Benefits: The Medicare + Choice Program enhance benefits, to reduce premiums or co-payments paid by beneficiaries, or, as a way of stabilizing the network of healthcare providers who serve the beneficiaries, to increase payments to doctors and hospitals.[7]

We expect that these new rates will help beneficiaries by enabling their plans to deliver better benefits, such as enhanced prescription drug coverage, reduced out-of-pocket costs, and more reliable access to the providers in their communities, said Dennis Smith, CMS acting Administrator. They will provide equitable payments to private plans to support better service for Medicare beneficiaries. Over the long term, sharing this investment with the private plans can yield important benefits to beneficiaries and taxpayers.

Recent Future Developments for Healthcare Technology

Attendees at the World Health Care Congress were asked about the most significant opportunities that their organization can pursue during the next two years; 79% responded that greater emphasis on data-driven clinical care or the development of portable shared electronic health records were needed.[8]

During a speech February 2004 at the World Healthcare Congress in Washington, D.C., Health and Human Services Secretary Tommy Thompson said that Four years into the 21st century, the healthcare industry still depends on pencils, papers, manila folders, and memo sheets as primary tools for getting its work done. He further said the nation s healthcare delivery system needs to more widely incorporate business practices used in other industries, especially information technology. In the same speech, Thompson told attendees that supermarket clerks rely on technology to ensure they give customers the right change without mistakes. Yet, the Institute of Medicine estimates that 98,000 patients die, and even more are disabled each year, due to errors that can be largely prevented by technologies such as computerized prescription ordering, drug bar-code systems, and electronic patient medical records. The adoption of those and other technologies in healthcare could save the U.S. $100 billion a year through reduced deaths and disabilities. Because the government s Medicare program makes the federal government the country s largest insurance company, the feds are taking a lead role in trying to make it easier for more healthcare providers to adopt these technologies. The ability to share patient information electronically can help doctors and other providers to make better-informed decisions and spot potential mistakes before they happen. However, without data and other technical standards, the sharing of patient information electronically among health providers is often difficult or impossible[9].

Today, there is a greater emphasis than ever placed on issues of patient safety and the prevention of medical errors, competition in clinical care quality and IT innovation, as well as heightened awareness of the urgency to implement digital security measures and compliance strategies. We believe that these factors, combined with changes in federal, state and commercial/private payer reimbursement, slowed growth of Medicare payments, the aging of the U.S. population and the growing acceptance of the Internet and web-based technologies, and spurred by the increasingly vocal demands of consumers for quality care, will result in continued dramatic change in the healthcare industry.

Presently, we also see that there are, with minor exceptions, only two places physicians or medical providers can turn for help in meeting all the demands placed on them by the business and healthcare environment. These are highly paid consultants that could be represented by large accounting and large consulting firms, or the local cottage industry of healthcare consultants that range from HR functions to accounting and tax work, generally specializing in one or two areas and stretching to meet the ever increasing needs of their clients.

The changing business environment has produced an evolving range of strategic and operating options for healthcare entities. In response, healthcare participants are formulating and implementing new strategies and tactics, redesigning business processes and workflows, acquiring better technology to improve operations and patient care, integrating legacy systems with web-based technologies, developing e-commerce abilities and adopting or remodeling customer service, patient care and marketing programs. We believe that healthcare participants will continue to turn to outside consultants to assist in this vast array of initiatives for the following reasons: the pace of change is eclipsing the capacity of their own internal resources to identify, evaluate and implement the full range of options and consultants enable healthcare participants to develop better solutions in less time and can be more cost effective. By employing outside expertise, healthcare providers can often improve their ability to compete by more rapidly deploying new processes.

[7]

Centers for Medicare & Medicaid Services, Office of the Actuary, NHE Projections 2005-2015

[8]

Harris Interactive January 26, 2005

[9]

Information Week, January 27, 2004, “Thompson: Health Care Needs More IT”

The healthcare consulting industry is highly fragmented and consists primarily of:

- Larger systems integration firms, including the consulting divisions of the national accounting firms and their spin-offs, which may or may not have a particular healthcare focus or offer healthcare consulting as one of several specialty areas;

- Healthcare information system vendors that focus on services relating to the software solutions they offer;

- Healthcare consulting firms, many of which focus on selected specialty areas, such as strategic planning or vendor-specific implementation;

- Large general management consulting firms that may or may not specialize in healthcare consulting and/or do not offer systems implementation; and

- Boutique firms that offer one or two specialized services, or who service a particular geographic market.

In response to escalating expenditures in healthcare costs, MCOs have increasingly pressured physicians, hospitals and other providers to contain costs. This pressure has led to the growth of lower cost outpatient care and reduction of hospital admissions and lengths of stay. To further increase efficiency and reduce the incentive to provide unnecessary healthcare services to patients, payers have developed a reimbursement structure called percentage of premium (POP). POP contracts require the payment to healthcare providers of a fixed amount per patient for a given patient population. The providers assume responsibility for servicing all of the healthcare services needs of those patients, regardless of their condition. We believe that low cost providers will succeed in the POP environment because such companies have the ability to manage the cost of patient care.

The highly fragmented nature of the delivery of outpatient services has created an inefficient healthcare services environment for patients, payers and providers. MCOs and other payers must negotiate with multiple healthcare services providers, including physicians, hospitals and ancillary services providers, to provide geographic coverage to their patients. Physicians who practice alone or in small groups have experienced difficulty negotiating favorable contracts with managed care companies and have trouble providing the burdensome documentation required by such entities. Healthcare service providers may lose control of patients when they refer them out of their network for additional services that such providers do not offer. We will continue affiliating with physicians who are sole practitioners or who operate in small groups to staff and expand our CHS enabling us to be a provider of choice to MCOs.

Business Strategy

I. Renaissance Health Systems, Inc. Provider Systems

A. Overview

RHS was incorporated in the State of Florida on December 13, 2002. The RHS strategy is to create a new type of healthcare delivery system built on the extensive experience of our senior management team. We intend to specialize in managed care Percentage of Premium (POP) contracting. RHS is creating a model for healthcare called the Community Health System (CHS) to contract with Florida MCOs to manage the care of patients in a proactive and cost effective environment.

We currently have been contracted for 22 of 67 counties in Florida. These 22 counties contain 76.26% of the Medicare population of the state.

We negotiated contracts with five MCOs, three of which are operational; the remaining two are currently in development. One operational contract started to accept patients in September 2005 in Volusia County, Florida with Dade and Broward Counties added in January 2006. Revenue and expense from this contract is minimal and will continue as such until we take over full risk of the member s healthcare costs upon the MCO enrolling a minimum of 300 members. The two other MCO contracts became operational December 1, 2006 and are full risk from the first patient forward. Further, the Company has been engaged in negotiations with an additional two MCOs. We have assembled a Provider Relations department that has contracted with over 1,200 physicians, ancillary providers and hospitals.

Since our inception, our management team has been part of the experimental process when acquiring doctors was expected to be the solve-all solution, to the later evolution of Physician Practice Management (PPM), Management Services Organization (MSO) and Provider Sponsored Network (PSN).

RHS has developed a new model for managing patients, providers, and insurers: the Community Health System (CHS). In a CHS, the patient is recognized as the true consumer of healthcare services. The doctor and patient, jointly make the critical decisions, not the MCO. Patients are actively involved in the improvement of their own well-being. We not only help and facilitate treating the sick, but proactively keep the patient healthy, thus reducing the overall costs for the patient and the industry. RHS will pay physicians to keep their patients healthy, and also intends to provide incentives to the patient at the end of each year for actively participating in his or her own health improvement.

B. MCO Arrangements

Executed Agreements

We have executed five contracts with Florida MCOs, three of which are currently active, with the remaining two currently in development. The terms of the active contracts detail that RHS will be responsible for arranging a Community Health System in named Florida counties. The contracts differ in terms regarding the type of delivery system and the way the capitations are set up, in addition to the way in which membership is established. The agreements call for RHS to receive a percentage of premiums received by the MCO. Relating to these agreements, we are required to place designated amounts in segregated bank accounts for each contract to start and increase this amount by a percentage of the revenues generated by the agreement up to a specific dollar amount.

Future Agreements

We intend to derive a substantial amount of our revenues from agreements with MCOs that provide for the receipt of capitated fees. Capitated fees are determined on a per capita basis and are paid monthly by MCOs. MCO enrollees may come from the integration or acquisition of healthcare providing entities, additional affiliated physicians, and acquire and increase enrollment in MCOs currently contracting with the Company through our Physician Practices and Ancillary Services, or from agreements with new MCOs. We intend to enter into additional MCO agreements, which generally will be for a one-year term, and subject to annual negotiation of rates, covered benefits and other terms and conditions. MCO agreements are often negotiated and executed in arrears.

C. Credentialing

Part of our responsibility in our current MCO contracts is to certify physician credentials. The RHS credentialing department became operational in September 2005. Credentialing is part of the underwriting process that the healthcare provider undergoes to participate with RHS. RHS has agreed contractually to perform Delegated Credentialing functions. The MCO delegates the credentialing process to RHS in order to proceed with contract negotiations. RHS must comply with all regulatory requirements and strict guidelines that the MCO is subjected to by the Agency for Health Care Administration and (AHCA) CMS. The MCO will perform periodic audits to ensure compliance.

When Providers contract with various MCOs, each MCO has its own, unique credentialing process that they must comply with. By participating with RHS, the provider only has to complete one credentialing application and undergo one credentialing process regardless of how many MCOs he/she participates with through RHS.

By performing the delegated credentialing functions, RHS has the ability to expedite and control the processing time when the MCO requests to submit a specific county for approval to CMS. This is consistent with our model where RHS establishes a direct relationship with the Provider. It is also an advantage that RHS does not have to rely on the

Healthcare Plan s processes to initiate a Provider.

RHS utilizes National Committee for Quality Assurance (NCQA) compliant software to manage this process. Currently, the service is extended for RHS Physicians. The Company is exploring the possibility of providing the credentialing services to hospitals.

We have established a Credentialing Committee for the purpose of making recommendations to approve or deny Provider participation in RHS. The Credentialing Committee is made up of practicing physicians with participation by the President and Vice President of RHS.

II. Quantum Provider Support Services - Provider Support Services

We intend to provide a broad range of management systems and products to the healthcare community; consisting primarily of individual and small physician practices, ancillary providers and other small to mid-size healthcare facilities including hospitals. We believe that this is a highly underserved market, and when these businesses do receive management system services it is usually in a fragmented, sporadic and inefficient manner.

We anticipate providing consulting services and solutions to healthcare organizations including health plans and technology providers with special emphasis on physician practices, ancillary providers, hospitals and an integrated delivery of health systems.

We intend to design solutions to enable clients to reap the benefits of their investments in new systems and information technology by improving financial performance, increasing productivity, and improving clinical and operational performance.

To address the increased industry-wide focus on patient safety, clinical excellence, compliance with security regulations and financial performance, our Company s ongoing mission is to design solutions that give the healthcare industry the tools and strategies they need to serve their customers effectively, improve the quality and safety of clinical care, secure and authenticate online healthcare transactions, reduce cost and ensure compliance with evolving government and industry requirements, including HIPAA.

Through our management team s knowledge and experience in healthcare operations and workflow, IT and clinical systems, we intend to work with clients to leverage their existing systems and processes to accelerate their return on investments. Our goal is to be the preferred, if not sole, provider of a broad range of support services and consulting solutions for each of our clients.

We deliver a number of solutions designed to enhance the physician s communications, workflow, patient wellness, and practice profitability. The purpose of these solutions is to act as a component of the Community Health System enterprise system. The Company utilizes our subsidiaries QMed BILLING (QMB) and The Quantum Agency (TQA) to deliver the solutions.

The solutions currently delivered are:

Medical billing and collections services

Insurances Malpractice, Health & Life, Property, Disability and, Workers Comp

Electronic Health Records (EHR) and Electronic Prescription Writing

Additional solutions to be added in fiscal year 2007 include:

Hospitalist Services

Personal Health Record (PHR)

Personnel Employment Organization (PEO)

Group Purchasing Organization (GPO)

Physician Receivable Financing

Third Party Adminstrator (TPA)

These solutions are designed to integrate with the RHS systems including Utilization Management, Case Management, Disease Management, Credentialing, Risk Management and Patient Wellness Management. By integrating all of these solutions, the Company is establishing an enterprise system which electronically and clinically connects all aspects of RHS interests in managing the full purview of the MCO and the physician practice. Management believes establishing an enterprise system to manage RHS will be the most effective means to achieve the best returns as it relates to patient wellness. The utilization of the enterprise system and its support solutions will also provide the physician practice with added efficiency and profitability.

We will market these solutions as the products are launched under *Q-Care* sm system. Some of the solutions will be revenue generating and others cost saving and communication enhancing. Unique to the healthcare industry, our comprehensive offerings will deliver a compact and complete healthcare system to individual communities.

The utilization of the solutions listed above allows the physician to:

- Better document the patient care, including storage of lab tests, x-rays, etc
- Utilize best practices knowledge to diagnosis and treat patients
- Improve practice efficiency
- Focus more time resources on clinical issues vs. administrative issues
- Improve communications with hospitals and specialists
- Use Hospitalist services to monitor patients while they are in hospitals
- Improve the practice’s cash flow and profitability
- Improve marketing ability of the practice to attract patients
- Issue electronic prescriptions to the patient s pharmacy

QMed BILLING, Inc. Medical Billing and Collection Services

QMed BILLING (QMB) was incorporated in the State of Florida on May 8, 2006. QMB s plan is to satisfy medical billing and collection needs of physicians and hospitals throughout the state with the use of healthcare technology and strategically sizeable branches. In the past year, QMB has entered into two Management Agreements with Florida based billing and collection companies serving the Southern and Central Florida regions. The Company has begun conducting the appropriate due diligence and pre-closing process necessary to facilitate full acquisitions. QMB expects to close these acquisitions within the next few months. The Company plans to continue to seek potential acquisitions of medical billing companies to complete this portion of its strategic plan.

Our goal is to provide quality services that enable physicians to improve their practices. QMB provides services through traditional systems and through a new fully electronic, integrated system consisting of an advanced electronic health record (EHR) and a billing claims system. To help improve physician practices, QMB utilizes the electronic processing systems to more efficiently and timely processes claims and collect payments. Superbills, sent electronically in real time or batch mode, allow for improvement in the collection time for most physicians by 2-7 days. QMB is able to service any account in Florida from our two operation centers. In January 2007, QMB began marketing the combined solutions of EHR and billing under the Company's "Q-Care"sm system.

QMB services include:

- Processing physician prepared superbills into valid medical claims
- Electronically forwarding the claim to the appropriate payor (insurance, government, private)
- Recording collections from all sources and preparing account receivable reports for the physician
- Invoicing for patient portion of charges
- Other collection activities
- Follow up on denials and re-filing the claim
- Interfacing with payors regarding claim issues

The Quantum Agency, Inc. Insurance Agency

The Quantum Agency (TQA) was incorporated in the State of Florida on October 20, 2003 to serve as an insurance broker exclusively to physicians in Florida. TQA specializes in insurance programs most beneficial to medical practices and individual physicians. We offer an array of products including property/casualty liability, health savings accounts, workers compensation, individual health plans, malpractice, group health, life, disability and more.

The Quantum Agency has contracted with five different agents to service our clients. Each agent specializes in a specific insurance product. Each agent has agreed to develop a program that is specialized for our RHS providers. In addition, TQA has agreements with certain MCOs to assist in the recruitment of members.

III. Quantum Medical Technologies, Inc. Provider Technology Solutions

Quantum Medical Technologies (QMT) was incorporated in January 18, 2000 to create a new model for managing information in the medical industry. A business process branded as Cybernaptic $_{sm}$ which connects all of the touch points of healthcare in an enterprise technology environment , utilizing Application Service Provider (ASP), web based platforms, will allow QMT clients to choose any combination of technical and software support. This will include: (i) full support servicing with data center consolidation, (ii) 24/7/365 network monitoring and help desk through our network control center, as well as (iii) facility management, application unification, application support servicing and interim management of the entire IT operations.

The healthcare technology environment is increasingly complex and costly as a result of the challenges inherent in developing and/or deploying new technologies to meet the growing needs of the industry and new objectives designed to improve clinical quality and patient safety. Maintaining or integrating legacy computer systems and deploying an IT function capable of achieving regulatory compliance, ensuring secure digital transactions, improving business operations and the revenue cycle as well as reducing supply costs prove costly and inefficient. As a result, we believe that the healthcare industry will continue to increase the percentage of its budget devoted to new technology solutions.

Computer-based patient record systems (electronic health records) and other technologies in the healthcare delivery process can enable organizations to improve their bottom line. These technologies help healthcare organizations reduce costs through clinical and supply chain efficiencies, enhance communications with physicians, patients, payers and other constituencies, improve care delivery and patient safety and streamline activities such as claims processing, eligibility verification and billing. QMT is developing its Q-Care$_{sm}$ system, an enterprise solutions system, to help healthcare organizations reduce costs through clinical and supply chain efficiencies, improve care delivery and patient safety, and streamline administrative activities such as claims processing, eligibility verification and billing.

We believe that healthcare providers and facilities will continue to turn to outside consultants, external management of formerly internal information systems, application support and full support servicing arrangements as a means of coping with the financial and technical demands of information systems management and integration of web-based solutions. QMT is ahead of the industry in recognizing and developing the first of its kind ASP based Community Health System enterprise system. Through business services offered by the Company through our *Q-Care*$_{sm}$ system, we provide flexible business processes, technology outsourcing solutions and operations management. Through *Q-Care*$_{sm}$ clients can achieve their business process and information technology goals while remaining focused on expanding their primary businesses and reducing related capital outlay.

QMT has begun to develop a new method to track improvement in patient life style with a patent pending process called Quantum Quotient$_{sm}$ or Qx2 $_{sm}$. The Company has filed a provisional application in connection with this process with the U.S. Patent Office. The assessing and purpose of the Quantum Quotient is to create a scientific method of qualifying healthcare condition, lifestyle risk and improvement in patients who participate in the federal Medicare Advantage program. The Quotient accomplishes this by using existing actuarial figures on mortality, morbidity, age, sex, diagnosis, prescription, environment and geography as well as job classification to qualify, quantify and predict future medical use and lifestyle risk of patients. MCO, MSO and CHS will use this index to further motivate patients to improve their health and lifestyle extending their lives, reducing illnesses and reducing future healthcare costs.

QMT acquired an electronic health record (EHR) and an integrated billing system for use by physicians and QMed BILLING. It is an ASP, web based platform utilizing knowledge based workflow methodology familiar to physicians. The solution was developed to meet the CCHIT and CCR standards. It also contains the ability to receive and send information in the HL7 and X12 formats, thus allowing physicians to transfer data and tests to and from hospitals and labs. QMT developed a utilization management program which allows the Renaissance management team to manage its patient base. Combined with the EHR it creates the core of the *Q-Care*sm system.

QMT provides in-house web services in developing and maintaining web sites for RHS and Quantum needs, and several county medical associations. In December 2006, QMT installed a credentialing program, allowing Renaissance to credential its physicians for all MCO plans contracted. This service will be extended to hospitals in which RHS physicians hold or seek active privileges .

The Company seeks to assemble the solutions which become part of the Community Health Enterprise System. A number of additional solutions have been identified that the Company will acquire or internally develop, to support the RHS and Quantum Medical Management s operations.

Our Employees

We currently have 26 full-time employees at the Company s executive offices in Wellington, Florida. No employees of the Company are covered by a collective bargaining agreement or are represented by a labor union. The Company considers its employee relations to be good.

Government Regulation

As a player in the healthcare industry, the Company s operations and relationships are subject to extensive and increasing regulation by a number of governmental entities at the federal, state and local levels. The Company has structured its operations to be in material compliance with applicable laws. There can be no assurance that a review of the Company s or the affiliated physician s business by courts or regulatory authorities will not result in a determination that could adversely affect the operations of the Company or the affiliated physicians or that the healthcare regulatory environment will not change so as to restrict the Company s or the affiliated physicians existing operations or their expansion.

The laws of many states prohibit business corporations such as the Company from practicing medicine and employing physicians to practice medicine. In Florida, non-licensed persons or entities, such as the Company, are prohibited from engaging in the practice of medicine directly. However, Florida does not prohibit such non-licensed persons or entities from employing or otherwise retaining licensed physicians to practice medicine so long as the Company does not interfere with the physician s exercise of independent medical judgment in the treatment of patients. The laws in most states, including Florida, regarding the corporate practice of medicine have been subjected to limited judicial and regulatory interpretation and, therefore, no assurances can be given that the Company s activities will be found to be in compliance, if challenged.

There are also state and federal civil and criminal statutes imposing substantial penalties, including civil and criminal fines and imprisonment, administrative sanctions and possible exclusion from Medicare and other governmental programs on healthcare providers that fraudulently or wrongfully bill governmental or other third-party payers for healthcare services. The federal law prohibiting false billings allows a private person to bring a civil action in the name of the United States government for violations of its provisions. Moreover, technical Medicare and other reimbursement rules affect the structure of physician and ancillary billing arrangements. The Company believes it will always be in material compliance with such laws, but there is no assurance that the Company s activities will not be challenged or scrutinized in the future by courts or governmental authorities. Noncompliance with such laws may adversely affect the operation of the Company and subject it to penalties and additional costs.

Certain provisions of the Social Security Act, commonly referred to as the Anti-Kickback Statute, prohibit the offer, payment, solicitation, or receipt of any form of remuneration in return for the referral of Medicare or state health program patients or patient care opportunities, or in return for the recommendation, arrangement, purchase, lease or order of items or services that are covered by Medicare or state health programs. The Anti-Kickback Statute is broad in scope and has been broadly interpreted by courts in many jurisdictions. Read literally, the statute places at risk many business arrangements, potentially subjecting such arrangements to lengthy, expensive investigations and prosecutions initiated by federal and state governmental officials. Violation of the Anti-Kickback Statute is a felony, punishable by significant fines and/or imprisonment. In addition, the Department of Health and Human Services may impose civil penalties excluding violators from participation in Medicare or state health programs.

The federal Health Insurance Portability and Accountability Act (HIPAA) expands the government s resources to combat healthcare fraud, creates several new criminal healthcare offenses, and establishes a new advisory opinion mechanism under which the Office of Inspector General is required to respond to requests for interpretation of the Anti-Kickback Statute, in an effort to bring clarity and relief to the uncertainty of the Anti-Kickback Statute. Due to the newness of the legislation, it is impossible to predict the impact of the new law on the Company s operations.

Congress, in the Omnibus Budget Reconciliation Act of 1993, enacted significant prohibitions against physician referrals. These prohibitions, commonly known as Stark II, amended prior physician self-referral legislation known as Stark I by dramatically enlarging the field of physician-owned or physician-interested entities to which the referral prohibitions apply. Effective January 1, 1995, Stark II prohibits, subject to certain exceptions, including a group practice exception, a physician from referring Medicare or Medicaid patients to an entity providing designated health services in which the physician or immediate family member has an ownership or investment interest or with which the physician has entered into a compensation arrangement. The designated health services include clinical laboratory services, radiology and other diagnostic services, radiation therapy services, physical and occupational therapy services, durable medical equipment, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics, outpatient prescription drugs, home health services, and inpatient and outpatient hospital services. The penalties for violating Stark II include a prohibition on payment by these government programs and civil penalties of as much as $15,000 for each violative referral and $100,000 for participation in a circumvention scheme. The Stark legislation is broad and ambiguous. Interpretive regulations clarifying the provisions of Stark II have not been issued. Florida has also enacted similar self-referral laws. The Florida Patient Self-Referral Act of 1992 severely restricts patient referrals for certain services by physicians with ownership or investment interests, requires disclosure of physician ownership in businesses to which patients are referred and places other regulations on healthcare providers. While the Company believes it is in compliance with the Florida and Stark legislation and their exceptions, future laws, regulations, or interpretations of current law could require the Company to modify the form of its relationships with physicians and ancillary service providers. Moreover, the violation of Stark I or II or the Florida Patient Self-Referral Law of 1992 by the Company s Physician group could result in significant fines and loss of reimbursement which would adversely affect the Company.

RISK FACTORS

Forward Looking Statements

The discussion in this annual report regarding our business and operations includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1996. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as may, expect, anticipate, intend, estimate or continue or the negative thereof or other variations thereof or comparable terminology. The reader is cautioned that all forward-looking statements are speculative, and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward-looking statements. This disclosure highlights some of the important risks regarding our business. The number one risk of the Company is its ability to attract fresh and continued capital to execute its comprehensive business plan. In addition, the risks included should not be assumed to be the only things that could affect future performance. Additional risks and uncertainties include the potential loss of contractual relationships, changes in the reimbursement rates for those services as well as uncertainty about the ability to collect the appropriate fees for services provided by us. Also, the Company faces challenges in technology development, deployment and use, medical malpractice exposure and the fluctuation of medical costs vs. medical payments. We may also be subject to disruptions, delays in collections, or facilities closures caused by potential or actual acts of terrorism or government security concerns.

Substantial Additional Financing

Need for Substantial Additional Financing and Going Concern. Since the Company s inception, we have relied upon the sale of common stock and convertible debt in order to maintain our operations. There can be no assurance that the Company will be able to obtain additional financing if, and when, it is needed on terms the Company deems acceptable. Our inability to obtain sufficient additional financing would have a material adverse effect on the Company s ability to implement its business plan. As a result, the Company could be required to diminish or suspend activities. The Company s financial statements have been qualified as to our ability to continue as a going concern. This qualification may adversely affect our capital raising efforts.

MCO Agreements

Dependence on MCO Agreements; Capitated Nature of Revenues; Control of Healthcare Costs. The Company intends to have a substantial part of its revenues derived from agreements with Managed Care Organizations (MCOs) that provide for the receipt of capitated fees. Capitated fees are a negotiated percentage of total premiums collected by an insurer or payer source to cover the partial or complete healthcare services deliveries to a person. The fees are determined on a per capita basis paid monthly by managed care organizations. MCO enrollees may come from the integration or acquisition of healthcare providing entities, additional affiliated physicians and increase enrollment in each contract/region serviced by the Company. We intend to enter into MCO agreements, which generally will be for one-year terms, and subject to annual negotiation of rates, covered benefits and other terms and conditions. MCO agreements are often negotiated and executed in arrears. There can be no assurance that such agreements will be entered into, or renewed, or if entered into and/or renewed that they will contain these favorable reimbursement terms to the Company and its affiliated providers. There can be no assurance that we will be successful in identifying, acquiring and integrating MCO entities or in increasing the number of MCO enrollees. Once an MCO is acquired, a decline of enrollees in MCOs could also have a material adverse effect on our profitability.

Under the MCO agreements, the Company, through its affiliated providers, will generally be responsible for the provision of all covered hospital benefits as well as outpatient benefits regardless of whether the affiliated providers directly provide the healthcare services associated with the covered benefits. To the extent that enrollees require more care than is anticipated or require supplemental healthcare, which is not otherwise reimbursed by the MCO, aggregate capitation rates may be insufficient to cover the costs associated with the treatment of enrollees. If revenue is insufficient to cover costs, our operating results could be adversely affected. As a result, our success will depend largely on the effective management of healthcare costs through various methods, including utilization management, competitive pricing for purchased services and favorable agreements with payers. Recently many providers have experienced pricing pressures with respect to negotiations with MCOs. There can be no assurance that these pricing pressures will not have a material adverse impact on the operating results of the Company. Changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters and numerous other factors affecting the delivery and cost of healthcare are beyond the control of the Company and may adversely affect its operating results.

Under the MCO agreements, the Company will be responsible for the provision of all covered hospital benefits regardless of whether it is responsible for provision of the hospital services associated with the covered benefits. In connection with hospital covered benefits, the Company will enter into a per diem arrangement with a hospital or hospitals whereby we will pay the hospital service provider a flat per diem fee, for which the hospital will provide all hospital directed services for a single per diem fee. In some cases, we would be required to pay a percentage of usual and customary hospital charges if a capitated patient is seen or admitted in a hospital not under contract to the Company. We intend to contract with a number of hospitals to provide covered services to MCO enrollees who have been assigned to the physician practices affiliated with the Company. We also expect to seek additional hospital providers to provide covered services to MCO enrollees assigned to its affiliated physicians. To the extent that enrollees require more care than is anticipated or require supplemental care that is not otherwise reimbursed by the MCOs, aggregate capitation rates may be insufficient to cover the costs associated with the treatment of enrollees. If such revenue is insufficient, the Company s operating results could be adversely affected.

The MCO agreements often contain shared-risk provisions under which additional revenue can be earned or economic penalties can be incurred based upon the utilization of hospital physicians and ancillary services by MCO enrollees. These estimates are based upon resource consumption, utilization and associated costs incurred by MCO enrollees compared to budgeted costs. Differences between actual contract settlements and amounts estimated as receivable or payable relating to MCO risk-sharing arrangements are generally reconciled annually, which may cause fluctuations from amounts previously accrued.

Failure to Estimate IBNR Claims

Our Failure to Estimate IBNR Claims Accurately Will Affect Our Reported Financial Results. Our medical care costs include estimates of our incurred but not reported (IBNR) claims. We estimate our medical expense liabilities using actuarial methods based on historical data adjusted for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services, and in consultation with our MCO Partners, other relevant factors. Actual conditions, however, could differ from those we assume in our estimation process. We continually review and update our estimation methods and the resulting accruals and make adjustments, if necessary, to medical expense when the criteria used to determine IBNR change and when actual claim costs are ultimately determined.

As a result of the uncertainties associated with the factors used in these assumptions, the actual amount of medical expense that we incur may be materially more or less than the amount of IBNR originally estimated. If our estimates of IBNR are inadequate in the future, our reported results of operations will be negatively impacted. Further, our inability to estimate IBNR accurately may also affect our ability to take timely corrective actions or otherwise establish appropriate premium pricing, further exacerbating the extent of any adverse effect on our results.

Competition

Competition in Our Industry May Limit Our Ability to Maintain or Attract Members, Which Could Adversely Affect Our Results of Operations. We operate in a highly competitive environment subject to significant changes as a result of business consolidations, new strategic alliances, and aggressive marketing practices by other managed care organizations that compete with us for members. Our principal competitors for contracts, members, and providers vary by local service area and are comprised of national, regional, and local managed care organizations that serve Medicare recipients, including, among others, UnitedHealth Group, Humana, Metcare Healthplan, America s Health Choice, Vista Health Plans, Wellcare Healthplans and others. Our failure to maintain or attract members to our MCO Partners could adversely affect our results of operations. We believe changes resulting from the MMA may bring additional competitors into our Medical Advantage service areas. In addition, we face competition from other managed care companies that often have greater financial and other resources, larger enrollments, broader ranges of products and benefits, broader geographical coverage, more established reputations in the national market and our markets, greater market share, larger contracting scale, and lower costs. Such competition may negatively impact our enrollment, financial forecasts, and profitability.

Inability to Maintain Members

Our Inability to Maintain The Medicare Advantage Members, or our MCO Partners, or Increase Our Membership Could Adversely Affect Our Results of Operations. A reduction in the number of members in our Affiliated Medicare Advantage plans, or the failure to increase our membership, could adversely affect our results of operations. In addition to competition, factors that could contribute to the loss of, or failure to attract and retain, members include:

- negative accreditation results or loss of licenses or contracts to offer Medicare Advantage plans;
- negative publicity and news coverage relating to us or the managed healthcare industry generally;
- litigation or threats of litigation against us;
- disenrollment as a result of members choosing a stand-alone PDP; and
- our inability to market to and re-enroll members who enlist with our competitors because of the new annual enrollment and lock-in provisions under the MMA.

Disruption in Our Healthcare Provider Networks

A Disruption in Our Healthcare Provider Networks Could Have an Adverse Effect on Our Operations and Profitability. Our operations and future profitability are dependent, in part, upon our ability to contract with healthcare providers and provider networks on favorable terms. In any particular service area, healthcare providers or provider networks could refuse to contract with us, demand higher payments, or take other actions that could result in higher healthcare costs, disruption of benefits to our members, or difficulty in meeting our regulatory or accreditation requirements. In some service areas, healthcare providers may have significant market positions. If healthcare providers refuse to contract with us, use their market position to negotiate favorable contracts, or place us at a competitive disadvantage, then our ability to market products or to be profitable in those service areas could be adversely affected. Our provider networks could also be disrupted by the financial insolvency of a large provider group. Any disruption in our provider network could result in a loss of membership or higher healthcare costs.

Negative Publicity

Negative Publicity Regarding the Managed Healthcare Industry, in General or Us in Particular, Could Adversely Affect Our Results of Operations or Business. Negative publicity regarding the managed healthcare industry generally, any of our MCO Partners, or us in particular, may result in increased regulation and legislative review of industry practices that further increase our costs of doing business and adversely affect our results of operations by:

- requiring us to change our products and services;

- increasing the regulatory burdens under which we operate;
- adversely affecting our ability to market our products or services; or
- adversely affecting our ability to attract and retain members.

Violation of the Laws and Regulations

Violation of the Laws and Regulations Applicable to Us Could Expose Us to Liability, Reduce Our Revenue and Profitability, or Otherwise Adversely Affect Our Operations and Operating Results. The federal and state agencies administering the laws and regulations applicable to us have broad discretion to enforce them. On an ongoing basis, we expect to be subject to various governmental reviews, audits, and investigations to verify our compliance with our contracts, licenses, and applicable laws and regulations. An adverse review, audit, or investigation could result in any of the following:

- cancellation of any or all of our MCO contracts;
- loss of our right to participate in the Medicare Advantage program;

- forfeiture or recoupment of amounts we have been paid pursuant to our contracts or performance bonds;
- imposition of significant civil or criminal penalties, fines, or other sanctions on us and our key employees;
- damage to our reputation in existing and potential markets;
- increased restrictions on marketing our products and services; and
- inability to obtain approval for future products and services, geographic expansions, or acquisitions.

Medical Malpractice Claims and Other Litigation

Claims Relating to Medical Malpractice and Other Litigation Could Cause Us to Incur Significant Expenses. Occasionally, we may be party to various litigation matters, some of which could seek monetary damages. Managed care organizations and their assets may be sued directly for alleged negligence, including in connection with the credentialing of network providers or for alleged improper denials or delay of care. In addition, Congress and several states have considered or are considering legislation that would expressly permit managed care organizations to be held liable for negligent treatment decisions or benefits coverage determinations. Of the states in which we anticipate future operations, only Texas has enacted legislation relating to health plan liability for negligent treatment decisions and benefits coverage determinations. In addition, our providers involved in medical care decisions may be exposed to the risk of medical malpractice claims. A material percentage of these providers do not have malpractice insurance. As a result of increased costs or inability to secure malpractice insurance, the percentage of physicians who do not have malpractice insurance may increase.

Effective and Secure Management Information Systems

The Inability or Failure to Properly Maintain Effective and Secure Management Information Systems, Successfully Update or Expand Processing Capability, or Develop New Capabilities to Meet Our Business Needs Could Result in Operational Disruptions and Other Adverse Consequences. Our business will depend significantly on effective and secure information systems. The information gathered and processed by our management information systems will, once completed, assist us in, among other things, marketing and sales tracking, billing, claims processing, medical management, medical care cost and utilization trending, financial and management accounting, reporting, planning and analysis, and e-commerce. These systems could, in the future, support on-line customer service functions, provider and member administrative functions, and support tracking and extensive analyses of medical expenses and outcome data. These information systems and applications require continual maintenance, upgrading, and enhancement to meet our operational needs and handle our expansion and growth. Any inability or failure to properly maintain management information systems, successfully update or expand processing capability or develop new capabilities to meet our business needs in a timely manner, could result in operational disruptions, loss of existing customers, difficulty in attracting new customers, implementation of our growth strategies, disputes with customers and providers, regulatory problems, increases in administrative expenses, loss of our ability to produce timely and accurate reports, and other adverse consequences. To the extent a failure in maintaining effective information systems occurs, we may need to contract for these services with third-party management companies, which may be on less favorable terms to us and significantly disrupt our operations and information flow. Furthermore, our business requires the secure transmission of confidential information over public networks. Because of the confidential health information we store and transmit, security breaches could expose us to a risk of regulatory action, litigation, possible liability, and loss. Our security measures may be inadequate to prevent security breaches and our business operations and profitability would be adversely affected by cancellation of contracts, loss of members, and potential criminal and civil sanctions if they are not prevented.

Ineffective Internal Controls

If We Are Unable to Implement Effective Internal Controls Over Financial Reporting, Investors Could Lose Confidence in the Reliability of Our Financial Statements, Which Could Result in a Decrease in the Price of Our Common Stock. We are required to implement financial, internal, and management control systems to meet our obligations as a public company, including obligations imposed by the Sarbanes-Oxley Act of 2002. However, with limited resources, our ability to complete this task may be limited. These areas include corporate governance, corporate control, internal audit, and compliance requirements.

Reductions in Third-Party Reimbursement

Reductions in Third-Party Reimbursement. Healthcare providers that render services on a fee-for-service basis, as opposed to a capitated plan, typically submit bills for healthcare services provided to various third-party payers, such as governmental programs, for example Medicare and Medicaid, private insurance plans, and managed care plans, for the healthcare services provided to their patients. A portion of the future revenues of the Company are likely to be derived from payments made by these third-party payers. These third-party payers increasingly are negotiating the prices charged for healthcare services with the goal of lowering reimbursement and utilization rates. Our success depends in part on the effective management of healthcare costs. This includes controlling utilization of specialty care physicians and other ancillary providers and purchasing services from third-party providers at competitive prices. There can be no assurance that payments under governmental programs or from other third-party payers will remain at present levels. Third-party payers can deny reimbursement if they determine that treatment was not performed in accordance with the cost-effective treatment methods established by such payers, was experimental, or for other reasons.

Management Information Systems

The Development of Management Information Systems May Involve Significant Time and Expense. We expect to develop a management information system as an important component of the business. The development and implementation of such systems involve the risk of unanticipated delay and expense, which could have an adverse impact on our operations.

Development of Management Information Systems

Risks Associated with Development of Management Information Systems; Dependence on Major Customers for Management Information Systems. Our management information systems will be an important component of the business. The Company is participating in the development of an integrated management information system. This would be designed to provide centralized billing, permit the review of a patient s electronic health records and information on practice guidelines, monitor utilization, and measure patient satisfaction and outcome of care. The development and implementation of such systems involve the risk of unanticipated delay and expense, and there can be no assurance that we will be successful in implementing the integrated management information system. Currently, there is no active information system installed and we may seek to outsource all management system functions to a third party.

Liability

Exposure to Professional Liability; Liability Insurance. In recent years physicians, hospitals and other providers in the healthcare industry have become subject to an increasing number of lawsuits alleging medical malpractice and related legal theories. Many of these lawsuits involve large claims and substantial defense costs. Once funding is secured, we expect to secure professional liability insurance coverage, on a claim made basis, in amounts that exceed the requirements as mandated by the State of Florida, but which may not be adequate to protect the assets of the Company.

Competition

Competition. The healthcare industry is extremely competitive and subject to continual changes in the method in which services are provided and the manner in which healthcare providers are selected and compensated. Companies in other healthcare industry segments, some of which have financial and other resources greater than we do, may become competitors in providing similar services. Our principal competitors include Metropolitan Health Networks, Inc. (AMEX:MDF), a company that our CEO and CFO jointly co-founded, Continuecare Corporation (AMEX:CNU), Primary Care Specialists, First Consulting Group, Accuro Healthcare Solutions, Inc., WebMD, and Z Consulting. Our strength, in comparison with our competitors, is our knowledge, understanding, and experience in managed care risks, information technology, and systems development.

The healthcare industry is highly regulated and failure to comply with laws or regulations, or a determination that in the past we have failed to comply with laws or regulations, could have an adverse effect on our financial condition and results of operations.

The healthcare services that we and our affiliated professionals intend to provide are subject to extensive federal, state, and local laws and regulations governing various matters such as the licensing and certification of our facilities and personnel, the conduct of our operations, our billing and coding policies and practices, our policies and practices with regard to patient privacy and confidentiality, and prohibitions on payments for the referral of business and self-referrals. If we fail to comply with these laws, or a determination is made that in the past we have failed to comply with these laws, our financial condition and results of operations could be adversely affected. Changes to healthcare laws or regulations may restrict our existing operations, limit the expansion of our business, or impose additional compliance requirements. These changes could have the effect of reducing our opportunities or continued growth and imposing additional compliance costs on us that may not be recoverable through price increases.

Federal anti-kickback laws and regulations prohibit certain offers, payments, or receipts of remuneration in return for referring Medicaid or other government-sponsored healthcare program, patients, or patient care opportunities or purchasing, leasing, ordering, arranging for, or recommending any service or item for which payment may be made by a government-sponsored healthcare program. Federal physician self-referral legislation, known as the Stark Law, prohibits Medicare or Medicaid payments for certain services furnished by a physician who has a financial relationship with various physician-owned or physician-interested entities. These laws are broadly worded and, in the case of the anti-kickback law, have been broadly interpreted by federal courts, and potentially subject many business arrangements to government investigation and prosecution which can be costly and time consuming. Violations of these laws are punishable by monetary fines, civil and criminal penalties, exclusion from participation in government-sponsored healthcare programs, and forfeiture of amounts collected in violation of such laws, which could have an adverse effect on our business and results of operations. Florida also has anti-kickback and self-referral laws, imposing substantial penalties for violations.

HIPAA

HIPAA. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) portion that deals with patient privacy became effective April 14, 2003. These new federal health privacy regulations set a national floor of privacy protections that will reassure patients that their health and medical records are kept confidential. The rules intend to ensure appropriate privacy safeguards are in place as we harness information technologies to improve the quality of care provided to patients.

The new protections give patients greater access to their own medical records and more control over how their personal information is used by their health plans and healthcare providers. Consumers are required to receive a notice explaining how their health plans, doctors, pharmacies, and other healthcare providers use, disclose, and protect their personal information. Consumers now have the ability to see and copy their health records and to request corrections of any errors included in their records. Consumers may file complaints about privacy issues with their health plans, providers or with the Office for Civil Rights.

If the Company, and/or its affiliates, is found in violation of HIPAA regulations, we could face substantial fines and restrictions including the loss of its MCO contracts.

Healthcare Reform

Healthcare Reform. As a result of the continued escalation of healthcare costs and the inability of many individuals to obtain health insurance, numerous proposals have been or may be introduced in the U.S. Congress and state legislatures relating to healthcare reform. There can be no assurance as to the ultimate content, timing or effect of any healthcare reform legislation. It is impossible at this time to estimate the impact of potential legislation that may be material to the Company, its operations, and profitability.

Key Personnel

Dependence on Key Personnel. Implementation of our business strategy and operations are largely dependent on the efforts of two senior officers, Noel J. Guillama, Chief Executive Officer, and Donald B. Cohen, Chief Financial

Officer. Furthermore, the Company will likely be dependent on other senior management and the entire Board of Directors as we grow. Competition for highly qualified personnel is intense and the Company has very limited resources. The loss of either Mr. Guillama or Mr. Cohen or other key employees, or the failure to attract and retain other skilled employees could have a material adverse impact upon our business, operations, or financial condition.

Capital Needs

Capital Needs May Have Dilutive Effect. The Company will need to raise additional capital through the issuance of long-term or short-term indebtedness, a bank line of credit and/or accounts receivable factoring facility, and/or the issuance of additional equity securities including sale of common or preferred stock in private or public transactions at such times as management deems appropriate and the market allows. Any of such financings can result in dilution of existing equity positions, increased interest and amortization expense, or decreased income to fund future expansion. There can be no assurance that acceptable financing for future acquisitions, or for the integration and expansion of existing networks, can be obtained.

Shares Eligible for Future Sale

Shares Eligible for Future Sale. As of January 31, 2006, the Company had 34,716,523 outstanding shares of common stock of which 30,948,124 are restricted securities and in the future may be sold upon compliance with Rule 144 adopted under the Securities Act. Rule 144 generally provides that a person holding restricted securities for a period of one year may sell only an amount every three months equal to one percent of the Company s issued and outstanding shares. The sale of these securities could adversely affect the market for our common stock.

Anti-Takeover Provisions

Anti-Takeover Provisions. Certain provisions of the Articles of Incorporation and Bylaws of the Company may be deemed to have anti-takeover effects and may delay, defer, or prevent a takeover attempt of the Company, which include when and by whom special meetings of the Company may be called. In addition, the Company s Articles of Incorporation (Nevada) authorize the issuance of up to 30,000,000 shares of Preferred Stock with such rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board of Directors may, without shareholder approval, issue Preferred Stock with dividends, liquidation, conversion, voting, or other rights which could adversely affect the voting power or other rights of the holders of the Company s Common Stock.

Additionally, the Company s Articles of Incorporation, Bylaws, and Nevada corporate law, where the Company is incorporated, authorize the Company to indemnify its directors, officers, employees, and agents and limit the personal liability of corporate directors for monetary damages, except in certain instances.

Dividends

Absence of Dividends. The Management of the Company believes that the purpose of a corporation is to provide a return on the investments of its shareholders. Management s goal is to pay dividends to all shareholders, common and preferred within five years. Holders of the Company s Common Stock are entitled to cash dividends from funds legally available when, and if, declared by the Board of Directors. As a newly organized corporation, the Company has never paid dividends. We do not anticipate the declaration or payments of any dividends in the foreseeable future. We intend to retain any earnings in the first few years to finance the development and expansion of the business. Future dividend policy will be subject to the discretion of the Board of Directors and will be contingent upon future earnings, the Company s financial condition, capital requirements, general business conditions, and other factors. Future dividends may also be subject to covenants contained in loan or other financing documents. Therefore, there can be no assurance that cash dividends of any kind will ever be paid.

Capitated Fees

The Loss of Future Agreement and the Capitated Nature of Our Future Revenues Could Materially Affect Our Operations. The majority of our revenues will come from agreements with managed care organizations that provide for the receipt of capitated fees. Capitated fees are negotiated fees that stipulate a specific dollar amount or a percentage of total premiums collected by an insurer or payer source to cover the partial or complete healthcare services deliveries to a person. We expect to enter into one-year and three-year term agreements that are renewable annually thereafter. These agreements may be terminated on short notice or not renewed on terms favorable to our affiliated providers and us. We may not be successful in obtaining additional MCO agreements or in increasing the number of MCO enrollees once we secure such agreements.

Under the MCO agreements, the Company, through its affiliated providers, generally will be responsible for the provision of all covered hospital benefits, as well as outpatient benefits, regardless of whether the affiliated providers directly provide the healthcare services associated with the covered benefits. To the extent that enrollees require more care than is anticipated, aggregate capitation rates may be insufficient to cover the costs associated with the treatment of enrollees. If revenue is insufficient to cover costs, our opernnects markets, customers and western railroads. At December 2014, the breakdown of track miles was as follows:

	Track Miles
Mainline track	26,391
Terminals and switching yards	9,397
Passing sidings and turnouts	923
Total	36,711

In addition to its physical track structure, CSXT operates numerous yards and terminals. These serve as hubs between CSXT and its local customers and as sorting facilities where railcars often are received, re-sorted and placed onto new outbound trains. The Company's ten largest yards and terminals based on annual volume (number of railcars or intermodal containers processed) are listed below:

Yards and Terminals	Annual Volume (number of units processed)
Chicago, IL	1,039,431
Waycross, GA	648,206
Selkirk, NY	578,414
Willard, OH	550,170
Cincinnati, OH	534,214
Indianapolis, IN	532,368
Nashville, TN	482,932
Hamlet, NC	457,251
Louisville, KY	387,614
Toledo, OH	376,261

Network Geography

CSXT's operations are primarily focused on four major transportation networks and corridors which are defined geographically and by commodity flows below.

Interstate 90 (I-90) Corridor – This CSXT corridor links Chicago and the Midwest to metropolitan areas in New York and New England. This route, also known as the "waterlevel route," has minimal hills and grades and nearly all of it has two main tracks (referred to as double track). These superior engineering attributes permit the corridor to support consistent, high-speed intermodal, automotive and merchandise service. This corridor is a primary route for import traffic coming from the far east through western ports moving eastward across the country, through Chicago and into the population centers in the Northeast. The I-90 Corridor is also a critical link between ports in New York, New Jersey, and Pennsylvania and consumption markets in the Midwest. This route carries consumer goods from all three of the Company's major markets – merchandise, coal and intermodal.

Interstate 95 (I-95) Corridor – The CSXT I-95 Corridor connects Charleston, Jacksonville, Miami and many other cities throughout the Southeast with the heavily populated mid-Atlantic and northeastern cities of Baltimore, Philadelphia and New York. CSXT primarily transports food and consumer products, as well as metals and chemicals along this line. It is the only rail corridor along the eastern seaboard south of the District of Columbia, and provides access to major eastern ports.

Southeastern Corridor – This critical part of the network runs between CSXT's western gateways of Chicago, St. Louis and Memphis through the cities of Nashville, Birmingham, and Atlanta and markets in the Southeast. The Southeastern Corridor is the premier rail route connecting these key cities, gateways, and markets and positions CSXT to efficiently handle projected traffic volumes of intermodal, automotive and general merchandise traffic. The corridor also provides direct rail service between the coal reserves of the southern Illinois basin and the demand for coal in the Southeast.

Coal Network – The CSXT coal network connects the coal mining operations in the Appalachian mountain region and Illinois basin with industrial areas in the Northeast and Mid-Atlantic, as well as many river, lake, and deep water port facilities. CSXT's coal network is well positioned to supply utility markets in both the Northeast and Southeast and to transport coal shipments for export outside of the U.S. Almost half the tons of export coal and nearly all of the domestic coal that the Company transports is used for generating electricity.

See the following page for a map of the CSX Rail Network.

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CSX Rail Network

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Locomotives

CSXT owns and long-term leases more than 4,000 locomotives, over which 98% are owned by CSXT. From time to time, the Company also short-term leases locomotives based on business needs. Freight locomotives are the power source used primarily to pull trains. Switching locomotives are used in yards to sort railcars so that the right railcar is attached to the right train in order to deliver it to its final destination. Auxiliary units are typically used to provide extra traction for heavy trains in hilly terrain. At December 2014, CSXT's fleet of owned and long-term leased locomotives consisted of the following types of locomotives:

	Locomotives	%		Average Age (years)
Freight	3,719	87	%	21
Switching	329	8	%	35
Auxiliary Units	209	5	%	22
Total	4,257	100	%	21

Equipment

In 2014, the average daily fleet of cars on line consisted of approximately 203,000 cars. At any time over half of the railcars on the CSXT system are not owned or leased by the Company. Examples of these non-CSXT railcars are as follows: railcars owned by other railroads (which are utilized by CSXT), shipper-furnished or private cars (which are generally used only in that shipper's service) and multi-level railcars used to transport automobiles (which are shared among railroads).

The Company's revenue generating equipment (either owned or long-term leased) consists of freight cars and containers as described below.

Gondolas – Support CSXT's metals markets and provide transport for woodchips and other bulk commodities. Some gondolas are equipped with special hoods for protecting products like coil and sheet steel.

Open-top hoppers – Transport heavy dry bulk commodities such as coal, coke, stone, sand, ores and gravel that are resistant to weather conditions.

Box cars – Include a variety of tonnages, sizes, door configurations and heights to accommodate a wide range of finished products, including paper, auto parts, appliances and building materials. Insulated box cars deliver food products, canned goods, beer and wine.

Covered hoppers – Have a permanent roof and are segregated based upon commodity density. Lighter bulk commodities such as grain, fertilizer, flour, salt, sugar, clay and lime are shipped in large cars called jumbo covered hoppers. Heavier commodities like cement, ground limestone and sand are shipped in small cube covered hoppers.

Multi-level flat cars – Transport finished automobiles and are differentiated by the number of levels: bi-levels for large vehicles such as pickup trucks and SUVs and tri-levels for sedans and smaller automobiles.

Flat cars – Used for shipping intermodal containers and trailers or bulk and finished goods, such as lumber, pipe, plywood, drywall and pulpwood.

Containers – Weather-proof boxes used for bulk shipment of freight.

Other cars on the network consist primarily of refrigerated boxcars for transporting perishable items.

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At December 2014, the Company’s owned and long-term leased equipment consisted of the following:

Equipment	Number of Units	%	
Gondolas	25,275	38	%
Open-top hoppers	11,555	17	%
Multi-level flat cars	11,455	17	%
Covered hoppers	10,153	16	%
Box cars	7,569	11	%
Flat cars	690	1	%
Other cars	315	—	%
Subtotal freight cars	67,012	100	%
Containers	17,284		
Total equipment	84,296		

Item 3. Legal Proceedings

For further details, please refer to Note 7. Commitments and Contingencies of this annual report on Form 10-K.

Item 4. Mine Safety Disclosure

Not Applicable

Executive Officers of the Registrant

Executive officers of the Company are elected by the CSX Board of Directors and generally hold office until the next annual election of officers. There are no family relationships or any arrangement or understanding between any officer and any other person pursuant to which such officer was elected. As of the date of this filing, the executive officers’ names, ages and business experience are:

Name and Age	Business Experience
Michael J. Ward, 64 Chairman, President and Chief Executive Officer	A 37-year veteran of the Company, Ward has served as Chairman, President and Chief Executive Officer of CSX since January 2003. Ward’s distinguished railroad career has included key executive positions in nearly all aspects of the Company’s business, including sales and marketing, operations and finance.
Fredrik J. Eliasson, 44 Executive Vice President and Chief Financial Officer	Eliasson has served as Executive Vice President and Chief Financial Officer of CSX since 2012 and is responsible for management and oversight of all financial and strategic planning activities, including accounting, financial planning, tax, treasury and investor relations. He also oversees the Company's business risk management processes, including the insurance function.

During his 19-year tenure with the Company, he has also served as Vice President of Sales and Marketing for CSX's chemicals and fertilizer business, Vice President of Emerging Markets, Vice President of Commercial Finance, and Vice President of Financial Planning and Analysis.

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Name and Age	Business Experience
Oscar Munoz, 56 Executive Vice President and Chief Operating Officer	Munoz has been the Executive Vice President and Chief Operating Officer of CSXT since January 2012. He manages all aspects of the Company's operations across its 21,000 route-mile rail network, including transportation, service design, customer service, engineering, mechanical and technology. During his eleven-year tenure with the Company, he has also served as CSX's Executive Vice President and Chief Financial Officer. Munoz brings to the Company more than 25 years of experience from a variety of industries. Before joining CSX in 2003, Munoz served as Chief Financial Officer and Vice President of AT&T Consumer Services. He also has held key executive positions with other consumer products companies, including the Coca-Cola Company and Pepsico Corporation.
Clarence W. Gooden, 63 Executive Vice President of Sales and Marketing and Chief Commercial Officer	Gooden has been the Executive Vice President and Chief Commercial Officer of CSX since April 2004. He is responsible for generating customer revenue, forecasting business trends and developing CSX's model for future revenue growth. An employee of the Company for 44 years, Gooden has held key executive positions in both operations and sales and marketing.
Ellen M. Fitzsimmons, 54 Executive Vice President of Law and Public Affairs, General Counsel and Corporate Secretary	Fitzsimmons has been the Executive Vice President of Law and Public Affairs, General Counsel, and Corporate Secretary of CSX since December 2003. She serves as the Company's Chief Legal Officer and oversees all government relations and public affairs activities as well as internal audit and other risk management functions. During her 23-year tenure with the Company, her broad responsibilities have included key roles in major risk and corporate governance-related areas.
Lisa A. Mancini, 55 Senior Vice President and Chief Administrative Officer	Mancini has been Senior Vice President and Chief Administrative Officer of CSX since January 2009. She is responsible for employee compensation and benefits, labor relations, employee staffing and development activities, purchasing, real estate, and facilities management. She previously served as Vice President-Strategic Infrastructure Initiatives from 2007 to 2009 and, prior to that, Vice President – Labor Relations. Prior to joining CSX in 2003, Mancini served as Chief Operating Officer of the San Francisco Municipal Railway.
Carolyn T. Sizemore, 52 Vice President and Controller	Sizemore has served as Vice President and Controller of CSX since April 2002. She is responsible for financial and regulatory reporting, freight billing and collections, payroll, accounts payable and various other accounting processes.

Sizemore's responsibilities during her 25-year tenure with the Company have included roles in finance and audit-related areas including a variety of positions in accounting, finance strategies, budgets and performance analysis.

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Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information
CSX's common stock is listed on the NYSE, which is its principal trading market, and is traded over-the-counter and on exchanges nationwide. The official trading symbol is "CSX."

Description of Common and Preferred Stock
A total of 1.8 billion shares of common stock are authorized, of which 991,590,969 shares were outstanding as of December 2014. Each share is entitled to one vote in all matters requiring a vote of shareholders. There are no pre-emptive rights, which are privileges extended to select shareholders that would allow them to purchase additional shares before other members of the general public in the event of an offering. At January 23, 2015, the latest practicable date, there were 31,684 common stock shareholders of record. The weighted average of common shares outstanding, which was used in the calculation of diluted earnings per share, was approximately 1 billion as of December 26, 2014. (See Note 2, Earnings Per Share.) A total of 25 million shares of preferred stock is authorized, none of which is currently outstanding.

The following table sets forth, for the quarters indicated, the dividends declared and the high and low share prices of CSX common stock.

	Quarter				
	1st	2nd	3rd	4th	Year
2014					
Dividends	$0.15	$0.16	$0.16	$0.16	$0.63
Common Stock Price					
High	$29.45	$31.09	$32.66	$37.99	$37.99
Low	$25.84	$27.14	$29.07	$29.75	$25.84
2013					
Dividends	$0.14	$0.15	$0.15	$0.15	$0.59
Common Stock Price					
High	$24.67	$26.36	$26.90	$28.56	$28.56
Low	$19.36	$22.40	$22.89	$25.04	$19.36

Stock Performance Graph

The cumulative shareholder returns, assuming reinvestment of dividends, on $100 invested at December 31, 2009 are illustrated on the graph below. The Company references the Standard & Poor 500 Stock Index (“S&P 500”), which is a registered trademark of the McGraw-Hill Companies, Inc., and the Dow Jones U.S. Transportation Average Index, which provide comparisons to a broad-based market index and other companies in the transportation industry. As shown in the graph, CSX's five-year stock returns significantly outpaced those of the S&P 500.

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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: (1) to further its goals under its share repurchase program and (2) to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan that covers certain union employees.

In April 2013, the Company announced a new $1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. During 2014 and 2013, CSX repurchased $517 million, or 17 million shares, and $353 million, or 14 million shares, respectively, of common stock under this program.

Share repurchase activity of $129 million for the fourth quarter 2014 was as follows:

	CSX Purchases of Equity Securities for the Quarter			
Fourth Quarter [a]	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				$259,283,292
October	1,294,275	$32.09	1,293,900	217,766,633
November	1,165,600	35.61	1,165,300	176,267,691
December	1,258,600	36.26	1,258,600	130,625,331
Ending Balance	3,718,475	$34.61	3,717,800	$130,625,331

(a) Fourth quarter 2014 consisted of the following fiscal periods: October (September 27, 2014 - October 24, 2014), November (October 25, 2014 - November 21, 2014), and December (November 22, 2014 - December 26, 2014).

(b) The difference of 675 shares between the "Total Number of Shares Repurchase" 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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Item 6. Selected Financial Data
Selected financial data related to the Company's financial results for the last five fiscal years are listed below.

	Fiscal Years				
(Dollars and Shares in Millions, Except Per Share Amounts)	2014	2013	2012	2011	2010
Financial Performance					
Revenue	$12,669	$12,026	$11,763	$11,795	$10,636
Expense	9,056	8,553	8,299	8,325	7,565
Operating Income	$3,613	$3,473	$3,464	$3,470	$3,071
Net Earnings from Continuing Operations	1,927	1,864	1,863	1,854	1,563
Operating Ratio	71.5 %	71.1 %	70.6 %	70.6 %	71.1 %
Net Earnings Per Share:					
From Continuing Operations, Basic	$1.93	$1.83	$1.80	$1.71	$1.37
From Continuing Operations, Assuming Dilution	1.92	1.83	1.79	1.70	1.35
Average Common Shares Outstanding					
Basic	1,001	1,019	1,038	1,083	1,143
Assuming Dilution	1,002	1,019	1,040	1,089	1,154
Financial Position					
Cash, Cash Equivalents and Short-term Investments	$961	$1,079	$1,371	$1,306	$1,346
Total Assets	33,053	31,782	30,723	29,491	28,026
Long-term Debt	9,514	9,022	9,052	8,734	8,051
Shareholders' Equity	11,176	10,504	9,136	8,598	8,798
Dividend Per Share	$0.63	$0.59	$0.54	$0.45	$0.33
Additional Data					
Capital Expenditures [(a)]	$2,449	$2,313	$2,341	$2,297	$1,840
Employees -- Annual Averages	31,511	31,254	32,120	31,344	30,066

(a) Capital expenditures include investments related to reimbursable public-private partnerships. These partnership investments of $8 million, $40 million, $166 million, $102 million and $15 million in 2014, 2013, 2012, 2011 and 2010, respectively, are projects that are partially or wholly reimbursed to CSX through either government grants or other funding sources such as cash received from a property sale. These reimbursements may not be fully received in a given year; therefore, the timing of receipts may differ from the timing of the investment. See the capital expenditures table on page 38 for additional information.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

STRATEGIC OVERVIEW

CSX provides rail-based freight transportation services including traditional rail service, the transport of intermodal containers and trailers as well as other transportation services such as rail-to-truck transfers and bulk commodity operations with its approximately 32,000 dedicated employees. The Company and the rail industry provide customers with access to an expansive and interconnected transportation network that plays a key role in North American commerce and is critical to the economic success and improved global competitiveness of the United States. This improved competitiveness is driven by lower natural gas prices, increased foreign labor costs and supply chain factors.

The rail industry benefits from this improved global competitiveness, continued economic growth and the shift towards more rail-based solutions. U.S. demand to move more goods by rail is expected to rise and freight railroads provide the most environmentally efficient and economical means to meet this growing demand. CSX can move a ton of freight about 450 miles on one gallon of diesel fuel, as trains are four times more fuel efficient than trucks on average. Shipping freight by rail also alleviates highway congestion, eases air pollution and saves energy.

CSX's network reaches nearly two-thirds of the U.S. population, which accounts for the majority of the nation's consumption of goods. Through this network, the Company transports a diverse portfolio of commodities and products to meet the country's needs. These products range from agricultural goods, such as grains, to chemicals, automobiles, metals, building materials, paper, consumer products, and energy sources like coal, ethanol and crude oil. The Company categorizes these products into three primary lines of business: merchandise, intermodal and coal. CSX's transportation solutions connect industries and population centers across the United States with each other and with global markets through access to over 70 port facilities whereby meeting the transportation needs of energy producers, manufacturers, industrial producers, construction companies, farmers and feed mills, wholesalers and retailers and the United States Armed Forces.

Operating Initiatives
To support long-term growth, CSX is focused on meeting customers' needs while improving profitability. Several key operating initiatives have been implemented over the past several years that lay a foundation for meeting these objectives. The overall goal is sustained high customer service levels, which is in part achieved through a relentless focus on using advanced network modeling analytics and tools to create a disciplined, scheduled approach to designing and running CSX's network. The Company continues to identify the most efficient, cost-effective routes for CSXT customers' traffic while providing timely service with the fewest handlings and car miles possible.

Through the Service Excellence initiative, CSX is building a culture that engages all employees and focuses on the value delivered to customers through improved service. This initiative increases employee communication and dialogue to help identify and resolve customer issues at the lowest level, improving the customer experience and allowing CSX to grow the business. This process involves engagement from all operating employees, as well as collaboration with sales and marketing employees and, ultimately, with the Company's customers. Higher levels of customer service and satisfaction support CSX's ability to profitably grow the business by increasing customer retention, price sustainability and asset utilization.

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In addition, Total Service Integration ("TSI") is intended to align operating capabilities with customers' needs to reduce loading and unloading times and create more capacity. TSI was first implemented on the unit train network, where it has successfully increased the average number of cars per train and improved asset utilization. CSX is implementing TSI for the carload network, which focuses on improving the "first and last mile" service experience for carload customers, providing a more consistent and reliable service product. The carload network is connected to more than 5,000 customer facilities and has a high degree of variability each day. New tools and technology are allowing the company to more effectively communicate with customers, not only providing the service the Company has promised to deliver but proactively notifying the customer of service status. Applying TSI to the carload network will improve service consistency for each merchandise shipper.

Finally, Enterprise Asset Management ("EAM") focuses on improving the utilization of the company's most critical assets, namely, crews, locomotives, cars and track infrastructure. Projects are currently in place to deploy technology, improve processes and reduce unproductive time. Because the railroad is an asset intensive industry, EAM helps reduce the overall expense associated with asset ownership by monitoring the overall condition of equipment, helping proactively schedule maintenance, increasing utilization and also effectively managing the investment required for new or replacement assets. By improving asset utilization, CSX expects to sustain long-term operating efficiencies and reduce future capital expenditures associated with asset replacement.

In summary, these initiatives are designed to improve service levels in a cost effective manner and enhance the reliability of rail transportation. These improvements to operational processes, customer communication and service are better aligning CSX's operating capabilities with customers' needs and are enabling the Company to capitalize on the growth opportunities described below.

Strategic Growth Opportunities
Intermodal
CSX's intermodal business is an economical and environmentally friendly alternative to transporting freight on highways via truck. CSX's intermodal network connects all major population centers east of the Mississippi River and is over 90% cleared for the use of double-stack (two containers high) intermodal movements. This positions the Company to capture a significant share of the incremental domestic intermodal market opportunity, estimated at nine million truckloads in the eastern United States that move over 550 miles. The Company's highway-to-rail initiatives assist in capturing this traffic and also help customers identify conversion opportunities for both domestic moves and the U.S. portion of international moves.

CSX is also building new terminals and increasing network capacity to broaden its market presence in key growth areas. The Company's Northwest Ohio intermodal terminal, which started operations in 2011 and was expanded in 2014, is part of the National Gateway Initiative discussed below. This high-capacity terminal expands service offerings to customers, improves market access to and from east coast ports, reduces interchanges in Chicago and enhances the fluidity of the network. During 2014, the Company opened terminals in Winter Haven, FL and Quebec, Canada. The Company expects to begin construction on a new terminal near Pittsburgh, PA in 2015 enhancing the Company's intermodal reach and supporting future growth.

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Illinois Basin Coal Shift
Energy markets have shifted over the past few years and continue to evolve. In spite of declines in domestic utility coal consumption over the last few years, CSX coal volumes have recently grown as a result of colder winter weather. In the longer term, downward pressure on domestic coal volumes could resume as the result of increasingly stringent proposed environmental regulations and continued low natural gas prices. In addition, mining economics are causing a shift from Central Appalachian coal to thermal coal in the Illinois Basin and the Powder River Basin. To capitalize on these shifts, CSX continues to enhance its network to support these changes, such as adding sidings (track which enables trains on the same line to pass) and increasing yard capacity.

Export Coal
CSX export coal volume and pricing is subject to a high degree of volatility as a result of changes in the global economy, competition from foreign coal producers and regulatory shifts. Over the past few years, CSX has capitalized on the global coal demand in both steel manufacturing and power generation. Currently, both global thermal and metallurgical coal prices are low due to oversupply, but CSX sees long-term growth in global demand as developing countries become more urbanized. The Company remains opportunistic based on the global markets and the resulting level of demand. In addition to the Company's ready access to large U.S. coal suppliers and multiple port facilities, CSX expects to continue to enhance the operating efficiency of its export coal network which will favorably position the Company to capitalize on growth as it is made available.

New Energy Markets
The ongoing surge in shale drilling for the extraction of oil and natural gas has created the opportunity for CSX to serve new energy markets such as crude oil, liquefied petroleum gases ("LPG"), frac sand and other related materials. For example, CSX is capitalizing on the opportunity to move the growing supply of crude oil from the new domestic oil fields, particularly those located in the Bakken Shale region of North Dakota, to customers at eastern refineries. This service also provides greater flexibility in source locations as compared to pipelines.

CSX's LPG market is also benefiting from drilling in Ohio, Pennsylvania and West Virginia within the Utica shale region. Midstream energy companies, which are involved in the transportation, storage and wholesale of refined petroleum products, are taking advantage of the abundance of inexpensive wet gas with newly constructed gas processing plants (or "fractionators") in the region. Rail will also play a vital role in moving LPG products from the fractionators to the market.

CSX's frac sand market (a key input in the drilling process) has also expanded rapidly over the last few years. The Company has invested in new operating capacity, such as railcars and terminals, to accommodate this growth, which has been concentrated mainly in the region of the Utica shale and the western Marcellus shale (which covers most of western Pennsylvania and northern West Virginia). The CSX network not only provides access to many frac sand transload terminals located near the drilling activity but also offers the advantage of CSX-direct routes from several key sand producing regions to the frac sand terminals.

Over the longer term, the improved energy supply outlook for the U.S. will create a sustainable competitive advantage for domestic chemical producers and generate additional growth opportunities for rail. Since natural gas is the primary component in the production of a wide range of petrochemicals, the supply growth and the resulting lower prices have now placed the U.S. amongst the lowest cost production regions in the world. This increased competitiveness is sparking significant investment in new U.S. chemical industry capacity for the first time in more than a decade. CSX is well-positioned to participate in this growing chemical business over the next several years.

Public-Private Partnerships
Expanding capacity on U.S. rail networks provides substantial public benefits including job creation, increased business activity at U.S. ports, reduced highway congestion and lower air emissions. Therefore, CSX and its government partners are jointly working to invest in multi-year rail infrastructure projects such as the National Gateway. This initiative is a public-private partnership which will increase intermodal capacity and create substantial environmental and efficiency advantages by clearing key corridors between mid-Atlantic ports and the Midwest for double-stack intermodal trains.

As part of the National Gateway project, CSX expects to break ground on the modernization of the Virginia Avenue Tunnel in Washington, D.C. in 2015.This project will improve the flow of freight traffic through the District of Columbia and will eliminate a rail-traffic bottleneck that also impacts commuter and passenger trains in the region. The new structure will provide double-stack train clearances in Maryland, West Virginia and the District of Columbia. Going forward, CSX will continue to explore other opportunities to partner with the public sector to maximize the many public benefits of freight rail.

Balanced Approach to Cash Deployment
CSX remains highly committed to delivering value to shareholders through a balanced approach to deploying cash that includes investments in the business, dividend growth and share repurchases. In 2014, the Company invested $2.4 billion to further enhance the capacity, quality, safety and flexibility of its network. In addition, CSX continues to return value to its shareholders in the form of dividends and share repurchases. During 2014, the Company announced a 7 percent increase in the quarterly cash dividend to $0.16 per common share. The Company has increased its quarterly cash dividend 12 times over the last nine years which represents a 27 percent compounded annual growth rate. Also in 2014, CSX continued share repurchases under its $1 billion program which began in 2013 and is expected to be completed in 2015 based on market and business decisions. CSX repurchased $517 million, or 17 million shares, during 2014 under this program. Since 2006, CSX has repurchased 493 million shares (adjusted for stock splits) for $8.8 billion, which represents about one-half of total shares outstanding. As part of this balanced approach, the Company is committed to maintaining a credit profile consistent with a BBB+ rating by Standard & Poor’s and a Baa1 rating by Moody’s Investment Services.

Summary
These operating initiatives, strategic growth areas, long-term investments and shareholder returns discussed above provide a foundation for volume growth, productivity improvement, enhanced customer service and continued advancements in the safety and reliability of operations. To continue these types of investments, the Company must be able to operate in an environment in which it can generate adequate returns and drive shareholder value. CSX will continue to advocate for a fair and balanced regulatory environment to ensure that the value of the Company's rail service would be reflected in any potential new legislation or policies.

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2014 HIGHLIGHTS

• Revenue of $12.7 billion increased $643 million or 5% year over year driven by 6% volume growth across nearly all markets.

• Expenses of $9.1 billion increased $503 million or 6% year over year primarily as a result of volume-related costs, inflation and network performance costs.

• Operating income of $3.6 billion increased $140 million or 4%.

• Operating ratio of 71.5% increased 40 basis points from 71.1%.

•Earnings per diluted share of $1.92 increased $0.09 or 5%.

	Fiscal Years		
(in Thousands)	2014	2013	2012
Volume	6,922	6,539	6,409
(in Millions)			
Revenue	$12,669	$12,026	$11,763
Expense	9,056	8,553	8,299
Operating Income	$3,613	$3,473	$3,464
Operating Ratio	71.5 %	71.1 %	70.6 %
Earnings per diluted share	$1.92	$1.83	$1.79

For additional information, refer to Results of Operations discussed on pages 28 to 35.

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Free Cash Flow (Non-GAAP Measure)
Free cash flow is considered a non-GAAP financial measure under SEC Regulation G, Disclosure of Non-GAAP Measures. Management believes that free cash flow is useful to investors as it is important in evaluating the Company’s financial performance. More specifically, free cash flow measures cash generated by the business after reinvestment. This measure represents cash available for both equity and bond investors to be used for dividends, share repurchases or principle reduction on outstanding debt. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities. As described below, free cash flow before dividends increased $24 million year over year to $919 million. The primary reason for the increase in free cash flow from the prior year is primarily due to the following:

- Higher operating income of $140 million
- Lower taxes paid of $83 million
- Partially offsetting these increases were higher property additions of $136 million

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure).

	Fiscal Years		
	2014	2013	2012
(Dollars in Millions)			
Net cash provided by operating activities	$3,343	$3,267	$2,946
Property additions [(a)]	(2,449)	(2,313)	(2,341)
Proceeds from property dispositions	62	53	186
Other investing activities	(37)	(112)	(70)
Free Cash Flow (before payment of dividends)	$919	$895	$721

(a) Property additions include investments related to reimbursable public-private partnerships. These partnership investments of $8 million, $40 million and $166 million in 2014, 2013 and 2012 respectively, are projects that are partially or wholly reimbursed to CSX through either government grants or other funding sources such as cash received from a property sale. These reimbursements may not be fully received in a given year; therefore the timing of receipts may differ from the timing of the investment.

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RESULTS OF OPERATIONS

2014 vs. 2013 Results of Operations

	Fiscal Years			
	2014	2013	$ Change	% Change
(Dollars in Millions)				
Revenue	$12,669	$12,026	$643	5 %
Expense				
Labor and Fringe	3,377	3,138	(239)	(8)
Materials, Supplies and Other	2,484	2,275	(209)	(9)
Fuel	1,616	1,656	40	2
Depreciation	1,151	1,104	(47)	(4)
Equipment and Other Rents	428	380	(48)	(13)
Total Expense	9,056	8,553	(503)	(6)
Operating Income	3,613	3,473	140	4
Interest Expense	(545)	(562)	17	3
Other Income - Net	(24)	11	(35)	(318)
Income Tax Expense	(1,117)	(1,058)	(59)	(6)
Net Earnings	$1,927	$1,864	$63	3
Earnings Per Diluted Share:				
Net Earnings	$1.92	$1.83	$0.09	5 %
Operating Ratio	71.5 %	71.1 %		(40) bps

Volume and Revenue (Unaudited)
Volume (Thousands of units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)

	Volume			Revenue			Revenue Per Unit		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Agricultural									
Agricultural Products	419	390	7 %	$1,130	$1,013	12 %	$2,697	$2,597	4 %
Phosphates and Fertilizers	330	327	1	534	527	1	1,618	1,612	—
Food and Consumer	94	96	(2)	265	269	(1)	2,819	2,802	1
Industrial									
Chemicals	620	532	17	2,178	1,896	15	3,513	3,564	(1)
Automotive	435	432	1	1,213	1,217	—	2,789	2,817	(1)
Metals	276	262	5	701	644	9	2,540	2,458	3
Housing and Construction									
Forest Products	307	298	3	819	775	6	2,668	2,601	3
Minerals	293	275	7	459	432	6	1,567	1,571	—
Waste and Equipment	158	150	5	309	264	17	1,956	1,760	11
Total Merchandise	2,932	2,762	6	7,608	7,037	8	2,595	2,548	2
Coal	1,262	1,195	6	2,849	2,895	(2)	2,258	2,423	(7)
Intermodal	2,728	2,582	6	1,790	1,697	5	656	657	—
Other	—	—	—	422	397	6	—	—	—

Total	6,922	6,539	6	%	$12,669	$12,026	5	%	$1,830	$1,839	—	%

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2014 vs. 2013 Results of Operations

Revenue

Volume increased 6% year over year with growth across most markets. Revenue increased by 5% year over year driven by this broad-based volume growth.

Merchandise

Agricultural

Agricultural Products - Volume growth was driven by increased shipments of grain and ethanol. A combined record corn and soybean crop in 2013 led to higher grain shipments and reduced U.S. corn prices resulting in increased ethanol production in 2014.

Phosphates and Fertilizers - Volume growth was driven by increased shipments of finished fertilizer products to replenish inventories and phosphate rock shipments due to capacity at a customer facility returning to normal levels.

Food and Consumer - Volume declined due to lower shipments of canned goods and rice. The decline in canned goods was driven by market losses, while rice shipments were lower as customers substituted lower-priced corn. This decline was partially offset by growth in alcoholic beverage shipments due to a customer’s gain in market share.

Industrial

Chemicals - Volume growth was driven by an increase in energy-related shipments that included crude oil, liquefied petroleum gas (LPG) and frac sand. The rise in crude oil shipments to East Coast refineries was due to increased supply of low-cost crude oil from shale drilling activity.

Automotive - Volume increased as North American light vehicle production grew, but rail equipment shortages due to network performance in early 2014 tempered this growth.

Metals - Volume growth was driven by an increase in sheet steel shipments due to growth in automotive production and market gains.

Housing and Construction

Forest Products -Volume increased due to increased shipments of building products and pulpboard. Building products was driven by the continued recovery in the residential housing market. Pulpboard shipments increased due to modal conversions and inventory replenishments that resulted from reduced production late last year.

Minerals - Volume growth was driven by increased shipments of aggregates (which include crushed stone, sand and gravel) and salt. Aggregates was driven by the continued recovery in construction activity, while salt shipments grew due to increased application of road salt and inventory replenishment as a result of the severe winter weather in early 2014.

Waste and Equipment - Volume increased due to growth in machinery shipments of wind energy components and municipal solid waste shipments from a new service offering to a customer location. This growth was partially offset by lower industrial waste shipments due to the completion of one-time remediation projects.

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Coal
Domestic volume increased due to higher shipments attributable to higher natural gas prices, marketplace gains and utilities replenishing stockpiles. This growth was partially offset by a decrease in export coal as a result of softening global market conditions.

Intermodal
Domestic volume increased as a result of growth with existing customers and continued success with highway-to-rail conversions. International volume also increased due to growth with customers in global container shipments moving to inland destinations.

Other
Other revenue increased primarily due to higher incidental revenue associated with higher volume partially offset by decline in revenue from customers who did not meet minimum contractual volumes.

Expense
In 2014, total expenses increased $503 million, or 6%, compared to prior year. Descriptions of each expense category as well as significant year-over-year changes are described below.

Labor and Fringe expenses include employee wages and related payroll taxes, health and welfare costs, pension, other post-retirement benefits and incentive compensation. These expenses increased $239 million primarily due to the following items:

- Volume-related costs were $71 million higher primarily due to increased workforce levels to capture strong customer demand.
- Inflation was $67 million higher.
- Labor costs were $49 million higher due to overtime and relief crews associated with weather disruptions earlier in the year and efforts to improve network performance.
- An initial charge for $39 million was recognized in the fourth quarter of 2014 as a result of an initiative to reduce the management workforce.
- Labor costs were $30 million higher due to an amended locomotive maintenance service agreement where CSX now provides oversight of the labor force. Outside service costs shifted from materials, supplies and other to labor and fringe. Overall expense is neutral for the year.
- Other costs were $17 million lower primarily due to reduced pension costs and incentive compensation costs that reflect lower award payments.

Materials, Supplies and Other expenses consist primarily of contracted services to maintain infrastructure and equipment, terminal services at automotive facilities and professional services. This category also includes costs related to materials, travel, casualty claims, environmental remediation, train accidents, property and sales tax, utilities and other items. Total materials, supplies and other expenses increased$209 million primarily driven by the following:

- Prior year real estate gains were $85 million. No gains were recognized in the current year.
- Volume-related costs rose $58 million primarily due to increased resource levels in response to the 6% volume growth to help capture strong customer demand.
- Utilities, materials and foreign locomotive costs were $44 million higher in response to weather-related service challenges earlier in the year and efforts to improve network performance.
- Inflation was $39 million higher.
- Risk-related costs increased by $13 million due to higher derailments earlier in the year, which reflect the increase in the FRA train accident frequency rate.

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- Partially offsetting these increases was the amended locomotive maintenance agreement which shifted $30 million to labor and fringe as referenced above.

Fuel expense includes locomotive diesel fuel as well as non-locomotive fuel. This expense is driven by the market price and locomotive consumption of diesel fuel. Fuel expense decreased $40 million driven by the following:
- Average fuel price per gallon decreased $0.22 to $2.95 per gallon versus the prior year which reduced expenses by $112 million.
- Improved efficiency reduced expenses by $19 million.
- Volume-related costs were $99 million higher.
- Other fuel savings were $8 million.

Depreciation expense primarily relates to recognizing the costs of a capital asset, such as locomotives, railcars and track structure, over its useful life. This expense is impacted primarily by the capital expenditures made each year. Depreciation expense increased $47 million primarily due to a larger asset base.

Equipment and Other includes rent paid for freight cars owned by other railroads or private companies, net of rents received by CSXT for use of its equipment. This category of expenses also includes lease expenses for locomotives, railcars, containers and trailers, offices and other rentals. These expenses increased $48 million driven by the following:
- Car hire costs were $31 million higher due to volume, longer car cycle times and network performance.
- Inflation resulted in $18 million of additional costs related to rates on automotive, intermodal and coal cars.
- Other costs improved $1 million.

Interest expense decreased $17 million to $545 million primarily due to lower average interest rates partially offset by higher average debt balances.

Other (expense) income - net decreased $35 million to an expense of $24 million primarily due to an increase in estimated environmental cleanup costs of $17 million related to non-operating activities as well as costs of $16 million associated with the early redemption of long-term debt.

Income tax expense increased $59 million to $1.1 billion primarily due to higher earnings partially offset by favorable state legislative changes.

Net earnings increased $63 million to $1.9 billion, and earnings per diluted share increased $0.09 to $1.92 due to the factors mentioned above. Lower average shares outstanding also had a positive impact on earnings per diluted share.

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2013 vs. 2012 Results of Operations

	Fiscal Years			
	2013	2012	$ Change	% Change
(Dollars in Millions)				
Revenue	$12,026	$11,763	$263	2 %
Expense				
Labor and Fringe	3,138	3,020	(118)	(4)
Materials, Supplies and Other	2,275	2,156	(119)	(6)
Fuel	1,656	1,672	16	1
Depreciation	1,104	1,059	(45)	(4)
Equipment and Other Rents	380	392	12	3
Total Expense	8,553	8,299	(254)	(3)
Operating Income	3,473	3,464	9	—
Interest Expense	(562)	(566)	4	1
Other Income - Net	11	73	(62)	(85)
Income Tax Expense	(1,058)	(1,108)	50	5
Net Earnings	$1,864	$1,863	$1	—
Earnings Per Diluted Share:				
Net Earnings	$1.83	$1.79	$0.04	2 %
Operating Ratio	71.1 %	70.6 %		(50) bps

Volume and Revenue (Unaudited)
Volume (Thousands of units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)

	Volume			Revenue			Revenue Per Unit		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
Agricultural									
Agricultural Products	390	394	(1)%	$1,013	$1,007	1 %	$2,597	$2,556	2 %
Phosphates and Fertilizers	327	321	2	527	512	3	1,612	1,595	1
Food and Consumer	96	100	(4)	269	273	(1)	2,802	2,730	3
Industrial									
Chemicals	532	471	13	1,896	1,682	13	3,564	3,571	—
Automotive	432	425	2	1,217	1,154	5	2,817	2,715	4
Metals	262	263	—	644	635	1	2,458	2,414	2
Housing and Construction									
Minerals	275	270	2	432	409	6	1,571	1,515	4
Waste and Equipment	150	138	9	264	262	1	1,760	1,899	(7)
Forest Products	298	286	4	775	722	7	2,601	2,524	3
Total Merchandise	2,762	2,668	4	7,037	6,656	6	2,548	2,495	2
Coal	1,195	1,290	(7)	2,895	3,190	(9)	2,423	2,473	(2)
Intermodal	2,582	2,451	5	1,697	1,594	6	657	650	1
Other	—	—	—	397	323	23	—	—	—
Total	6,539	6,409	2 %	$12,026	$11,763	2 %	$1,839	$1,835	— %

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2013 vs. 2012 Results of Operations
Revenue
Volume increased 2% year-over-year as growth in merchandise and intermodal more than offset lower coal volume. Total revenue increased by 2% year-over-year driven by this volume growth, pricing gains across most markets offset by negative mix.

Merchandise
Agricultural

Agricultural Products - Volume declined due to a reduction in shipments of feed grain and ethanol. Feed grain shipments were impacted by low supplier inventories caused by 2012’s drought and increased competition from imports. Ethanol shipments declined as a result of increased competition from imports, lower production and competitive losses.

Phosphates and Fertilizers - Volume growth was driven by the reopening of a customer mine that led to more short haul phosphates shipments that were previously sourced from an origin not located on CSX’s network.

Food and Consumer - Volume declined due to a reduction in shipments of refrigerated products and alcoholic beverages. The decline in refrigerated products volume was driven by lower potato shipments as a result of more normalized production levels compared to the above-average yields in the prior year, while the decline in alcoholic beverages was primarily driven by a consolidation within a customer’s distribution network that resulted in lower shipments for CSX.

Industrial
Chemicals - Volume growth was driven by an increase in energy-related shipments that included crude oil, liquefied petroleum gas ("LPG") and frac sand. The rise in crude oil shipments was due to increased supply of low-cost crude from shale drilling activity, resulting in new shipments to east coast refineries.

Automotive - Finished vehicle shipments increased as North American light vehicle production grew year-over-year. This increase was partially offset by competitive losses in both automotive parts and finished vehicles.

Metals - Volume was flat as a reduction in steel sheet shipments was offset by growth in aluminum products and steel plates. The reduction in shipments of steel sheet, which is used in automotive manufacturing, was driven by competitive losses, mill closures and source shifts. Shipments of aluminum product, which is used in a variety of products like packaging and construction, increased due to modal conversions. Shipments of steel plate, which is used in a wide range of end markets including construction, structural and energy applications, increased in support of continued growth in energy-related markets.

Housing and Construction
Forest Products - Volume growth was led by an increase in building products due to the continued recovery of the residential housing market.

Minerals - Volume growth was led by an increase in salt shipments due to modal conversions, new customer distribution terminals and inventory replenishment from more severe winter weather in early 2013 that resulted in more application of salt to roads.

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Waste and Equipment - Volume growth was led by waste shipments which were driven by an increase in construction debris due to the continued recovery in construction activity and large scale remediation projects.

Coal

Export declines were driven by decreased shipments of U.S. thermal coal, as a result of global oversupply and lower coal prices. Shipments of domestic coal declined due to continued low natural gas prices and utility stockpiles above target levels.

Intermodal

Domestic volume growth was driven by continued success with highway-to-rail conversions, growth with existing customers, and service product enhancements. International volume increased due to strength with existing customers and the cycling of disruptions resulting from Hurricane Sandy in the prior year.

Other

Other revenue increased primarily due to higher revenue from customers who did not meet minimum contractual volumes.

Expenses

In 2013, total expenses increased $254 million, or 3%, compared to prior year. Descriptions of each expense category as well as significant year-over-year changes are described below.

Labor and Fringe expenses include employee wages and related payroll taxes, health and welfare costs, pension, other post-retirement benefits and incentive compensation. These expenses increased $118 million primarily due to the following items:

- Incentive compensation costs were $89 million higher reflecting higher expected award payouts.
- Inflation increased expenses $61 million.
- Partially offsetting these increases were labor and other costs which decreased $32 million primarily related to improvements in network efficiencies that resulted from the overall reduction in employees, fewer crew starts as well as lower training expenses.

Materials, Supplies and Other expenses consist primarily of contracted services to maintain infrastructure and equipment and for terminal services at automotive facilities as well as professional services. This category also includes costs related to materials, travel, casualty claims, environmental remediation, train accidents, property and sales tax, utilities and other items. Total materials, supplies and other expense increased $119 million primarily driven by the following:

- Inflation increased expenses $42 million.
- Risk-related costs increased $39 million primarily due to higher expenses related to derailment costs as well as prior year favorable casualty adjustments that did not repeat in 2013.
- Volume, materials and services costs increased $19 million primarily due to increased expenses related to higher volume and resource levels.
- Gains recognized decreased $19 million year over year. Gains from the prior year related to the sale of operating rail corridors to the state of Florida and to the Commonwealth of Massachusetts were $104 million. Gains in 2013 were $85 million for the sale of operating rail corridor to the state of Florida, a non-monetary exchange of easements and rail assets as well as a deferred gain recognized from a closure arrangement related to a prior conveyance of a formerly-owned company.

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Fuel expense includes locomotive diesel fuel as well as non-locomotive fuel. This expense is driven by the market price and locomotive consumption of diesel fuel. Fuel expense decreased $16 million driven by the following:

- Improved network efficiency and fuel savings initiatives decreased expenses by $38 million.
- Average fuel price per gallon decreased $0.05 to $3.17 per gallon versus the prior year which reduced expenses by $26 million.
- Partially offsetting these decreases were volume-related costs of $31 million as well as other costs of $17 million which includes an adjustment to an interline fuel receivable.

Depreciation expense primarily relates to recognizing the costs of a capital asset, such as locomotives, railcars and track structure, over its useful life. This expense is impacted primarily by the capital expenditures made each year. Depreciation expense increased $45 million primarily due to a larger asset base related to higher capital spending.

Equipment and Other includes rent paid for freight cars owned by other railroads or private companies, net of rents received by CSXT for use of its equipment. This category of expenses also includes lease expenses for locomotives, railcars, containers and trailers, office and other rentals. These expenses decreased $12 million primarily due to improved asset utilization partially offset by increased rates and volume.

Interest expense decreased $4 million to $562 million primarily due to lower average interest rates partially offset by higher average debt balances.

Other income - net decreased $62 million to $11 million primarily related to the prior year gain recognized on the sale of a non-operating property that was not repeated in the current year.

Income tax expense decreased $50 million to $1.06 billion primarily due to the year-over-year decrease in earnings before income taxes as well as federal and state legislative changes.

Net earnings increased $1 million to $1.86 billion, and earnings per diluted share increased $0.04 to $1.83 due to the factors mentioned above. Lower average shares outstanding also had a positive impact on earnings per diluted share.

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Operating Statistics (Estimated)

	Fiscal Years		Improvement/ (Deterioration)
	2014	2013	
Safety and Service Measurements			
FRA Personal Injury Frequency Index	0.95	0.90	(6)%
FRA Train Accident Rate	2.22	1.98	(12)%
On-Time Train Originations	56%	89%	(37)%
On-Time Destination Arrivals	45%	81%	(44)%
Dwell	26.3	22.2	(18)%
Train Velocity	20.1	23.2	(13)%
Cars-On-Line [a]	203,699	182,266	(12)%

[a] Cars-on-line increased approximately 14,000 or 7.5% in 2014 due to a calculation error correction made by the American Association of Railroads in February 2014. This error impacted the industry cars-on-line since 2011. Previously reported amounts have not been adjusted to reflect this correction.

Key Performance Measures Definitions
FRA Personal Injury 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 - Average 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.
Train Velocity - Average train speed between terminals in miles per hour (does not include locals, yard jobs, work trains or passenger trains).
Cars-On-Line - An average count of all cars on the network (does not include locomotives, cabooses, trailers, containers or maintenance equipment).

The Company measures and reports safety and service performance. The Company strives for continuous improvement in these measures through training, innovation and investment. For example, the Company's safety and train accident prevention programs rely on the latest tools, programs and employee participation that strengthen the safety culture in a supportive environment that allows each employee to be successful at CSX. Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance. CSX safety programs are designed to prevent incidents that can impact employees, customers and the communities we serve.

The Company consistently collaborates with the FRA and industry organizations as well as federal, state and local governments on the development and implementation of safety programs and initiatives. For example, earlier this year, CSX and other major freight railroads met with the U.S. Department of Transportation ("DOT") and other key stakeholders to discuss potential safety enhancements to our nation's freight railroad network. CSX, as part of a wider industry initiative, voluntarily committed to take specific long-term actions to increase its strong safety performance.

CSX agreed to reduce the speed of certain trains to 40 miles per hour through high threat urban areas, increase the frequency of track inspections, and work collaboratively and proactively with local communities to address area-specific concerns. Furthermore, CSX partnered with Operation Lifesaver, Inc., the DOT and other major railroads in the Common Sense campaign to reduce the number of injuries and fatalities around the railroad right of way. CSXT continues an ongoing public safety program to clear-cut trees and vegetation at public passive highway-rail intersections (crossings with no flashing lights or gates) to improve the public's ability to discern rail activities.

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At CSX, operational success is built on employee commitment to maintaining a constant focus on safety. During 2014, the FRA reportable personal injury frequency index worsened 6 percent year over year to 0.95. The reported FRA train accident frequency rate weakened 12 percent year over year to 2.22. Despite these results, CSX remains an industry leader in employee safety.

Despite significant volume growth, the Company expects service to gradually improve to superior levels with the addition of strategic infrastructure investments, locomotives and operating employees coming online. On-time originations were 56 percent and on-time arrivals were 45 percent, which are both down versus 2013 but stabilized by the end of the year. Year over year, average train velocity declined 13 percent to 20.1 miles per hour and dwell worsened 18 percent to 26.3 hours.

LIQUIDITY AND CAPITAL RESOURCES
Liquidity is a company’s ability to generate adequate amounts of cash to meet both current and future needs for obligations as they mature and to provide for planned capital expenditures, including those to address regulatory and legislative requirements. To have a complete picture of a company’s liquidity, its balance sheet, sources and uses of cash flow and external factors should be reviewed.

Material Changes in the Consolidated Balance Sheets and Significant Cash Flows
Consolidated Balance Sheets
CSX's balance sheet reflects its strong capital base and the impact of CSX's balanced approach in deploying capital for the benefit of its shareholders, which includes investments in infrastructure, dividend improvement and share repurchases.

Total assets as well as total liabilities and shareholders' equity increased $1.3 billion from prior year. The increase in assets was driven by higher net properties of $1.3 billion resulting from planned capital investments. The increase in total liabilities and shareholders' equity combined was driven by net earnings of $1.9 billion, higher pension and other post-retirement benefit liabilities of $269 million mostly driven by lower discount rates and higher deferred income taxes of $196 million primarily related to accelerated tax depreciation. Partially offsetting these increases were dividends paid of $629 million and share repurchases of $517 million.

Significant cash flows
The following tables present net cash provided by (used in) operating, investing and financing activities for full years 2012, 2013 and 2014.

Dollars in millions	2014	2013	2012	2014 vs. 2013 $ Var	2013 vs. 2012 $ Var
Net cash provided by operating activities	$3,343	$3,267	$2,946	$76	$321
Net cash used in investing activities	$(2,183)	$(2,227)	$(2,277)	$44	$50
Net cash used in financing activities	$(1,083)	$(1,232)	$(668)	$149	$(564)

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Sources of Cash
The Company has multiple sources of cash. First, the Company generates cash from operations, and in 2014, the Company generated $3.3 billion of cash from operating activities which was $76 million higher than the prior year primarily driven by higher net earnings. In 2013, the Company generated $3.3 billion of cash from operating activities which increased $321 million from 2012 primarily driven by a $275 million contribution to the Company's qualified pension plans in 2012 that did not repeat.

Second, CSX has access to numerous financing sources including a $1 billion five-year unsecured revolving credit facility that expires in September 2016. As of the date of this filing, the Company has no outstanding balances under this facility. See Note 9, Debt and Credit Agreements for more information.

CSX filed a shelf registration statement with the SEC on February 15, 2013. This shelf registration statement is unlimited as to amount and may be used to issue debt or equity securities at CSX's discretion, subject to market conditions and CSX Board authorization. While CSX seeks to give itself flexibility with respect to cash requirements, there can be no assurance that market conditions would permit CSX to sell such securities on acceptable terms at any given time, or at all.

Uses of Cash
CSX continued to invest in its business to create long-term value for shareholders. In 2014, net cash used in investing activities was $2.2 billion, a decrease in spending of $44 million from the prior year primarily driven by higher net sales of short-term investments. In 2013, net cash used in investing activities was $2.2 billion, a decrease in spending of $50 million from 2012 primarily driven by higher net sales of short-term investments partially offset by lower proceeds from property dispositions.

The Company is committed to maintaining and improving its existing infrastructure and to positioning itself for long-term growth through expanding network and terminal capacity. Funds used for property additions are further described below.

	Fiscal Years		
Capital Expenditures (Dollars in Millions)	2014	2013	2012
Track	$750	$793	$792
Bridges, Signals and Other	538	415	429
Total Infrastructure	1,288	1,208	1,221
Freight Cars	329	146	288
Capacity and Commercial Facilities	452	346	218
Regulatory (including PTC)	321	318	270
Locomotives	51	255	178
Public-Private Partnerships - net [a]	8	40	166
Total Capital Expenditures [a]	$2,449	$2,313	$2,341

(a) Total capital expenditures shown above include investments related to reimbursable public-private partnerships. These partnership investments are for projects that are partially or wholly reimbursed to CSX through either government grants or other funding sources such as cash received from a property sale. These reimbursements may not be fully received in a given year; therefore the timing of receipts may differ from the timing of the investment.

Planned capital investments for 2015 are expected to be $2.5 billion, including expected spending of approximately $300 million for PTC. This $2.5 billion excludes investments related to partially or wholly reimbursable public-private partnerships where reimbursements may not be fully received in a given year. Approximately half of the 2015 investment will be used to sustain the core infrastructure. The remaining amounts will be allocated to locomotives, freight cars and high return projects supporting long-term profitable growth, productivity initiatives and service improvements to optimize performance. CSX intends to fund capital investments through cash generated from operations.

Over the long term, the Company expects to incur significant capital costs in connection with the implementation of PTC. CSX estimates that the total multi-year cost of PTC implementation will be at least $1.9 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending through 2014 was $1.2 billion.

In addition to capital investments, the Company uses cash for scheduled payments of debt and leases, share repurchases and to pay dividends to shareholders. In 2014, net cash used in financing activities was $1.1 billion, which represents a decrease in spending of $149 million. This decrease was driven by higher net long-term debt issued of $347 million (net of debt repayments) partially offset by share repurchases of $164 million. In 2013, net cash used in financing activities was $1.2 million, which was an increase in spending of $564 million driven by higher debt repayments and a lower amount of debt issued, partially offset by lower share repurchases.

CSX is continually evaluating market and regulatory conditions that could affect the Company’s ability to generate sufficient returns on capital investments. CSX may revise its future estimates for capital spending as a result of changes in business conditions, tax legislation or the enactment of new laws or regulations which could have a material adverse effect on the Company’s operations and financial performance in the future (see Risk Factors under Item 1A of this Form 10-K).

Liquidity and Working Capital

Currently, CSX is well positioned from a liquidity standpoint. The Company ended the year with $961 million of cash, cash equivalents and short-term investments. CSX has a $1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016 and as of the date of this filing, the Company has no outstanding balances under this facility. Additionally in 2014, CSX issued a total of $1 billion of new long-term debt. CSX uses current cash balances for general corporate purposes, which may include reduction or refinancing of outstanding indebtedness, capital expenditures, working capital requirements, contributions to the Company's qualified pension plan, redemptions and repurchases of CSX common stock and dividends to shareholders. See Note 9, Debt and Credit Agreements.

The Company's $250 million receivables securitization facility has a three-year term and expires in June 2017. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. The Company anticipates either renewing the facility or replacing it with another liquidity-based solution. Under the terms of this facility, CSXT transfers eligible third-party receivables to CSX Trade Receivables, a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX services the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements. As of the date of this filing, the Company has no outstanding balances under this facility.

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Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of $465 million and $178 million at December 2014 and 2013, respectively. This increase since the prior year is primarily due to a lower current maturities of long-term debt, partially offset by a net decrease in short-term investments driven by higher sales of these investments. Also, see sources and uses of cash description above.

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. Although the Company currently has a surplus, 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 its revolving credit facility, trade receivable facility and shelf registration statement to manage its day-to-day cash requirements and any anticipated obligations. The Company from time to time accesses the credit markets for additional liquidity.

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 Ratings Services ("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 Aaa for S&P and Moody's, respectively. A credit 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.

The cost and availability of unsecured financing are materially affected by CSX's long-term credit ratings. CSX's credit ratings improved during 2014. As of December 2013 and December 2014, S&P's long-term rating on CSX was BBB+ (Stable). Moody's improved the long-term credit rating on CSX from Baa2 at December 2013, to Baa1 (Stable) as of December 2014. 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. If CSX's credit ratings were to decline to below investment grade levels, the Company could experience significant increases in its interest cost for new debt. In addition, a decline in CSX's credit ratings to below investment grade levels could adversely affect the market's demand, and thus the Company's ability to readily issue new debt.

CSX CORPORATION
PART II

SCHEDULE OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following tables set forth maturities of the Company's contractual obligations and other significant commitments:

Type of Obligation	2015	2016	2017	2018	2019	Thereafter	Total
(Dollars in Millions) (Unaudited)							
Contractual Obligations							
Total Debt (See Note 9)	$228	$21	$631	$619	$518	$7,725	$9,742
Interest on Debt	518	487	465	424	386	5,875	8,155
Purchase Obligations (See Note 7)	963	496	190	181	170	1,272	3,272
Other Post-Employment Benefits (See Note 8) [a]	52	49	49	46	44	197	437
Operating Leases - Net (See Note 7) [b]	49	43	34	26	17	75	244
Agreements with Conrail [b]	26	26	26	26	26	124	254
Total Contractual Obligations	$1,836	$1,122	$1,395	$1,322	$1,161	$15,268	$22,104
Other Commitments [c]	$136	2	4	3	2	6	$153

(a) Other post-employment benefits include estimated other post-retirement medical and life insurance payments and payments under non-qualified pension plans which are unfunded. No amounts are included for funded pension obligations as no contributions are currently required.

(b) Agreements with Conrail represent minimum future lease payments of $254 million under the shared asset area agreements (see Note 12, Related Party Transactions). These amounts plus total operating leases-net of $244 million above equals total net lease commitments of $498 million disclosed in Note 7, Commitments and Contingencies.

(c) Other commitments of $153 million consisted of surety bonds, letters of credit, uncertain tax positions and public private partnerships. Surety bonds of $57 million and letters of credit of $38 million arise from assurances issued by a third-party that CSX will fulfill certain obligations and are typically a contract, state, federal or court requirement. Uncertain tax positions of $21 million which include interest and penalties are all included in year 2015. The year of settlement cannot be reasonably estimated, however, the Company believes at least $2 million of these unrecognized tax benefits will be resolved in the next 12 months. Contractual commitments related to public-private partnerships are $37 million.

OFF-BALANCE SHEET ARRANGEMENTS

For detailed information about the Company’s guarantees, operating leases and purchase obligations, see Note 7, Commitments and Contingencies. There are no off-balance sheet arrangements that are reasonably likely to have a material effect on the Company’s financial condition, results of operations or liquidity.

CSX CORPORATION
PART II

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.

Casualty, Environmental and Legal Reserves

Casualty

Casualty reserves of $265 million in 2014 represent accruals for personal injury, occupational injury and asbestos claims. The Company's self-insured retention amount for these claims is $50 million per occurrence. Currently, no individual claim is expected to exceed the Company's self-insured retention amount. In accordance with the Contingencies Topic in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"), 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. These reserves fluctuate based upon the timing of payments as well as changes in independent third-party estimates, which are reviewed by management. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. 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. During 2014, 2013 and 2012, there were no significant changes in estimate recorded to adjust casualty reserves.

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 retains an independent actuary to assist management in assessing the value of personal injury claims. An analysis is performed by the actuary quarterly and is reviewed by management. The methodology used by the actuary 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.

Critical Accounting Estimates, continued

Occupational & Asbestos
Occupational claims arise from allegations of exposures to certain materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as "irritants") and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries, carpal tunnel syndrome and hearing loss.

The Company is also party to a number of asbestos claims by employees alleging exposure to asbestos in the workplace. The heaviest possible exposure for employees resulted from work conducted in and around steam locomotive engines that were largely phased out beginning around the 1950s. Other types of exposures, however, including exposure from locomotive component parts and building materials, continued until these exposures were substantially eliminated by 1985. Additionally, the Company has retained liability for asbestos claims filed against its previously owned international container shipping business. Diseases associated with asbestos typically have long latency periods (amount of time between exposure to asbestos and the onset of the disease) which can range from ten to 40 years after exposure.

Occupational claims, excluding asbestos, are analyzed on a quarterly basis by an independent actuary in order to determine the number of unasserted, or incurred but not reported ("IBNR"), claims. The actuary's analyses are reviewed by management. With the exception of carpal tunnel, management has determined that seven years is the most probable time period in which these unasserted occupational claim filings and claim values can be estimated. Carpal tunnel claims use a three-year period to estimate the reserve due to the shorter latency period for these types of injuries.

Asbestos claims are analyzed by an independent specialist in order to determine the number of unasserted, or incurred but not reported ("IBNR"), claims. Since exposure to asbestos has been substantially eliminated, management reviews asserted asbestos claims quarterly and the review by the specialist is completed annually. In 2014, management increased the forecast period from seven years to ten years. Based on a review of historical settlement trends, management concluded that ten years is the most probable time period in which unasserted asbestos claim filings and claim values can be estimated. The Company does not believe there is sufficient data to justify a projection period longer than ten years at this time. The change in the forecast period resulted in an immaterial increase in the asbestos reserves during 2014.

The actuary and specialist analyze CSXT's historical claim filings, settlement amounts, and dismissal rates to determine future anticipated claim filing rates and average settlement values for occupational and asbestos claims reserves. The potentially exposed population is estimated by using CSXT's employment records and industry data. From this analysis, the actuary and specialist provide estimates of the IBNR claims liabilities.

The estimated future filing rates and estimated average claim values are the most sensitive assumptions for these reserves. A 1% increase or decrease in either the forecasted number of occupational and asbestos IBNR claims or the average claim values would result in approximately a $1 million increase or decrease in the liability recorded for unasserted occupational and asbestos claims.

CSX CORPORATION
PART II

Critical Accounting Estimates, continued

Environmental

Environmental reserves were $94 million for 2014. 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 250 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 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. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling 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 the Asset Retirement and Environmental Obligations Topic in the ASC, the Company reviews its role with respect to each site identified at least quarterly, giving consideration to a number of factors such as:

- type of clean-up required;
- nature of the Company's alleged connection to the location (e.g., generator of waste sent to the site or owner or operator of the site);
- extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- number, connection and financial viability of other named and unnamed potentially responsible parties at the location.

These recorded liabilities for estimated future environmental costs are undiscounted and include future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but exclude any anticipated insurance recoveries. Based on the review process, the Company has recorded amounts to cover contingent anticipated future environmental remediation costs with respect to each site to the extent such costs are estimable and probable. Payments related to these liabilities are expected to be made over the next several years. Environmental remediation costs are included in materials, supplies and other on the consolidated income statements.

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 additional exposure, the amount and materiality of which cannot presently be reasonably estimated. Based upon information currently available, however, the Company believes its environmental reserves accurately reflect the cost of remedial actions currently required.

CSX CORPORATION
PART II

Critical Accounting Estimates, continued

Legal
In accordance with the Contingencies Topic in the ASC, an accrual for a loss contingency is established if information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated. If no accrual is made for a loss contingency because one or both of these conditions are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency is made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred.
The Company evaluates all exposures relating to legal liabilities at least quarterly and adjusts reserves when appropriate under the guidance noted above. The amount of a particular reserve may be influenced by factors that include official rulings, newly discovered or developed evidence, or changes in laws, regulations and evidentiary standards. See Item 3. Legal Proceedings for further discussion of these items.
Pension and Post-retirement Medical Plan Accounting
The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to January 1, 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation. As of December 2014, the projected benefit obligation for the Company's pension plans and other post-employment benefit plans were $3 billion and $340 million, respectively. No significant contributions to the Company's qualified pension plans are expected in 2015.

In addition to these plans, the Company sponsors a post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Medicare-eligible retirees are covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Non-Medicare eligible retirees are covered by a self-insured program partially funded by participating retirees. The life insurance plan is non-contributory.

For information related to the funded status of the Company's pension and other post-retirement benefit plans, see Note 8, Employee Benefit Plans.

The accounting for these plans is subject to the guidance provided in the Compensation-Retirement Benefits Topic in the ASC. This rule requires that management make certain assumptions relating to the following:

- discount rates used to measure future obligations and interest expense;
- long-term rate of return on plan assets;
- salary scale inflation rates; and
- other assumptions.

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company selects. These amounts are reviewed by management.

Critical Accounting Estimates, continued

Discount Rates

Discount rates affect the amount of liability recorded and the interest expense component of pension and post-retirement expense. Discount rates reflect the rates at which pension and other post-retirement benefits could be effectively settled, or in other words, how much it would cost the Company to buy enough high quality bonds to generate cash flow equal to the Company's expected future benefit payments. The Company determines the discount rate based on the market yield as of year end for high quality corporate bonds whose maturities match the plans' expected benefit payments.

The discount rates used by the Company to value its 2014 pension and post-retirement obligations are 4.00% and 3.60%, respectively. For 2013, the discount rate used by the Company to value its pension and post-retirement obligations was 4.75% and 4.25%, respectively. Discount rates may differ for pension and post-retirement benefits due to varying duration of the liabilities for projected payments for each plan. As of December 2014, the estimated duration of pensions and post-retirement benefits is approximately 12 years and 8 years, respectively.

Each year, these discount rates are reevaluated and adjusted using the current market interest rates for high quality corporate bonds to reflect the best estimate of the current effective settlement rates. In general, if interest rates decline or rise, the assumed discount rates will change.

Long-term Rate of Return on Plan Assets

The expected long-term average rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. In estimating that rate, the Company gives appropriate consideration to the returns being earned by the plan assets in the funds and the rates of return expected to be available for reinvestment as well as the current and projected asset mix of the funds. Management balances market expectations obtained from various investment managers and economists with both market and actual plan historical returns to develop a reasonable estimate of the expected long-term rate of return on assets. As this assumption is long-term, it is adjusted less frequently than other assumptions used in pension accounting. The long-term rate of return on plan assets used by the Company to value its pension obligation was 7.25% and 7.50% in 2014 and 2013, respectively.

Salary Scale Inflation Rates

Salary scale inflation rates are based on current trends and historical data accumulated by the Company. The Company reviews recent wage increases and management incentive compensation payments over the past five years in its assessment of salary scale inflation rates. The Company used a salary scale rate of 3.75% to value its 2014 and 2013 pension obligations.

Other Assumptions

The calculations made by the actuaries also include assumptions relating to health care cost trend rates, mortality rates, turnover and retirement age. These assumptions are based upon historical data, recent plan experience and industry trends and are selected by management.

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Critical Accounting Estimates, continued

2015 Estimated Pension and Post-retirement Expense
Net pension and post-retirement benefits expense for 2015 is expected to be approximately $70 million and $20 million, respectively, compared to $58 million and $20 million, respectively, in 2014. The increase in pension expense is primarily related to lower discount rates and adoption of new mortality tables, partially offset by favorable pension asset experience.

The following sensitivity analysis illustrates the effect of changes in certain assumptions like discount rates, salaries and health care costs on the 2014 estimated pension and post-retirement expense:

(Dollars in Millions)	Pension	OPEB
Discount Rate 1% change	$23	$2
Long-term Rate of Return 1% change	$23	N/A
Salary Inflation 1% change	$9	N/A

Depreciation Policies for Assets Utilizing the Group-Life Method
The Company depreciates its rail assets, including main-line track, locomotives and freight cars, using the group-life method of accounting. Assets depreciated under the group-life method comprise 85% of total fixed assets of $39 billion on a gross basis at December 2014. All other assets of the Company are depreciated on a straight-line basis. The group-life method aggregates assets with similar lives and characteristics into groups and depreciates each of these groups as a whole. When using the group-life method, an underlying assumption is that each group of assets, as a whole, is used and depreciated to the end of its recoverable life.

The Company currently utilizes more than 130 different depreciable asset categories to account for depreciation expense for the railroad assets that are depreciated under the group-life method of accounting. Examples of depreciable asset categories include 18 different categories for crossties due to the different combinations of density classifications and asset types. By utilizing various depreciable categories, the Company can more accurately account for the use of its assets. All assets of the Company are depreciated on a time or life basis.

The Company believes the group-life method of depreciation closely approximates the straight-line method of depreciation. Additionally, due to the nature of most of its assets (e.g., track is one contiguous, connected asset), the Company believes that this is the most effective way to properly depreciate its assets.

Under the group-life method of accounting, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. A depreciation study (also referred to as a life study) is the periodic review of asset service lives, salvage values, accumulated depreciation, and other related factors for group assets conducted by a third-party specialist, analyzed by the Company’s management and approved by the STB, the regulatory board that has broad jurisdiction over railroad practices. The STB requires depreciation studies be performed for equipment assets every three years and for road (e.g. bridges and signals) and track (e.g., rail, ties and ballast) assets every six years. In 2014, the Company completed a depreciation study for its road and track assets. In 2012, the Company completed a depreciation study for its equipment assets and a technical update (an update to the prior depreciation study) for its road and track assets. The Company believes the frequency currently required by the STB provides adequate review of asset service lives and that a more frequent review would not result in a material change due to the long-lived nature of most of the assets.

Critical Accounting Estimates, continued

Changes in asset service lives due to the results of the depreciation studies are applied on a prospective basis and could significantly impact future periods' depreciation expense, and thus, the Company's results of operations.

There are several factors taken into account during the depreciation study and they include:

- statistical analysis of historical life and salvage data for each group of property;
- statistical analysis of historical retirements for each group of property;
- evaluation of current operations;
- evaluation of technological advances and maintenance schedules;
- previous assessment of the condition of the assets and outlook for their continued use;
- expected net salvage to be received upon retirement; and
- comparison of assets to the same asset groups with other companies.

For retirements or disposals of depreciable rail assets that occur in the ordinary course of business, the asset cost (net of salvage value or sales proceeds) is charged to accumulated depreciation and no gain or loss is recognized. As individual assets within a specific group are retired, resulting gains and losses are recorded in accumulated depreciation. As part of the depreciation study, an assessment of the recorded amount of accumulated depreciation is made to determine if it is deficient (or in excess) of the appropriate amount indicated by the study. Any such deficiency (or excess), including any deferred gains or losses, is amortized as a component of depreciation expense over the remaining service life of the asset group until the next required depreciation study. Since the overall assumption with group-life is that the assets within the group on average have the same service life and characteristics, it is therefore concluded that the deferred gains and losses offset over time.

In the event that large groups of assets are removed from service as a result of unusual acts or sales, resulting gains and losses are recognized immediately. These acts are not considered to be in the normal course of business and are therefore recognized when incurred. Examples of such acts would be the major destruction of assets due to significant storm damage (e.g., major hurricanes), the sale of a rail line segment to another railroad or the disposal of an entire class of assets (e.g., disposal of all refrigerated freight cars).

Recent experience with depreciation studies has resulted in depreciation rate changes which did not materially affect the Company's annual depreciation expense of $1.2 billion and $1.1 billion for 2014 and 2013, respectively. A 1% change in the average life of all group-life assets would result in an approximate $10 million change to the Company's annual depreciation expense.

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Critical Accounting Estimates, continued

Income Taxes
CSX accounts for income taxes in accordance with the Income Taxes Topic in the ASC that addresses how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this topic, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The amount recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

CSX files a consolidated federal income tax return, which includes its principal domestic subsidiaries. Examinations of the federal income tax returns of CSX have been completed through 2013. During 2014, the Company participated in a contemporaneous Internal Revenue Service ("IRS") audit of tax year 2014. Management believes an adequate provision has been made for any adjustments that might be assessed. While the final outcome of these matters cannot be predicted with certainty, it is the opinion of CSX management that none of these items will have a material adverse effect on the financial condition, results of operations or liquidity of CSX. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the results of operations in a particular fiscal quarter or fiscal year. As of December 2014, the Company's uncertain tax positions were $21 million.

New Accounting Pronouncements and Change in Accounting Policy
See Note 1, Nature of Operations and Significant Accounting Policies under the caption, "New Accounting Pronouncements and Changes in Accounting Policy."

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. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements within the meaning of the Private Securities Litigation Reform Act may contain, among others, statements regarding:

- projections and estimates of earnings, revenues, volumes, rates, cost-savings, expenses, taxes or other financial items;
- expectations as to results of operations and operational initiatives;
- expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition, results of operations or liquidity;
- management's plans, strategies and objectives for future operations, capital expenditures, dividends, share repurchases, safety and service performance, proposed new services and other 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 and their effect on the Company's financial condition, results of operations or liquidity.

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Forward-looking statements are typically identified by words or phrases such as "will," "should," “believe,” “expect,” “anticipate,” “project,” “estimate,” “preliminary” 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 any 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 in Part II, Item 1A (Risk Factors) and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, and initiatives to further regulate the rail industry;

- the outcome of litigation, claims and other contingent liabilities, including, but not limited to, those related to fuel surcharge, environmental matters, taxes, shipper and rate claims subject to adjudication, personal injuries and occupational illnesses;

- changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation) and the level of demand for products carried by CSXT;

- 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;

- competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;

- the cost of compliance with laws and regulations that differ from expectations (including those associated with Positive Train Control implementation) and costs, penalties and operational impacts associated with noncompliance with applicable laws or regulations;

- the impact of increased passenger activities in capacity-constrained areas, including potential effects of high speed rail initiatives, or regulatory changes affecting when CSXT can transport freight or service routes;

- unanticipated conditions in the financial markets that may affect timely access to capital markets and the cost of capital, as well as management's decisions regarding share repurchases;

- changes in fuel prices, surcharges for fuel and the availability of fuel;

- the impact of natural gas prices on coal-fired electricity generation;

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- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;

- the inherent business risks associated with safety and security, including 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 and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or customers' ability to deliver goods to the Company for shipment;

- the Company's success in implementing its strategic, financial and operational initiatives;

- changes in operating conditions and costs or commodity concentrations; and

- the inherent uncertainty associated with projecting economic and business conditions.

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, which are accessible on the SEC's website at www.sec.gov and the Company's website at www.csx.com. The information on the CSX website is not part of this annual report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

CSX does not hold or issue derivative financial instruments for trading purposes. Historically, the Company has used derivative financial instruments to address market risk exposure to fluctuations in interest rates. As of December 2014, CSX does not have a material amount of floating rate debt obligations outstanding, and therefore fluctuations in the interest rate would not have a material impact on the Company's financial condition, results of operations or liquidity.

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Item 8. Financial Statements and Supplementary Data

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CSX CORPORATION
PART II
Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of CSX Corporation

We have audited the accompanying consolidated balance sheets of CSX Corporation as of December 26, 2014 and December 27, 2013, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three fiscal years ended December 26, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CSX Corporation at December 26, 2014 and December 27, 2013, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 26, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CSX Corporation's internal control over financial reporting as of December 26, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 11, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Jacksonville, Florida
February 11, 2015

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

	Fiscal Years		
	2014	2013	2012
Revenue	$12,669	$12,026	$11,763
Expense			
Labor and Fringe	3,377	3,138	3,020
Materials, Supplies and Other	2,484	2,275	2,156
Fuel	1,616	1,656	1,672
Depreciation	1,151	1,104	1,059
Equipment and Other Rents	428	380	392
Total Expense	9,056	8,553	8,299
Operating Income	3,613	3,473	3,464
Interest Expense	(545)	(562)	(566)
Other (Expense) Income - Net (Note 10)	(24)	11	73
Earnings Before Income Taxes	3,044	2,922	2,971
Income Tax Expense (Note 11)	(1,117)	(1,058)	(1,108)
Net Earnings	$1,927	$1,864	$1,863
Per Common Share (Note 2)			
Net Earnings Per Share			
Basic	$1.93	$1.83	$1.80
Assuming Dilution	$1.92	$1.83	$1.79
Average Common Shares Outstanding (Millions)			
Basic	1,001	1,019	1,038
Assuming Dilution	1,002	1,019	1,040
Cash Dividends Paid Per Common Share	$0.63	$0.59	$0.54

See accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS
(Dollars in Millions)

	Fiscal Years		
	2014	2013	2012
Net Earnings	$1,927	$1,864	$1,863
Other Comprehensive (Loss) Income, Net of Tax:			
Pension and Other Post-Employment Benefits	(149)	389	(52)
Other	6	24	(9)
Total Other Comprehensive (Loss) Income	(143)	413	(61)
Comprehensive Earnings (Note 14)	$1,784	$2,277	$1,802

See accompanying Notes to Consolidated Financial Statements

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CSX CORPORATION
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CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	December 2014	December 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 1)	$669	$592
Short-term Investments	292	487
Accounts Receivable - Net (Note 1)	1,129	1,052
Materials and Supplies	273	252
Deferred Income Taxes	141	155
Other Current Assets	68	64
Total Current Assets	2,572	2,602
Properties	39,343	37,184
Accumulated Depreciation	(10,759)	(9,893)
Properties - Net (Note 6)	28,584	27,291
Investment in Conrail (Note 12)	779	752
Affiliates and Other Companies	577	546
Other Long-term Assets	541	591
Total Assets	$33,053	$31,782
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$845	$957
Labor and Fringe Benefits Payable	613	587
Casualty, Environmental and Other Reserves (Note 5)	142	151
Current Maturities of Long-term Debt (Note 9)	228	533
Income and Other Taxes Payable	163	91
Other Current Liabilities	116	105
Total Current Liabilities	2,107	2,424
Casualty, Environmental and Other Reserves (Note 5)	276	300
Long-term Debt (Note 9)	9,514	9,022
Deferred Income Taxes (Note 11)	8,858	8,662
Other Long-term Liabilities	1,122	870
Total Liabilities	21,877	21,278
Shareholders' Equity:		
Common Stock, $1 Par Value (Note 3)	992	1,009
Other Capital	92	61
Retained Earnings (Note 1)	10,734	9,936
Accumulated Other Comprehensive Loss (Note 14)	(666)	(523)
Noncontrolling Minority Interest	24	21
Total Shareholders' Equity	11,176	10,504
Total Liabilities and Shareholders' Equity	$33,053	$31,782

See accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED CASH FLOW STATEMENTS
(Dollars in Millions)

	Fiscal Years		
	2014	2013	2012
OPERATING ACTIVITIES			
Net Earnings	$1,927	$1,864	$1,863
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	1,151	1,104	1,059
Deferred Income Taxes	298	300	592
Contributions to Qualified Pension Plans (Note 8)	—	—	(275)
Gain on Property Dispositions	(11)	(70)	(166)
Other Operating Activities	14	(35)	(64)
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(119)	(6)	61
Other Current Assets	(26)	36	(32)
Accounts Payable	1	28	(4)
Income and Other Taxes Payable	74	(67)	(14)
Other Current Liabilities	34	113	(74)
Net Cash Provided by Operating Activities	3,343	3,267	2,946
INVESTING ACTIVITIES			
Property Additions	(2,449)	(2,313)	(2,341)
Purchase of Short-term Investments	(1,433)	(1,256)	(633)
Proceeds from Sales of Short-term Investments	1,674	1,401	581
Proceeds from Property Dispositions	62	53	186
Other Investing Activities	(37)	(112)	(70)
Net Cash Used in Investing Activities	(2,183)	(2,227)	(2,277)
FINANCING ACTIVITIES			
Long-term Debt Issued (Note 9)	1,000	500	1,100
Long-term Debt Repaid (Note 9)	(933)	(780)	(508)
Dividends Paid	(629)	(600)	(558)
Stock Options Exercised	—	9	14
Shares Repurchased	(517)	(353)	(734)
Other Financing Activities	(4)	(8)	18
Net Cash Used in Financing Activities	(1,083)	(1,232)	(668)
Net (Decrease) Increase in Cash and Cash Equivalents	77	(192)	1
CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents at Beginning of Period	592	784	783
Cash and Cash Equivalents at End of Period	$669	$592	$784
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest Paid - Net of Amounts Capitalized	$575	$595	$592
Income Taxes Paid	$741	$824	$506

See accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Millions)

	Common Shares Outstanding(Thousands)	Common Stock and Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) [a]	Non-controlling Interest	Total Shareholders' Equity
December 30, 2011	1,049,157	$1,055	$8,405	$(875)	$13	$8,598
Comprehensive Earnings:						
Net Earnings	—	—	1,863	—	—	1,863
Other Comprehensive Loss (Note 14)	—	—	—	(61)	—	(61)
Total Comprehensive Earnings						1,802
Common stock dividends, $0.54 per share	—	—	(558)	—	—	(558)
Share Repurchases	(34,088)	(34)	(700)	—	—	(734)
Bond Conversions	155	1	—	—	—	1
Stock Option Exercises and Other	5,261	26	—	—	1	27
December 28, 2012	1,020,485	1,048	9,010	(936)	14	9,136
Comprehensive Earnings:						
Net Earnings	—	—	1,864	—	—	1,864
Other Comprehensive Income (Note 14)	—	—	—	413	—	413
Total Comprehensive Earnings						2,277
Common stock dividends, $0.59 per share	—	—	(600)	—	—	(600)
Share Repurchases	(13,791)	(14)	(339)	—	—	(353)
Bond Conversions	1	—	—	—	—	—
Stock Option Exercises and Other	2,165	36	1	—	7	44
December 27, 2013	1,008,860	1,070	9,936	(523)	21	10,504
Comprehensive Earnings:						
Net Earnings	—	—	1,927	—	—	1,927
Other Comprehensive Loss (Note 14)	—	—	—	(143)	—	(143)
Total Comprehensive Earnings						1,784
Common stock dividends, $0.63 per share	—	—	(629)	—	—	(629)
Share Repurchases	(17,010)	(17)	(500)	—	—	(517)
Bond Conversions	134	1	—	—	—	1
Other	(393)	30	—	—	3	33
December 26, 2014	991,591	$1,084	$10,734	$(666)	$24	$11,176

(a) Accumulated Other Comprehensive Loss year-end balances shown above are net of tax. The associated taxes were $496 million, $266 million and $354 million for 2012, 2013 and 2014, respectively. For additional information see Note 14, Other Comprehensive Income.

See accompanying Notes to Consolidated Financial Statements

CSX CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Significant Accounting Policies

Business
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.

The Company's annual average number of employees was approximately 32,000 in 2014, which includes approximately 26,000 union employees. Most of the Company's employees provide or support transportation services.

CSX Transportation, Inc.
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. It has access to over 70 ocean, river and lake port terminals along the Atlantic and Gulf Coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. The Company's intermodal business, also part of CSXT, links customers to railroads via trucks and terminals. CSXT also serves thousands of production and distribution facilities through track connections to approximately 240 short-line and regional railroads.

Lines of Business
During 2014, the Company services generated $12.7 billion of revenue and served three primary lines of business:

- The merchandise business shipped over 2.9 million carloads and generated approximately 60% of revenue and 42% of volume in 2014. The Company's merchandise business is the most diverse market and transports aggregates (which include crushed stone, sand and gravel), metal, phosphate, fertilizer, food, consumer (manufactured goods and appliances), agricultural, automotive, paper and chemical products.
- The coal business shipped nearly 1.3 million carloads and accounted for 22% of revenue and 18% of volume in 2014. The Company transports domestic coal, coke and iron ore to electricity-generating power plants, steel manufacturers and industrial plants as well as export coal to deep-water port facilities. Almost half of export coal and nearly all of the domestic coal that the Company transports is used for generating electricity.
- The intermodal business accounted for approximately 14% of revenue and 40% of volume in 2014. The intermodal line of business combines the superior economics of rail transportation with the short-haul flexibility of trucks and offers a competitive cost advantage over long-haul trucking. Through a network of more than 50 terminals, the intermodal business serves all major markets east of the Mississippi and transports mainly manufactured consumer goods in containers, providing customers with truck-like service for longer shipments.

Other revenue accounted for approximately 4% of the Company's total revenue in 2014. This revenue category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching and other incidental charges. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

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

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 pickup and delivery of intermodal shipments) for certain CSXT customers and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations. Transflo connects non-rail served customers to the many benefits of rail by transferring products from rail to trucks. Today, the biggest Transflo markets are chemicals and agriculture, which includes shipments of plastics and ethanol. 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 financial position of CSX and its subsidiaries at December 26, 2014 and December 27, 2013, and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for fiscal years 2014, 2013 and 2012. In addition, management has evaluated and disclosed all material events occurring subsequent to the date of the financial statements up to the date this annual report is filed on Form 10-K.

Fiscal Year
CSX follows a 52/53 week fiscal reporting calendar. This fiscal calendar allows every quarter to consistently end on a Friday and typically, to be of equal duration (13 weeks), resulting in a 52 week fiscal year. To maintain this type of reporting calendar every fifth or sixth year (depending on the Gregorian calendar and when leap year falls), an extra week will be included in the fourth quarter (a 14-week fiscal quarter) and, therefore, that full fiscal year will have 53 weeks. The next 53 week fiscal year will be 2016, which will end on December 30, 2016.

Fiscal years 2014, 2013 and 2012 each consisted of 52 weeks ending on December 26, 2014, December 27, 2013 and December 28, 2012, respectively. Except as otherwise specified, references to full year indicate CSX's fiscal periods ended on these dates.

Principles of Consolidation
The consolidated financial statements include results of operations of CSX and subsidiaries over which CSX has majority ownership or financial control. All significant intercompany accounts and transactions have been eliminated. Most investments in companies that were not majority-owned were carried at cost (if less than 20% owned and the Company has no significant influence) or were accounted for under the equity method (if the Company has significant influence but does not control). These investments are reported within Investment in Conrail or Affiliates and Other Investments on the consolidated balance sheets.

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

Cash and Cash Equivalents
On a daily basis, cash in excess of current operating requirements is invested in various highly liquid investments having a typical maturity date of three months or less at the date of acquisition. These investments were carried at cost, which approximated market value, and were classified as cash equivalents.

Investments
Investments in instruments with original maturities greater than three months but will mature in less than one year were classified as short-term investments. Investments with maturities greater than one year were classified within other long-term assets.

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 $41 million and $33 million is included in the consolidated balance sheets as of December 2014 and December 2013, respectively.

Materials and Supplies
Materials and supplies in the consolidated balance sheets are carried at average costs and consist primarily of fuel and parts used in the repair and maintenance of CSXT's freight car and locomotive fleets, equipment and track structure.

Goodwill
Goodwill represents purchase price in excess of fair value and is related to affiliates of CSXT, primarily P&L Transportation, Inc. Goodwill of $63 million and $64 million is recorded in other long-term assets in the consolidated balance sheets as of December 2014 and 2013, respectively.

Revenue and Expense Recognition
The Company recognizes freight revenue using Free-On-Board Origin pursuant to the Revenue Recognition Topic in the ASC. Accounting guidance in this topic provides for the allocation of revenue between reporting periods based on relative transit time in each reporting period. Expenses are recognized as incurred.

The certain key estimates included in the recognition and measurement of revenue and related accounts receivable under the policies described above are as follows:

- revenue associated with shipments in transit is recognized ratably over transit time and is based on average cycle times to move commodities and products from their origin to their final destination or interchange;
- adjustments to revenue for billing corrections, billing discounts and bad debts or to accounts receivable for allowances for doubtful accounts;
- adjustments to revenue for overcharge claims filed by customers, which are based on historical cash paid to customers for rate overcharges as a percentage of total billing;

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

- incentive-based refunds to customers, which are primarily based on customers achieving certain volume thresholds and are recorded as a reduction to revenue on the basis of management's best estimate of the projected liability (this estimate is based on historical activity, current volume levels and a forecast of future volume);

The Company regularly updates the estimates described above based on historical experience and current conditions. All other revenue, such as demurrage, switching and other incidental charges are recorded upon completion of the service.

New Accounting Pronouncements
In May 2014, the FASB issued an Accounting Standards Update, Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. The new standard will become effective for CSX beginning with the first quarter 2017 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In February 2013, the FASB issued an Accounting Standards Update to the Comprehensive Income Topic in the Accounting Standards Codifications ("ASC"). This update requires separate presentation of the components that are reclassified out of accumulated other comprehensive income either on the face of the financial statements or in the notes to the financial statements. This update also requires companies to disclose the income statement line items impacted by any significant reclassifications, such as the amortization of pension and other post-employment benefits adjustments. These items are required for both interim and annual reporting for public companies and became effective for CSX beginning with the first quarter 2013 Form 10-Q filing.

Use of 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 the reported amount of certain revenues and expenses during the reporting period. Actual results may differ from those estimates. Critical accounting estimates using management judgment are made for the following areas:

- casualty, environmental and legal reserves (see Note 5, Casualty, Environmental and Other Reserves);
- pension and post-retirement medical plan accounting (see Note 8, Employee Benefit Plans);
- depreciation policies for assets under the group-life method (see Note 6, Properties); and
- income taxes (see Note 11, Income Taxes).

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

Other Items
Share Repurchases
In April 2013, the Company announced a new $1 billion share repurchase program, which is expected to be completed by April 2015. Management's assessment of market conditions and other factors guides the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. During 2014 and 2013, CSX repurchased $517 million, or 17 million shares, and $353 million or 14 million shares, respectively, of common stock under this program. Additionally, the Company repurchased a total of $734 million, or 34 million shares in 2012 under a previous share repurchase program. In accordance with the Equity Topic in the ASC, the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

Workforce Reduction Plan
In November 2014, the Company announced a workforce reduction plan to streamline the organization. The initiative reduced management workforce by approximately 300 positions through a voluntary separation program with enhanced benefits as well as a subsequent involuntary severance over the fourth quarter of 2014 and the first quarter of 2015. The Company recorded an initial charge of $39 million related to this program. The total estimated cost of the program is expected to be approximately $45 million. The majority of separation benefits will be paid from CSX's qualified pension plans, with the remainder being paid from general corporate funds.

NOTE 2. Earnings Per Share

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

	Fiscal Years		
	2014	2013	2012
Numerator (Dollars in Millions):			
Net Earnings	$1,927	$1,864	$1,863
Dividend Equivalents on Restricted Stock	(1)	—	—
Net Earnings, Attributable to Common Shareholders	$1,926	$1,864	$1,863
Denominator (Units in Millions):			
Average Common Shares Outstanding	1,001	1,019	1,038
Other Potentially Dilutive Common Shares	1	—	2
Average Common Shares Outstanding, Assuming Dilution	1,002	1,019	1,040
Net Earnings Per Share, Basic	$1.93	$1.83	$1.80
Net Earnings Per Share, Assuming Dilution	$1.92	$1.83	$1.79

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

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NOTE 2. Earnings Per Share, continued

- equity awards, which include long-term incentive awards; and
- in prior periods, employee stock options (all stock options expired in May 2013).

The Earnings Per Share Topic in the ASC requires CSX to include additional shares in the computation of earnings per share, assuming dilution. The additional shares included in diluted earnings per share represent the number of shares that would be issued if all of the above potentially dilutive instruments were converted into CSX common stock.

NOTE 3. Shareholders' Equity

Common and preferred stock consists of the following:

Common Stock, $1 Par Value	December 2014 (Units in Millions)
Common Shares Authorized	1,800
Common Shares Issued and Outstanding	992
Preferred Stock	
Preferred Shares Authorized	25
Preferred Shares Issued and Outstanding	—

Holders of common stock are entitled to one vote on all matters requiring a vote for each share held. Preferred stock is senior to common stock with respect to dividends and upon liquidation of CSX.

NOTE 4. Stock Plans and Share-Based Compensation

Under CSX's share-based compensation plans, awards primarily consist of performance grants, restricted stock awards, restricted stock units and stock grants for directors. Awards granted under the various programs 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.

The Compensation-Stock Compensation Topic in the ASC requires the cash flows resulting from income tax deductions in excess of compensation costs to be classified as financing cash flows. This requirement resulted in reduced net operating cash flows and increased net financing cash flows of approximately $3 million, $13 million and $37 million for fiscal years 2014, 2013 and 2012, respectively.

The Compensation-Stock Compensation Topic also requires the disclosure of total compensation costs for share-based payment arrangements and the related tax benefits recognized in income. Share-based compensation expense is measured at the fair market value of the Company's stock on the grant date and is recognized on a straight-line basis over the service period of the respective award. Total pre-tax expense associated with share-based compensation and its related income tax benefit is as follows:

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NOTE 4. Stock Plans and Share-Based Compensation, continued

	Fiscal Years		
(Dollars in Millions)	2014	2013	2012
Share-Based Compensation Expense	$33	$14	$14
Income Tax Benefit	13	6	5

Restricted Stock Grants

Restricted stock grants consist of units and awards. Restricted stock units are granted as part of the Company's long-term incentive plan, with each unit being equivalent to one share of CSX stock and vest over three years. Restricted stock awards generally vest over an employment period of up to five years. The following table provides information about outstanding restricted stock units and awards combined. As of December 2014, unrecognized compensation expense for these awards and units was approximately $16 million, which will be expensed over a weighted-average remaining period of 2 years.

	Fiscal Years		
	2014	2013	2012
Restricted Stock Units and Awards Outstanding (Thousands)[(a)]	1,383	1,462	1,353
Weighted-Average Fair Value at Grant Date	$25.03	$23.89	$21.38
Restricted Stock Units and Awards Expense (Millions)[(a)]	11	10	9
Unvested Restricted Stock Units and Awards Outstanding (Thousands)	601	705	629
Weighted-Average Fair Value of Unvested Units and Awards Outstanding	$26.40	$24.17	$22.48

(a) Time-based restricted stock units were granted to certain employees under the respective Long-term Incentive Plans in the amount of 371,000, 524,000, and 433,000 in 2014, 2013 and 2012, respectively, as described below. These units vest over three years, therefore only a partial amount of expense was recognized in 2014, 2013, and 2012, respectively.

Long-term Incentive Plans

The CSX Long-term Incentive Plans (“LTIP”) were adopted under the 2010 CSX Stock and Incentive Award Plan. The objective of these long-term incentive plans is to motivate and reward certain employees for achieving and exceeding certain financial and strategic initiatives. Grants were made in performance units, with each unit being equivalent to one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals for each three-year cycle. In May of 2012, 2013 and 2014, target performance units were granted to certain employees under three separate LTIP plans covering three-year cycles: the 2012-2014 (“2014 LTIP”), 2013-2015 (“2015 LTIP”) and 2014-2016 (“2016 LTIP”) plans (collectively, the “Plans”).

The key financial target for the 2014 LTIP plan is based solely on operating ratio (operating expense divided by operating revenue) and excludes certain non-recurring items as disclosed in the Company's financial statements. The 2014 LTIP plan provides that payouts for certain executive officers are subject to downward adjustment by up to 30% based upon Company performance against certain CSX strategic initiatives. The 2014 LTIP plan ended on December 26, 2014, and CSX did not issue any shares in January 2015 as applicable performance targets for the three preceding fiscal years were not met.

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NOTE 4. Stock Plans and Share-Based Compensation, continued

The key financial targets for the 2015 and 2016 LTIP plans will be based on the achievement of goals related to both operating ratio and return on assets (tax-adjusted operating income divided by net property) excluding non-recurring items as disclosed in the Company's financial statements. The three-year average operating ratio and return on assets over the performance period will each comprise 50% of the payout and are measured independently of the other. The 2015 and 2016 LTIP plans state that payouts for certain executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups.

Total expense incurred due to long-term incentive plans was $19 million, $2 million and $3 million for fiscal years 2014, 2013 and 2012, respectively.

	LTIP Plan (Plan Ended In)		
	2014	2015	2016
Number of target units outstanding (Thousands)[a]	1,338	1,330	1,119
Weighted-average fair value at grant date [a]	$22.23	$25.50	$28.03
Payout Range	0% - 200%	0% - 200%	0% - 200%

(a) Number of target units granted and weighted-average fair value calculations above include the value of both initial grants and subsequent, smaller grants issued at different prices based on grant date fair value to new or promoted employees not previously included.

Restricted Stock Units

As part of the 2014, 2015 and 2016 LTIP plans, 433 thousand, 524 thousand and 371 thousand restricted stock units, respectively, were granted. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon CSX's attainment of operational targets. The restricted stock units and expenses are included in the information as shown within the Restricted Stock Grants section above.

As of December 2014, there was $39 million of total unrecognized compensation cost related to these plans that is expected to be recognized over a weighted-average period of approximately 2 years. The activity related to each of the outstanding long-term incentive plans is summarized as follows:

	LTIP Plan (Plan Ended In)			Weighted-Average
(Units Outstanding, in Thousands)	2014	2015	2016	Fair Value at Grant Date
Unvested at December 28, 2012	1,237	—	—	$ 21.98
Granted in 2013	85	1,354	—	25.26
Forfeited in 2013	(4)	(75)	—	(25.19)
Unvested at December 27, 2013	1,318	1,279	—	23.70
Granted in 2014	20	52	1,144	28.13
Forfeited in 2014	—	(1)	(25)	(28.07)
Cancelled due to performance conditions[a]	(1,338)	—	—	(22.23)
Vested at December 26, 2014	—	—	—	—
Unvested at December 26, 2014	—	1,330	1,119	$ 26.66

(a) The minimum financial target was not met in 2014. As a result, there was no performance unit payout for the LTIP ended December 26, 2014.

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NOTE 4. Stock Plans and Share-Based Compensation, continued

Stock Awards for Directors

CSX's non-management directors receive an annual retainer of $75,000 to be paid quarterly in cash, unless the director chooses to receive the retainer in the form of CSX common stock. Additionally, non-management directors receive an annual grant of common stock in the amount of approximately $150,000, with the number of shares to be granted based on the average closing price of CSX stock in the months of November, December and January. The following table provides information about shares issued to directors.

	Fiscal Years		
	2014	2013	2012
Shares Issued to Directors (Thousands)	79	105	102
Expense (Millions)	$2	$2	$2
Weighted Average Grant Date Stock Price	$28.01	$23.12	$21.92

The directors may elect to defer receipt of their fees, in accordance with Internal Revenue Code ("IRC") Section 409A. Deferred cash amounts were credited to an account and invested in a choice of eight investment selections, including a CSX common stock equivalent fund. Distributions are made in accordance with elections made by the directors, consistent with the terms of the Directors' Deferred Compensation Plan.

NOTE 5. Casualty, Environmental and Other Reserves

Activity related to casualty, environmental and other reserves is as follows:

(Dollars in Millions)	Casualty Reserves	Environmental Reserves	Other Reserves	Total
December 30, 2011	$372	$83	$64	$519
Charged to Expense	51	35	36	122
Payments	(98)	(30)	(36)	(164)
December 28, 2012	325	88	64	477
Charged to Expense	54	48	38	140
Payments	(99)	(36)	(31)	(166)
December 27, 2013	280	100	71	451
Charged to Expense [(a)]	89	57	30	176
Payments	(104)	(63)	(42)	(209)
December 26, 2014	$265	$94	$59	$418

[(a)] Increase in expense in 2014 is primarily due to the resolution of personal injury claims for prior years.

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NOTE 5. Casualty, Environmental and Other Reserves, continued

These reserves are considered critical accounting estimates due to the need for significant management judgment. They are provided for in the consolidated balance sheets as follows:

	December 2014			December 2013		
(Dollars in Millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	$68	$123	$191	$59	$148	$207
Occupational	3	15	18	3	20	23
Asbestos	5	51	56	10	40	50
Total Casualty	76	189	265	72	208	280
Environmental	48	46	94	59	41	100
Other	18	41	59	20	51	71
Total	$142	$276	$418	$151	$300	$451

These liabilities are accrued when estimable and probable in accordance with the Contingencies Topic in the ASC. Actual settlements and claims received could differ and final outcome of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, they could have a material effect on the Company's financial condition, results of operations or liquidity in that particular period.

Casualty

Casualty reserves of $265 million for 2014 represent accruals for personal injury, occupational injury and asbestos claims. The Company's self-insured retention amount for these claims is $50 million per occurrence. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, 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. These reserves fluctuate based upon the timing of payments as well as changes in independent third-party estimates, which are reviewed by management. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. 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. During 2014, 2013 and 2012, there were no significant changes in estimate recorded to adjust casualty reserves.

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 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 retains an independent actuary to assist management in assessing the value of personal injury claims. An analysis is performed by the actuary quarterly and is reviewed by management. The methodology used by the actuary 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.

NOTE 5. Casualty, Environmental and Other Reserves, continued

Occupational & Asbestos

Occupational claims arise from allegations of exposures to certain materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as “irritants”) and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries, carpal tunnel syndrome and hearing loss.

The Company is also party to a number of asbestos claims by employees alleging exposure to asbestos in the workplace. The heaviest possible exposure for employees resulted from work conducted in and around steam locomotive engines that were largely phased out beginning around the 1950s. Other types of exposures, however, including exposure from locomotive component parts and building materials, continued until these exposures were substantially eliminated by 1985. Additionally, the Company has retained liability for asbestos claims filed against its previously owned international container shipping business. Diseases associated with asbestos typically have long latency periods (amount of time between exposure to asbestos and the onset of the disease) which can range from ten to 40 years after exposure.

Occupational claims, excluding asbestos, are analyzed on a quarterly basis by an independent actuary in order to determine the number of unasserted, or incurred but not reported (“IBNR”), claims. The actuary’s analyses are reviewed by management. With the exception of carpal tunnel, management has determined that seven years is the most probable time period in which these unasserted occupational claim filings and claim values can be estimated. Carpal tunnel claims use a three-year period to estimate the reserve due to the shorter latency period for these types of injuries.

Asbestos claims are analyzed by an independent specialist in order to determine the number of unasserted, or IBNR, claims. Since exposure to asbestos has been substantially eliminated, management reviews asserted asbestos claims quarterly and the review by the specialist is completed annually. In 2014, management reviewed this assumption and determined that it was appropriate to extend the forecast period from seven years to ten years. Based on a review of historical settlement trends, management concluded that ten years is the most probable time period in which unasserted asbestos claim filings and claim values can be estimated. The Company does not believe there is sufficient data to justify a projection period longer than ten years at this time. The change in the forecast period resulted in an immaterial increase in the asbestos reserves during 2014.

The actuary and specialist analyze CSXT’s historical claim filings, settlement amounts, and dismissal rates to determine future anticipated claim filing rates and average settlement values for occupational and asbestos claims reserves. The potentially exposed population is estimated by using CSXT’s employment records and industry data. From this analysis, the actuary and specialist provide estimates of the IBNR claims liabilities.

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NOTE 5. Casualty, Environmental and Other Reserves, continued

Undiscounted liabilities recorded related to occupational and asbestos claims were as follows:

(Dollars in Millions)	December 2014	December 2013
Occupational:		
Incurred but not reported claims	$12	$15
Asserted claims	6	8
Total liability	$18	$23
Asbestos:		
Incurred but not reported claims	$45	$35
Asserted claims	11	15
Total liability	$56	$50

A summary of occupational and asbestos claims activity is as follows:

	Fiscal Years 2014	2013
Asserted Claims		
Open Claims - Beginning of Year	392	523
New Claims Filed	136	165
Claims Settled	(128)	(146)
Claims Dismissed	(130)	(150)
Open Claims - End of Year	270	392

Environmental
Environmental reserves were $94 million for 2014. 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 250 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, 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. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling 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.

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NOTE 5. Casualty, Environmental and Other Reserves, continued

In accordance with the Asset Retirement and Environmental Obligations Topic in the ASC, the Company reviews its role with respect to each site identified at least quarterly, giving consideration to a number of factors such as:

- type of clean-up required;
- nature of the Company's alleged connection to the location (e.g., generator of waste sent to the site or owner or operator of the site);
- extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- number, connection and financial viability of other named and unnamed potentially responsible parties at the location.

Based on the review process, the Company has recorded amounts to cover contingent anticipated 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. 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. Environmental remediation costs are included in materials, supplies and other on the consolidated income statement.

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 additional exposure, the amount and materiality of which cannot presently be reasonably estimated. Based upon information currently available, however, the Company believes its environmental reserves accurately reflect the cost of remedial actions currently required.

Other

Other reserves of $59 million for 2014 include liabilities for various claims, such as property, automobile and general liability. Also included in other reserves are longshoremen disability claims related to a previously owned international shipping business (these claims are in runoff) as well as claims for current port employees.

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NOTE 6. Properties

A detail of the Company's net properties are as follows:

(Dollars in Millions) December 2014	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Depreciation Method	Estimated Useful Life
Road						
Rail and Other Track Material	$6,771	$(1,400)	$5,371	2.5%	Group Life	
Ties	4,807	(1,060)	3,747	3.7%	Group Life	
Grading	2,460	(481)	1,979	1.4%	Group Life	
Ballast	2,693	(679)	2,014	2.7%	Group Life	
Bridges, Trestles, and Culverts	2,119	(278)	1,841	1.6%	Group Life	
Signals and Interlockers	2,103	(356)	1,747	4.0%	Group Life	
Buildings	1,102	(377)	725	2.5%	Group Life	
Other	4,070	(1,517)	2,553	4.2%	Group Life	
Total Road	26,125	(6,148)	19,977			8-90 Years
Equipment						
Locomotive	5,036	(2,325)	2,711	3.6%	Group Life	
Freight Cars	3,244	(1,169)	2,075	3.2%	Group Life	
Work Equipment and Other	1,828	(1,032)	796	7.1%	Group Life	
Total Equipment	10,108	(4,526)	5,582			3-38 Years
Land	1,875	—	1,875	N/A	N/A	N/A
Construction In Progress	1,196	—	1,196	N/A	N/A	N/A
Other	39	(85)	(46)	N/A	Straight Line	4-30 Years
Total Properties	$39,343	$(10,759)	$28,584			

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NOTE 6. Properties, continued

(Dollars in Millions) December 2013	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Depreciation Method	Estimated Useful Life
Road						
Rail and Other Track Material	$6,452	$(1,270)	$5,182	2.9%	Group Life	
Ties	4,534	(947)	3,587	4.0%	Group Life	
Grading	2,425	(448)	1,977	1.5%	Group Life	
Ballast	2,612	(645)	1,967	2.8%	Group Life	
Bridges, Trestles, and Culverts	2,008	(250)	1,758	1.6%	Group Life	
Signals and Interlockers	1,922	(291)	1,631	3.4%	Group Life	
Buildings	1,011	(355)	656	2.5%	Group Life	
Other	3,654	(1,386)	2,268	4.7%	Group Life	
Total Road	24,618	(5,592)	19,026			6-80 Years
Equipment						
Locomotive	4,987	(2,176)	2,811	3.6%	Group Life	
Freight Cars	3,111	(1,135)	1,976	3.1%	Group Life	
Work Equipment and Other	1,666	(914)	752	7.1%	Group Life	
Total Equipment	9,764	(4,225)	5,539			5-38 Years
Land	1,842	—	1,842	N/A	N/A	N/A
Construction In Progress	854	—	854	N/A	N/A	N/A
Other	106	(76)	30	N/A	Straight Line	4-30 Years
Total Properties	$37,184	$(9,893)	$27,291			

Railroad Assets
The Company depreciates its rail assets, including main-line track, locomotives and freight cars, using the group-life method of accounting. Assets depreciated under the group-life method of accounting comprise 85% of total fixed assets of $39 billion on a gross basis as of December 2014. All other depreciable assets of the Company are depreciated on a straight-line basis. The group-life method aggregates assets with similar lives and characteristics into groups and depreciates each of these groups as a whole. When using the group-life method, an underlying assumption is that each group of assets, as a whole, is used and depreciated to the end of its recoverable life.

The Company currently utilizes more than 130 different depreciable asset categories to account for depreciation expense for the railroad assets that are depreciated under the group-life method of accounting. Examples of depreciable asset categories include 18 different categories for crossties due to the different combinations of density classifications and asset types. By utilizing various depreciable categories, the Company can more accurately account for the use of its assets. All assets of the Company are depreciated on a time or life basis.

The Company believes the group-life method of depreciation closely approximates the straight-line method of depreciation. Additionally, due to the nature of most of its assets (e.g. track is one contiguous, connected asset) the Company believes that this is the most effective way to properly depreciate its assets.

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NOTE 6. Properties, continued

Under the group-life method of accounting, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. A depreciation study (also referred to as a life study) is the periodic review of asset service lives, salvage values, accumulated depreciation, and other related factors for group assets conducted by a third-party specialist, analyzed by the Company's management and approved by the Surface Transportation Board ("STB"), the regulatory board that has broad jurisdiction over railroad practices. The STB requires depreciation studies be performed for equipment assets every three years and for road (e.g. bridges and signals) and track (e.g. rail, ties and ballast) assets every six years. The Company believes the frequency currently required by the STB provides adequate review of asset service lives and that a more frequent review would not result in a material change due to the long-lived nature of most of the assets.

The results of the depreciation study process determine the service lives for each asset group under the group-life method. Road assets, including main-line track, have estimated service lives ranging from eight years for system roadway machinery to 90 years for grading (construction of protection for the roadway, tracks and embankments). Equipment assets, including locomotives and freight cars, have estimated service lives ranging from three years for technology assets to 38 years for work equipment. Changes in asset service lives due to the results of the depreciation studies are applied on a prospective basis and could significantly impact future periods' depreciation expense, and thus, the Company's results of operations.

There are several factors taken into account during the depreciation study and they include:

- statistical analysis of historical life and salvage data for each group of property;
- statistical analysis of historical retirements for each group of property;
- evaluation of current operations;
- evaluation of technological advances and maintenance schedules;
- previous assessment of the condition of the assets and outlook for their continued use;
- expected net salvage to be received upon retirement; and
- comparison of assets to the same asset groups with other companies.

For retirements or disposals of depreciable rail assets that occur in the ordinary course of business, the asset cost (net of salvage value or sales proceeds) is charged to accumulated depreciation and no gain or loss is recognized. As individual assets within a specific group are retired or disposed of, resulting gains and losses are recorded in accumulated depreciation. As part of the depreciation study, an assessment of the recorded amount of accumulated depreciation is made to determine if it is deficient (or in excess) of the appropriate amount indicated by the study. Any such deficiency (or excess), including any deferred gains or losses, is amortized as a component of depreciation expense over the remaining service life of the asset group until the next required depreciation study. Since the overall assumption with the group-life method of accounting is that the assets within the group on average have the same service life and characteristics, it is therefore concluded that the deferred gains and losses offset over time.

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NOTE 6. Properties, continued

Since the rail network is one contiguous, connected network it is impractical to maintain specific identification records for these assets. For road assets (such as rail and track related items), CSX utilizes a first-in, first-out approach to asset retirements. The historical cost of these replaced assets is estimated using inflation indices published by the Bureau of Labor Statistics applied to the replacement value based on the age of the retired asset. The indices are used because they closely correlate with the major cost of the materials comprising the applicable road assets.

Equipment assets (such as locomotives and freight cars) are specifically identified at retirement. When an equipment asset is retired that has been depreciated using the group-life method, the cost is reduced from the cost base and recorded in accumulated depreciation.

In the event that large groups of assets are removed from service as a result of unusual acts or sales, resulting gains and losses are recognized immediately. These acts are not considered to be in the normal course of business and are therefore recognized when incurred. Examples of such acts would be the major destruction of assets due to significant storm damage (e.g. major hurricanes), the sale of a rail line segment or the disposal of an entire class of assets (e.g. disposal of all refrigerated freight cars). There were no abnormal operating gains in 2014. Abnormal operating gains of $65 million in 2013 and $104 million in 2012 were related to the disposition of operating rail corridors. Included in these gains were $43 million and $94 million in 2013 and 2012, respectively, from the 2011 sale of an operating rail corridor to the state of Florida. In 2013, a gain was recognized for a non-monetary exchange of easements and rail assets, and in 2012, a gain was recognized for a sale of operating rail corridor to the Commonwealth of Massachusetts.

Recent experience with depreciation studies has resulted in depreciation rate changes, which did not materially affect the Company's annual depreciation expense of $1.2 billion, $1.1 billion and $1.1 billion for 2014, 2013 and 2012, respectively. In general, changes in depreciation rates result from updated average asset service lives as determined during depreciation studies. In 2014, the Company completed a depreciation study for its road and track assets. In 2012, the Company completed a depreciation study for its equipment assets and a technical update (an update to the prior depreciation study) for its road and track assets.

Non-Railroad Assets, Capital Leases and Land
The majority of non-railroad property is depreciated using the straight-line method on a per asset basis. The depreciable lives of this property are periodically reviewed by the Company and any changes are applied on a prospective basis. Amortization expense recorded under capital leases is included in depreciation expense on the consolidated income statements. For retirements or disposals of non-railroad depreciable assets and all dispositions of land, the resulting gains or losses are recognized in earnings at the time of disposal. During 2012, the Company recognized a gain of $57 million related to the sale of non-operating property, which is recognized in other income in the consolidated statements of income. These gains and losses were not material for any other period presented.

Impairment Review
Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets in accordance with the Property, Plant, and Equipment Topic in the ASC. Where impairment is indicated, the assets are evaluated and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value.

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NOTE 6. Properties, continued

Capital Expenditures
The Company's capital spending includes purchased or self-constructed assets and property additions that substantially extend the service life or increase the utility of those assets. Indirect costs that can be specifically traced to capital projects are also capitalized. The Company is committed to maintaining and improving its existing infrastructure and expanding its network for long-term growth. Rail operations are capital intensive and CSX accounts for these costs in accordance with GAAP and the Company's capitalization policy. All properties are stated at historical cost less an allowance for accumulated depreciation.

The Company's largest category of capital spending is the replacement of track assets and the acquisition or construction of new assets that enable CSX to enhance its operations or provide new capacity offerings to its customers. These construction projects are typically completed by CSXT employees. Costs for track asset replacement and capacity projects that are capitalized include:

- labor costs, because many of the assets are self-constructed;
- costs to purchase or construct new track or to prepare ground for the laying of track;
- welding (rail, field and plant) which are processes used to connect segments of rail;
- new ballast, which is gravel and crushed stone that holds track in line;
- fuels and lubricants associated with tie, rail and surfacing work which is the process of raising track to a designated elevation over an extended distance;
- cross, switch and bridge ties which are the braces that support the rails on a track;
- gauging which is the process of standardizing the distance between rails;
- handling costs associated with installing ties or ballast; and
- other track materials.

The primary cost in self-constructed track replacement work is labor. CSXT engineering employees directly charge their labor to the track replacement project (the capitalized depreciable property). These employees concurrently perform deconstruction and installation of track material. Because of this concurrent process, CSX must estimate the amount of labor that is related to deconstruction versus installation. Through analysis of CSXT's track replacement process, CSX determined that approximately 20% of labor costs associated with track material installation is related to the deconstruction of old track and 80% is associated with the installation of new track.

Capital spending related to locomotives and freight cars comprises the second largest category of the Company's capital assets. This category includes purchase costs of locomotives and freight cars as well as certain equipment leases that are considered to be capital leases in accordance with the Leases Topic in the ASC. In addition, costs to modify or rebuild these assets are capitalized if the spending incurred extends the asset's service life or improves utilization. Improvement projects must meet specified dollar thresholds to be capitalized and are reviewed by management to determine proper accounting treatment. Routine repairs and maintenance costs, for all asset categories, are expensed as incurred.

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NOTE 7. Commitments and Contingencies

Lease Commitments
The Company has various lease agreements with other parties with terms up to 30 years. Non-cancelable, long-term leases may include provisions for maintenance, options to purchase, and options to extend the terms. The Company uses the straight-line method to recognize rent expense associated with operating leases that include escalations over their terms. These amounts are shown in the table below.

	Fiscal Years		
(Dollars in Millions)	2014	2013	2012
Rent Expense on Operating Leases	$61	$60	$73

At December 2014, minimum rentals on land, buildings, track and equipment under operating leases are disclosed in the table below. Also, payments to Conrail for leases on shared rail infrastructure are included in these amounts. (See Note 12, Related Party Transactions).

(Dollars in Millions)	Operating	Sublease	Net Lease
Years	Leases	Income	Commitments
2015	$78	$(3)	$75
2016	71	(2)	69
2017	62	(2)	60
2018	54	(2)	52
2019	45	(2)	43
Thereafter	210	(11)	199
Total	$520	$(22)	$498

Purchase Commitments
CSXT has a commitment under a long-term maintenance program that currently covers 42% of CSXT's fleet of locomotives. The agreement is based on the maintenance cycle for each locomotive. Under CSXT's current obligations, the agreement will expire no earlier than 2031. 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. The table below includes both active and inactive locomotives covered under this agreement.

The following table summarizes the number of locomotives covered and CSXT's payments under the long-term maintenance program.

	Fiscal Years		
(Dollars in Millions)	2014	2013	2012
Amounts Paid	$247	$287	$287
Number of Locomotives	1,886	1,886	1,899

Annual payments related to the locomotive purchase obligations, including amounts that would be payable under the long-term maintenance program, are estimated in the table below. The amount of the ultimate purchase commitment depends upon the model of locomotive acquired and the timing of delivery.

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NOTE 7. Commitments and Contingencies, continued

Additionally, the Company has various other commitments to purchase technology, communications, railcar maintenance and other services from various suppliers. Total annual payments under all of these purchase commitments are also estimated in the table below.

(Dollars in Millions)	Locomotive & Maintenance Payments	Other Commitments	Total
2015	$727	$236	$963
2016	474	22	496
2017	177	13	190
2018	169	12	181
2019	159	11	170
Thereafter	1,203	69	1,272
Total	$2,909	$363	$3,272

Insurance

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the property and liability programs. The Company has a $25 million retention per occurrence for the non-catastrophic property program (such as a derailment) and a $50 million retention per occurrence for the liability and catastrophic property programs (such as hurricanes and floods). While the Company believes its insurance coverage is adequate, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

Legal

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 fuel surcharge practices, environmental and hazardous material exposure matters, FELA claims by employees, other personal injury or property 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 pending items will have a material adverse effect on the Company's financial condition, results of operations or liquidity. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be $4 million to $13 million in aggregate at December 26, 2014. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

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NOTE 7. Commitments and Contingencies, continued

Fuel Surcharge Antitrust Litigation
In May 2007, class action lawsuits were filed against CSXT and three other U.S.-based Class I railroads alleging that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. In November 2007, the class action lawsuits were consolidated in federal court in the District of Columbia, where they are now pending. The suit seeks treble damages allegedly sustained by purported class members as well as attorneys' fees and other relief. Plaintiffs are expected to allege damages at least equal to the fuel surcharges at issue.

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, but rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. In October 2013, the District Court held a case management conference to determine the scope and schedule of the remand proceedings, which are underway. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification remand proceedings.

CSXT believes that its fuel surcharge practices were arrived at and applied lawfully and that the case is without merit. Accordingly, the Company intends to defend itself vigorously. However, penalties for violating antitrust laws can be severe, and an unexpected adverse decision on the merits could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period or for the full year.

Environmental
CSXT has indemnified Pharmacia LLC (formerly known as Monsanto Company) for certain liabilities associated with real estate located in Kearny, New Jersey along the Lower Passaic River (the “Property”). The Property, which was formerly owned by Pharmacia, is now owned by CSXT. The indemnification and defense duties arise with respect to several matters. CSXT, on behalf of Pharmacia, is conducting a Remedial Investigation and Feasibility Study of the 17-mile Lower Passaic River Study Area with approximately 60 other parties pursuant to an Administrative Settlement Agreement and Order on Consent with the U.S. Environmental Protection Agency ("EPA"). The EPA, using its Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") authority, seeks cleanup and removal costs and other damages associated with the presence of hazardous substances in the Lower Passaic River. In April 2014, the EPA announced its proposed plan to remediate the lower eight miles of the Lower Passaic River. The proposed plan, based on a Focused Feasibility Study, informs the public of EPA’s preferred remedial alternative. EPA’s proposed plan solicited public comments, which were due in August 2014. After review of comments, EPA is expected to issue its final cleanup plan in 2015. CSXT is also defending and indemnifying Pharmacia in a cooperative natural resource damages assessment process related to the Property. Based on currently available information, the Company does not believe any remediation costs potentially allocable to CSXT would be material to the Company's financial condition, results of operations or liquidity.

NOTE 8. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to January 1, 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation.

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NOTE 8. Employee Benefit Plans, continued

In addition to these plans, the Company sponsors a post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Medicare-eligible retirees are covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Non-Medicare eligible retirees are covered by a self-insured program partially funded by participating retirees. The life insurance plan is non-contributory.

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company selects. In order to perform this valuation, the actuaries are provided with the details of the population covered at the beginning of the year, summarized in the table below, and projects that population forward to the end of the year. These amounts are reviewed by management.

	Summary of Participants as of January 1, 2014	
	Pension Plans	Post-retirement Medical Plan
Active Employees	5,136	2,031
Retirees and Beneficiaries	11,699	12,148
Other[(a)]	5,444	87
Total	22,279	14,266

(a) For pension plans, the other category consists mostly of terminated but vested former employees. For post-retirement plans, the other category consists of employees on long-term disability that have not yet retired.

The benefit obligation for these plans represents the liability of the Company for current and retired employees and is affected primarily by the following:

- service cost (benefits attributed to employee service during the period);
- interest cost (interest on the liability due to the passage of time);
- actuarial gains/losses (experience during the year different from that assumed and changes in plan assumptions); and
- benefits paid to participants.

Cash Flows

Plan assets are amounts that have been segregated and restricted to provide qualified pension plan benefits and include amounts contributed by the Company and amounts earned from invested contributions, net of benefits paid. Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. The Company funds the cost of the post-retirement medical and life insurance benefits as well as nonqualified pension benefits on a pay-as-you go basis. During 2012, the Company made a contribution of $275 million to its qualified pension plans, of which $25 million was the required minimum contribution. No contributions were made during 2013 and 2014. No significant contributions to the Company's qualified pension plans are expected in 2015.

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NOTE 8. Employee Benefit Plans, continued

Future expected benefit payments are as follows:

	Expected Cash Flows	
(Dollars in Millions)	Pension Benefits	Post-retirement Benefits
2015	$207	$37
2016	188	34
2017	188	33
2018	185	30
2019	186	28
2020-2024	931	114
Total	$1,885	$276

Plan Assets

The CSX Investment Committee (the "Investment Committee"), whose members were selected by the Chief Financial Officer and approved by the Chief Executive Officer, is responsible for oversight and investment of plan assets. The Investment Committee utilizes an investment asset allocation strategy that is monitored on an ongoing basis and that is updated periodically in consideration of plan or employee changes, or changing market conditions. These studies provide an extensive modeling of asset investment return in conjunction with projected plan liabilities and seek to evaluate how to maximize return within the constraints of acceptable risk. The current asset allocation targets 70% equity investments and 30% fixed income investments and cash. Within equity, a further target is currently established for 42% of total plan assets in domestic equity and 28% in international equity. Allocations are evaluated for levels within 3% of targeted allocations and are adjusted quarterly as necessary. The distribution of pension plan assets as of the measurement date is shown in the table below, and these assets are netted against the pension liabilities on the balance sheet.

	December 2014			December 2013		
(Dollars in Millions)	Amount	Percent of Total Assets		Amount	Percent of Total Assets	
Equity	$1,715	68	%	$1,619	65	%
Fixed Income	740	30		795	32	
Cash and Cash Equivalents	49	2		86	3	
Total	$2,504	100	%	$2,500	100	%

Under the supervision of the Investment Committee, individual investments or fund managers are selected in accordance with standards of prudence applicable to asset diversification and investment suitability. The Company also selects fund managers with differing investment styles and benchmarks their investment returns against appropriate indices. Fund investment performance is continuously monitored. Acceptable performance is determined in the context of the long-term return objectives of the fund and appropriate asset class benchmarks.

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NOTE 8. Employee Benefit Plans, continued

Within the Company's equity funds, the U.S. stock segment includes diversification among large and small capitalization stocks. Guidelines established with individual managers limit investment by industry sectors, individual stock issuer concentration and the use of derivatives and CSX securities.

Fixed income securities guidelines established with individual managers specify the types of allowable investments, such as government, corporate and asset-backed bonds, and limit diversification between domestic and foreign investments and the use of derivatives. Additionally, guidelines stipulate minimum credit quality constraints and any prohibited securities.

For detailed information regarding the fair value of pension assets, see Note 13, Fair Value Measurements.

Benefit Obligation, Plan Assets and Funded Status
Changes in benefit obligation and the fair value of plan assets for the 2014 and 2013 calendar plan years are as follows:

	Pension Benefits		Post-retirement Benefits	
(Dollars in Millions)	Plan Year 2014	Plan Year 2013	Plan Year 2014	Plan Year 2013
Actuarial Present Value of Benefit Obligation				
Accumulated Benefit Obligation	$2,849	$2,538	N/A	N/A
Projected Benefit Obligation	3,002	2,679	$340	$350
Change in Projected Benefit Obligation:				
Projected Benefit Obligation at Beginning of Plan Year	$2,679	$2,954	$350	$415
Service Cost	44	49	3	3
Interest Cost	123	108	13	13
Plan Participants' Contributions	—	—	7	8
Workforce Reduction Program/Curtailment	27	—	8	—
Actuarial Loss (Gain)	333	(275)	(8)	(49)
Benefits Paid	(204)	(157)	(33)	(40)
Benefit Obligation at End of Plan Year	$3,002	$2,679	$340	$350
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Plan Year	$2,500	$2,294	$—	$—
Actual Return on Plan Assets	195	350	—	—
Non-qualified Employer Contributions	13	13	26	32
Plan Participants' Contributions	—	—	7	8
Benefits Paid	(204)	(157)	(33)	(40)
Fair Value of Plan Assets at End of Plan Year	2,504	2,500	—	—
Funded Status at End of Plan Year	$(498)	$(179)	$(340)	$(350)

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NOTE 8. Employee Benefit Plans, continued

For qualified plan funding purposes, assets and discounted liabilities are measured in accordance with the Employee Retirement Income Security Act ("ERISA"), as well as other related provisions of the IRC and related regulations. Under these funding provisions and the alternative measurements available thereunder, the Company estimates its unfunded obligation for qualified plans on an annual basis.

In accordance with Compensation-Retirement Benefits Topic in the ASC, an employer must recognize the funded status of a pension or other post-retirement benefit plan by recording a liability (underfunded plan) or asset (overfunded plan) for the difference between the projected benefit obligation (or the accumulated post-retirement benefit obligation for a postretirement benefit plan) and the fair value of plan assets at the plan measurement date. Amounts related to pension and post-retirement benefits recorded in other long-term assets, labor and fringe benefits payable and other long-term liabilities on the balance sheet are as follows:

	Pension Benefits		Post-retirement Benefits	
(Dollars in Millions)	December 2014	December 2013	December 2014	December 2013
Amounts Recorded in Consolidated Balance Sheets:				
Long-term Assets [(a)]	$9	$44	$—	$—
Current Liabilities	(15)	(14)	(37)	(38)
Long-term Liabilities	(492)	(209)	(303)	(312)
Net Amount Recognized in Consolidated Balance Sheets	$(498)	$(179)	$(340)	$(350)

(a) Long-term assets as of December 2014 relate to one of the qualified pension plans whose assets exceed projected benefit obligations.

The funded status, or amount by which the benefit obligation exceeds the fair value of plan assets, represents a liability. At December 2014, the status of CSX plans only with a net liability is disclosed below. The total fair value of all plans as of December 2014 was $2.5 billion, which includes the qualified pension plans with net assets.

(Dollars in Millions)	Aggregate Fair Value of Plan Assets	Aggregate Projected Benefit Obligation
Benefit Obligations in Excess of Plan Assets		
Projected Benefit Obligation	$2,461	$(2,968)
Accumulated Benefit Obligation	2,461	(2,815)

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NOTE 8. Employee Benefit Plans, continued

Net Benefit Expense
The following table describes the components of expense/(income) related to net benefit expense recorded in labor and fringe on the income statement.

	Pension Benefits Fiscal Years			Post-retirement Benefits Fiscal Years		
(Dollars in Millions)	2014	2013	2012	2014	2013	2012
Service Cost	$44	$49	$44	$3	$3	$4
Interest Cost	123	108	123	13	13	16
Expected Return on Plan Assets	(166)	(162)	(166)	—	—	—
Amortization of Net Loss	57	100	82	5	14	9
Amortization of Prior Service Cost	—	—	—	(1)	(1)	(1)
Net Periodic Benefit Expense	58	95	83	20	29	28
Special Termination Benefits - Workforce Reduction Program/Curtailment[(a)]	27	—	—	8	—	—
Settlement Gain[(b)]	(1)	(2)	(2)	—	—	—
Total Expense	$84	$93	$81	$28	$29	$28

(a) These charges result from a management workforce reduction program that was initiated in 2014. For further information regarding the program, see Note 1. Nature of Operations and Significant Accounting Policies.
(b) Settlement gains were recognized as one of the pension plan's lump-sum payments exceeded the sum of the service cost and interest cost recognized. The gain is the recognition of a portion of its accumulated other comprehensive income related to that plan.

Pension and Other Post-Employment Benefits Adjustments
The following table shows the pre-tax change in other comprehensive loss (income) attributable to the components of net expense and the change in benefit obligation for CSX for pension and other post-employment benefits.

(Dollars in Millions)	Pension Benefits		Post-retirement Benefits	
Components of Other Comprehensive Loss (Income)	December 2014	December 2013	December 2014	December 2013
Recognized in the balance sheet				
Losses (Gains)	$305	$(462)	$(8)	$(48)
Expense (Income) recognized in the income statement				
Amortization of net losses [(a)]	$57	$100	$5	$14
Settlement gain	(1)	(2)	—	—
Amortization of prior service costs [(b)]	—	—	(1)	(1)

(a) Amortization of net losses estimated to be expensed for 2015 is approximately $70 million and $5 million for pension benefits and post-retirement benefits, respectively. The increase in amortization is largely related to the impact of lower discount rates and adoption of new mortality tables, partially offset by favorable pension asset experience.
(b) Amortization of prior service costs estimated to be expensed in 2015 is less than $1 million for pension benefits. The estimated post-retirement benefits amount to be credited to expense for 2015 is $1 million.

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NOTE 8. Employee Benefit Plans, continued

As of December 2014, the balances of pre-tax amounts to be amortized that are included in accumulated other comprehensive loss (a component of shareholders' equity) are as follows:

	Pension Benefits	Post-retirement Benefits
Losses	$908	$59
Prior Service Costs (Credits)	—	(1)
Total	$908	$58

Assumptions
The expected long-term average rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. In estimating that rate, the Company gives appropriate consideration to the returns being earned by the plan assets in the funds and the rates of return expected to be available for reinvestment as well as the current and projected asset mix of the funds. Management balances market expectations obtained from various investment managers and economists with both market and actual plan historical returns to develop a reasonable estimate of the expected long-term rate of return on assets. As this assumption is long-term, it is adjusted less frequently than other assumptions used in pension accounting.

Weighted-average assumptions used in accounting for the plans were as follows:

	Pension Benefits		Post-retirement Benefits	
	2014	2013	2014	2013
Expected Long-term Return on Plan Assets:				
Benefit Cost for Plan Year	7.50 %	7.75 %	N/A	N/A
Benefit Obligation at End of Plan Year	7.25 %	7.50 %	N/A	N/A
Discount Rates:				
Benefit Cost for Plan Year	4.75 %	3.75 %	4.25 %	3.20 %
Benefit Obligation at End of Plan Year	4.00 %	4.75 %	3.60 %	4.25 %
Salary Scale Inflation	3.75 %	3.75 %	N/A	N/A

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NOTE 8. Employee Benefit Plans, continued

The net post-retirement benefit obligation for salaried, management personnel was determined using the following assumptions for the health care cost trend rate for medical plans. While it is expected that rates will decrease to 4.75% by 2025 for Medicare and 2027 for Non-Medicare eligible individuals, there may be yearly fluctuations. Additionally, there are cost differentials between Medicare and Non-Medicare eligible individuals which are reflected below.

	Post-retirement Benefits	
	2014	2013
Health Care Cost Trend Rate:		
Components of Benefit Cost: Non-Medicare Eligible	8.0%	8.5%
Components of Benefit Cost: Medicare Eligible	7.5%	8.0%
Benefit Obligations: Non-Medicare Eligible	8.0%	8.0%
Benefit Obligations: Medicare Eligible	7.5%	7.5%

For every 1% change in the assumed health care cost trend rate, service and interest cost will change by less than $1 million on a pre-tax basis on the consolidated income statements. For every 1% change in the health care cost trend rate, the Company's benefit obligation will change by less than $1 million on the consolidated balance sheets.

Other Plans
Under collective bargaining agreements, the Company participates in a multi-employer benefit plan, which provides certain post-retirement health care and life insurance benefits to eligible contract employees. Premiums under this plan are expensed as incurred and amounted to $37 million, $41 million and $46 million in 2014, 2013 and 2012, respectively.

The Company maintains savings plans for virtually all full-time salaried employees and certain employees covered by collective bargaining agreements. Expense associated with these plans was $41 million, $37 million and $29 million for 2014, 2013 and 2012, respectively.

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NOTE 9. Debt and Credit Agreements

Debt at December 2014 and December 2013 is shown in the table below. For information regarding the fair value of debt, see Note 13, Fair Value Measurements.

(Dollars in Millions)	Maturity at December 2014	Average Interest Rates at December 2014	December 2014	December 2013
Notes	2015-2054	5.5%	$9,456	$8,935
Equipment Obligations[a]	2015-2023	6.3%	277	602
Capital Leases	2015-2026	13.5%	8	16
Convertible Debentures	2021	1.0%	1	2
Subtotal Long-term Debt (including current portion)			$9,742	$9,555
Less Debt Due within One Year			(228)	(533)
Long-term Debt (excluding current portion)			$9,514	$9,022

(a) These obligations are secured by an interest in certain railroad equipment.

Debt Issuance & Early Redemption of Long-term Debt

During 2014, CSX issued $550 million of 3.4% notes due 2024 and $450 million of 4.5% notes due 2054. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time. The net proceeds were used to redeem $263 million of CSXT's 8.375% secured equipment obligations that otherwise matured on October 15, 2014 and $400 million of CSX Corporation’s 6.250% unsecured notes that otherwise matured April 1, 2015. Proceeds may also be used for general corporate purposes, which may include repayment of additional indebtedness outstanding from time to time, repurchases of CSX’s common stock, capital investment, working capital requirements and other cost reduction initiatives. CSX recognized $16 million of other expense for the early redemption premium related to $663 million of note repayments. For more information regarding a non-cash debt transaction with a related party, see Note 12. Related Party Transactions.

Long-term Debt Maturities

(Dollars in Millions) Fiscal Years Ending	Maturities as of December 2014
2015	$228
2016	21
2017	631
2018	619
2019	518
Thereafter	7,725
Total Long-term Debt Maturities (including current portion)	$9,742

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NOTE 9. Debt and Credit Agreements, continued

Credit Facilities
CSX has a $1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This facility expires in September 2016. As of the date of this filing, the Company has no outstanding balances under this facility. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds.

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. At December 2014, CSX was in compliance with all covenant requirements under the facilities.

Receivables Securitization Facility
The Company's $250 million receivables securitization facility has a three-year term expiring in June 2017. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity. Under the terms of this facility, CSXT transfers eligible third-party receivables to CSX Trade Receivables, LLC ("CSX Trade Receivables"), a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX services the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 10. Other Income - Net

The Company derives income from items that are not considered operating activities. Income from these items is reported net of related expense. Income from real estate operations includes the results of the Company's non-operating real estate sales, leasing, acquisition and management and development activities and may fluctuate as a function of timing of real estate sales. Miscellaneous income (expense) includes equity earnings or losses, investment gains and losses and other non-operating activities and may fluctuate due to timing. Other income – net consisted of the following:

	Fiscal Years		
(Dollars in Millions)	2014	2013	2012
Interest Income	$5	$8	$5
Income from Real Estate Operations	23	23	81
Miscellaneous Expense [a]	(52)	(20)	(13)
Total Other (Expense) Income - Net	$(24)	$11	$73
Gross Revenue from Real Estate Operations included above	$47	$48	$106

(a) Miscellaneous expense increased $32 million primarily due to an increase in estimated environmental cleanup costs of $17 million related to non-operating activities as well as costs of $16 million associated with the early redemption of long-term debt.

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NOTE 11. Income Taxes

Earnings before income taxes of $3.0 billion, $2.9 billion and $3.0 billion for fiscal years 2014, 2013 and 2012, respectively, represent earnings from domestic operations. The breakdown of income tax expense between current and deferred is as follows:

	Fiscal Years		
(Dollars in Millions)	2014	2013	2012
Current:			
Federal	$729	$671	$450
State	90	87	66
Subtotal Current	819	758	516
Deferred:			
Federal	291	285	530
State	7	15	62
Subtotal Deferred	298	300	592
Total	$1,117	$1,058	$1,108

Income tax expense reconciled to the tax computed at statutory rates is presented in the table below. The Company recorded a tax benefit of $31 million, $42 million and $20 million in 2014, 2013 and 2012, respectively, primarily as a result of federal and state legislative changes as well as the resolution of other federal and state tax matters. Each year's benefit is included in the state income tax and other lines in the table below.

	Fiscal Years					
(Dollars In Millions)	2014		2013		2012	
Federal Income Taxes	$1,066	35.0 %	$1,023	35.0 %	$1,040	35.0 %
State Income Taxes	61	2.0 %	65	2.2 %	81	2.8 %
Other	(10)	(0.3)%	(30)	(1.0)%	(13)	(0.4)%
Income Tax Expense/Rate	$1,117	36.7 %	$1,058	36.2 %	$1,108	37.4 %

In September 2013, the IRS issued final regulations governing the income tax treatment of the acquisition, disposition and repair of tangible property. The regulations were effective beginning in 2014. These new regulations did not have a material impact on the financial statements.

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NOTE 11. Income Taxes, continued

The significant components of deferred income tax assets and liabilities include:

	2014		2013	
(Dollars in Millions)	Assets	Liabilities	Assets	Liabilities
Pension Plans	$188	$—	$67	$—
Other Employee Benefit Plans	306	—	299	—
Accelerated Depreciation	—	9,133	—	8,868
Other	256	334	257	262
Total	$750	$9,467	$623	$9,130
Net Deferred Income Tax Liabilities		$8,717		$8,507

The primary factors in the change in year-end net deferred income tax liability balances include:
- Annual provision for deferred income tax expense; and
- Accumulated other comprehensive loss.

The Company files a consolidated federal income tax return, which includes its principal domestic subsidiaries. Income tax incurred on the operations of the Company are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. CSX participated in a contemporaneous IRS audit of tax year 2014. Federal examinations of original federal income tax returns for all years through 2013 are resolved.

As of December 2014, 2013 and 2012, the Company had approximately $21 million, $23 million and $24 million, respectively, of total unrecognized tax benefits. After consideration of the impact of federal tax benefits, $13 million, $15 million and $17 million in 2014, 2013 and 2012, respectively, could favorably affect the effective income tax rate in each year. The Company estimates that approximately $2 million of the unrecognized tax benefits as of December 2014 for various state and federal income tax matters will be resolved over the next 12 months upon the expiration of statutes of limitations. The final outcome of these uncertain tax positions is not yet determinable. The change to the total gross unrecognized tax benefits and prior year audit resolutions of the Company during the fiscal year ended December 2014 is reconciled as follows:

Uncertain Tax Positions:	Fiscal Year		
(Dollars in Millions)	2014	2013	2012
Balance at beginning of the year	$23	$24	$22
Additions based on tax positions related to current year	2	2	6
Additions based on tax positions related to prior years	3	5	3
Reductions based on tax positions related to prior years	—	(6)	(1)
Settlements with taxing authorities	—	—	—
Lapse of statute of limitations	(7)	(2)	(6)
Balance at end of the year	$21	$23	$24

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NOTE 11. Income Taxes, continued

CSX's continuing practice is to recognize net interest and penalties related to income tax matters in income tax expense. Included in the consolidated income statements are expense of $1 million in 2014 and benefits of $1 million and $8 million in 2013 and 2012, respectively, for changes to reserves for interest and penalties for all prior year tax positions. The current year expense for interest and penalties is due to state tax settlements of prior period tax audits where the Company had previously accrued a liability for interest and penalties. The Company had $1 million, $2 million and $3 million accrued for interest and penalties at 2014, 2013 and 2012, respectively, for all prior year tax positions.

NOTE 12. Related Party Transactions

Through a limited liability company, CSX and Norfolk Southern Corporation ("NS") jointly own 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 the Investments-Equity Method and Joint Venture Topic in the ASC, CSX applies the equity method of accounting to its investment in Conrail.

Conrail owns rail infrastructure and operates 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. These expenses are included in materials, supplies and other on the consolidated income statements. Future minimum lease payments due to Conrail under the shared asset area agreements are as follows:

(Dollars in Millions) Years	Conrail Shared Asset Agreement
2015	$26
2016	26
2017	26
2018	26
2019	26
Thereafter	124
Total	$254

Also, included in materials, supplies and other are CSX's 42% share of Conrail's income and its amortization of the fair value write-up arising from the acquisition of Conrail and certain other adjustments. The amortization primarily represents the additional after-tax depreciation expense related to the write-up of Conrail's fixed assets when the original purchase price, from the 1997 acquisition of Conrail, was allocated based on fair value. This write-up of fixed assets resulted in a difference between CSX's investment in Conrail and its share of Conrail's underlying net equity, which is $355 million as of December 2014.

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NOTE 12. Related Party Transactions, continued

The following table details the related Conrail amounts included in materials, supplies and other in the Company's consolidated income statements:

	Fiscal Years		
(Dollars in Millions)	2014	2013	2012
Rents, Fees and Services	$124	$115	$139
Purchase Price Amortization and Other	4	4	4
Equity earnings of Conrail	(31)	(35)	(26)
Total Conrail Rents, Fees and Services	$97	$84	$117

As required by the Related Party Disclosures Topic in the ASC, the Company has identified amounts below owed to Conrail, or its subsidiaries, representing liabilities under the operating, equipment and shared area agreements with Conrail. The Company also executed two promissory notes with a subsidiary of Conrail which were included in long-term debt on the consolidated balance sheets. Interest expense from these promissory notes was $3 million for 2014 and $4 million for 2013 and 2012, respectively.

	December	December
(Dollars in Millions)	2014	2013
Balance Sheet Information:		
CSX Payable to Conrail	$54	$172
Promissory Notes Payable to Conrail Subsidiary [a]		
2.89% CSX Promissory Note due October 2044 [a]	73	—
2.89% CSXT Promissory Note due October 2044 [a]	151	—
4.40% CSX Promissory Note due October 2035	—	73
4.52% CSXT Promissory Note due March 2035	—	23

(a) Promissory notes payable to Conrail are included on the consolidated balance sheet of CSX as long-term debt.

In October 2014, the Company converted its existing short term payable balance of approximately $125 million for operation of the shared asset area as well as its $23 million, 4.52% note due 2035 and its $73 million, 4.40% note due 2035 plus accrued interest of $3 million, into $224 million, 2.89% notes due 2044. The transaction is non-cash in nature.

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NOTE 13. Fair Value Measurements

The Financial Instruments Topic in the ASC requires disclosures about fair value of financial instruments in annual reports as well as in quarterly reports. For CSX, this statement applies to certain investments, pension plan assets and long-term debt. Also, the Fair Value Measurements and Disclosures Topic in the ASC clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

Various inputs are considered when determining the value of the Company's investments, pension plan assets and long-term debt. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. These inputs are summarized in the three broad levels listed below.

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Company’s own assumptions about the assumptions market participants would use in determining the fair value of investments)

The valuation methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments
The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds, government securities and auction rate securities and are carried at fair value on the consolidated balance sheet per the Fair Value Measurements and Disclosures Topic in the ASC. There are several valuation methodologies used for those assets as described below.

- Certificates of Deposit and Commercial Paper (Level 2): Valued at amortized cost, which approximates fair value.

- Corporate Bonds and Government Securities (Level 2): Valued using broker quotes that utilize observable market inputs.

- Auction Rate Securities (Level 3): Valued using pricing models for which the assumptions utilize management’s estimates of market participant assumptions, because there is currently no active market for trading.

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NOTE 13. Fair Value Measurements, continued

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. Additionally, the amortized cost basis of these investments was $453 million and $668 million as of December 26, 2014 and December 27, 2013, respectively.

	Fiscal Years							
	2014				2013			
(Dollars in Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	$—	$250	$—	$250	$—	$472	$—	$472
Corporate Bonds	—	141	—	141	—	132	—	132
Government Securities	—	51	—	51	—	49	—	49
Auction Rate Securities	—	—	11	11	—	—	15	15
Total investments at fair value	$—	$442	$11	$453	$—	$653	$15	$668

These investments have the following maturities and are represented on the consolidated balance sheet within short-term investments for investments with maturities within one year or less, and other long-term assets for investments with maturities greater than one year:

(Dollars in Millions)	December 2014	December 2013
Less than 1 year	$292	$487
1 - 2 years	45	58
2 - 5 years	100	105
Greater than 5 years	16	18
Total investments at fair value	$453	$668

Long-term Debt
Long-term debt is reported at carrying amount on the consolidated balance sheets and is the Company's only financial instrument with fair values significantly different from their carrying amounts. The majority of the Company's long-term debt is valued with assistance from a third party that utilizes closing transactions, market quotes or market values of comparable debt. For those instruments not valued by the third party, the fair value has been estimated by applying market rates of similar instruments to the scheduled contractual debt payments and maturities. These market rates are provided by the same third party. All of the inputs used to determine the fair value of the Company's long-term debt are Level 2 inputs.

The fair value of outstanding debt fluctuates with changes in a number of factors. Such factors include, but are not limited to, interest rates, market conditions, values of similar financial instruments, size of the transaction, cash flow projections and comparable trades. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value of a company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules.

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NOTE 13. Fair Value Measurements, continued

The fair value and carrying value of the Company's long-term debt is as follows:

(Dollars in Millions)	December 2014	December 2013
Long-term Debt (Including Current Maturities):		
Fair Value	$11,042	$10,354
Carrying Value	9,742	9,555

Pension Plan Assets

Pension plan assets are reported at fair value on the consolidated balance sheet. The Investment Committee targets an allocation of pension assets to be generally 70% equity and 30% fixed income. There are several valuation methodologies used for those assets as described below.

- Common stock (Level 1): Valued at the closing price reported on the active market on which the individual securities are traded on the last day of the year and classified in level 1 of the fair value hierarchy.
- Mutual funds (Level 1): Valued at the net asset value of shares held at year end based on quoted market prices determined in an active market. These assets are classified in level 1 of the fair value hierarchy.
- Common collective trust funds (Level 2): This class consists of private funds that invest in government and corporate securities and various short-term debt instruments. The net asset value of the investments is determined by reference to the fair value of the underlying securities, which are valued primarily through the use of directly or indirectly observable inputs. These assets are classified in level 2 of the fair value hierarchy.
- Corporate bonds, derivatives, government securities, and asset-backed securities (Level 2): Valued using price evaluations reflecting the bid and/or ask sides of the market for a similar investment at year end. Asset-backed securities include commercial mortgage-backed securities and collateralized mortgage obligations. These assets are classified in level 2 of the fair value hierarchy.
- Partnerships (Level 2): Net asset value of private equity based on the fair market values associated with the underlying investments at year end and is classified in level 2 of the fair value hierarchy.

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NOTE 13. Fair Value Measurements, continued

The pension plan assets at fair value by level, within the fair value hierarchy, as of calendar plan years 2014 and 2013 are shown in the table below. For additional information related to pension assets, see Note 8, Employee Benefit Plans.

	Fiscal Years							
	2014				2013			
(Dollars in Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Common Stock:								
Information technology	$177	$—	$—	$177	$173	$—	$—	$173
Health care	133	—	—	133	126	—	—	126
Consumer discretionary	125	—	—	125	152	—	—	152
Financials	116	—	—	116	116	—	—	116
Industrials	90	—	—	90	108	—	—	108
Energy	51	—	—	51	59	—	—	59
Consumer staples	42	—	—	42	43	—	—	43
Materials	20	—	—	20	29	—	—	29
Other	33	—	—	33	31	—	—	31
Mutual funds	20	—	—	20	17	—	—	17
Cash equivalents	1	—	—	1	—	—	—	—
Common trust funds	—	611	—	611	—	553	—	553
Corporate bonds	—	539	—	539	—	568	—	568
Partnerships	—	365	—	365	—	314	—	314
Government securities	—	164	—	164	—	186	—	186
Asset-backed securities	—	15	—	15	—	24	—	24
Derivatives and other	—	2	—	2	—	1	—	1
Total investments at fair value	$808	$1,696	$—	$2,504	$854	$1,646	$—	$2,500

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NOTE 14. Other Comprehensive Income

CSX reports comprehensive earnings or loss in accordance with the Comprehensive Income Topic in the ASC in the Consolidated Comprehensive Income Statement. 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 equal 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 $1.8 billion, $2.3 billion and $1.8 billion for 2014, 2013 and 2012, 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 benefit adjustments and CSX's share of AOCI of equity method investees.

Changes in the AOCI balance by component are shown in the table below. Amounts reclassified in pension and other post-employment benefits to net earnings relate to the amortization of actuarial losses and are included in labor and fringe on the consolidated income statements. See Note 8. Employee Benefit Plans for further information. Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified in other to net earnings are included in materials, supplies and other on the consolidated income statements.

(Dollars in millions)	Pension and Other Post-Employment Benefits	Other	Accumulated Other Comprehensive Income (Loss)
Balance December 30, 2011, Net of Tax	$(799)	$(76)	$(875)
Other Comprehensive Loss			
Loss Before Reclassifications	(172)	(9)	(181)
Amounts Reclassified to Net Earnings	88	(1)	87
Tax Benefit	32	1	33
Total Other Comprehensive Loss	(52)	(9)	(61)
Balance December 28, 2012, Net of Tax	(851)	(85)	(936)
Other Comprehensive Income			
Income Before Reclassifications	510	24	534
Amounts Reclassified to Net Earnings	111	(2)	109
Tax (Expense) Benefit	(232)	2	(230)
Total Other Comprehensive Income	389	24	413
Balance December 27, 2013, Net of Tax	(462)	(61)	(523)
Other Comprehensive Loss			
(Loss) Income Before Reclassifications	(297)	4	(293)
Amounts Reclassified to Net Earnings	60	2	62
Tax Benefit	88	—	88
Total Other Comprehensive (Loss) Income	(149)	6	(143)
Balance December 26, 2014, Net of Tax	$(611)	$(55)	$(666)

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NOTE 15. Quarterly Financial Data (Unaudited)

Pursuant to Article 3 of the SEC's Regulation S-X, the following are selected quarterly financial data:

Fiscal Year Ended December 2014	Quarters				
(Dollars in Millions, Except Per Share Amounts)	1st	2nd	3rd	4th	Full Year
Revenue	$3,012	$3,244	$3,221	$3,192	$12,669
Operating Income	739	997	976	901	3,613
Net Earnings	398	529	509	491	1,927
Earnings Per Share, Basic	$0.40	$0.53	$0.51	$0.49	$1.93
Earnings Per Share, Assuming Dilution	0.40	0.53	0.51	0.49	1.92
Fiscal Year Ended December 2013					
Revenue	$2,963	$3,046	$2,985	$3,032	$12,026
Operating Income	880	940	840	813	3,473
Net Earnings	462	521	455	426	1,864
Earnings Per Share, Basic	$0.45	$0.51	$0.45	$0.42	$1.83
Earnings Per Share, Assuming Dilution	0.45	0.51	0.45	0.42	1.83

NOTE 16. Summarized Consolidating Financial Data

In 2007, CSXT, a wholly-owned subsidiary of CSX Corporation, sold secured equipment notes maturing in 2023 in a registered public offering. 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, CSXT, and parent guarantor, CSX, is shown in the tables below.

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NOTE 16. Summarized Consolidating Financial Data, continued

Consolidating Income Statements
(Dollars in Millions)

Fiscal Year Ended December 2014	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	$—	$12,590	$79	$12,669
Expense	(427)	9,585	(102)	9,056
Operating Income	427	3,005	181	3,613
Equity in Earnings of Subsidiaries	1,996	1	(1,997)	—
Interest Expense	(520)	(46)	21	(545)
Other Income - Net	(19)	(4)	(1)	(24)
Earnings Before Income Taxes	1,884	2,956	(1,796)	3,044
Income Tax Benefit (Expense)	43	(1,093)	(67)	(1,117)
Net Earnings	$1,927	$1,863	$(1,863)	$1,927
Total Comprehensive Earnings	$1,784	$1,875	$(1,875)	$1,784
Fiscal Year Ended December 2013				
Revenue	$—	$11,950	$76	$12,026
Expense	(371)	9,091	(167)	8,553
Operating Income	371	2,859	243	3,473
Equity in Earnings of Subsidiaries	1,964	(1)	(1,963)	—
Interest Expense	(516)	(62)	16	(562)
Other Income - Net	(7)	(2)	20	11
Earnings Before Income Taxes	1,812	2,794	(1,684)	2,922
Income Tax Benefit (Expense)	52	(1,028)	(82)	(1,058)
Net Earnings	$1,864	$1,766	$(1,766)	$1,864
Total Comprehensive Earnings	$2,277	$1,825	$(1,825)	$2,277
Fiscal Year Ended December 2012				
Revenue	$—	$11,696	$67	$11,763
Expense	(355)	8,779	(125)	8,299
Operating Income	355	2,917	192	3,464
Equity in Earnings of Subsidiaries	1,992	(2)	(1,990)	—
Interest Expense	(513)	(70)	17	(566)
Other Income - Net	(3)	61	15	73
Earnings Before Income Taxes	1,831	2,906	(1,766)	2,971
Income Tax Benefit (Expense)	32	(1,065)	(75)	(1,108)
Net Earnings	$1,863	$1,841	$(1,841)	$1,863
Total Comprehensive Earnings	$1,802	$1,818	$(1,818)	$1,802

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Item 8. Financial Statements and Supplementary Data

NOTE 16. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheets
(Dollars in Millions)

As of December 26, 2014	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$510	$100	$59	$669
Short-term Investments	250	—	42	292
Accounts Receivable - Net	2	206	921	1,129
Receivable from Affiliates	1,211	2,418	(3,629)	—
Materials and Supplies	—	272	1	273
Deferred Income Taxes	3	139	(1)	141
Other Current Assets	—	61	7	68
Total Current Assets	1,976	3,196	(2,600)	2,572
Properties	1	36,888	2,454	39,343
Accumulated Depreciation	(1)	(9,516)	(1,242)	(10,759)
Properties - Net	—	27,372	1,212	28,584
Investments in Conrail	—	—	779	779
Affiliates and Other Companies	(39)	644	(28)	577
Investment in Consolidated Subsidiaries	21,570	—	(21,570)	—
Other Long-term Assets	178	387	(24)	541
Total Assets	$23,685	$31,599	$(22,231)	$33,053
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts Payable	$106	$707	$32	$845
Labor and Fringe Benefits Payable	38	511	64	613
Payable to Affiliates	3,053	514	(3,567)	—
Casualty, Environmental and Other Reserves	—	126	16	142
Current Maturities of Long-term Debt	200	29	(1)	228
Income and Other Taxes Payable	(150)	293	20	163
Other Current Liabilities	—	111	5	116
Total Current Liabilities	3,247	2,291	(3,431)	2,107
Casualty, Environmental and Other Reserves	—	213	63	276
Long-term Debt	8,705	809	—	9,514
Deferred Income Taxes	(172)	8,827	203	8,858
Other Long-term Liabilities	753	487	(118)	1,122
Total Liabilities	12,533	12,627	(3,283)	21,877
Shareholders' Equity:				
Common Stock, $1 Par Value	992	181	(181)	992
Other Capital	92	5,077	(5,077)	92
Retained Earnings	10,734	13,717	(13,717)	10,734
Accumulated Other Comprehensive Loss	(666)	(31)	31	(666)
Noncontrolling Minority Interest	—	28	(4)	24
Total Shareholders' Equity	11,152	18,972	(18,948)	11,176

Total Liabilities and Shareholders' Equity	$23,685	$31,599	$(22,231)	$33,053

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CSX CORPORATION
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Item 8. Financial Statements and Supplementary Data

NOTE 16. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheets
(Dollars in Millions)

As of December 27, 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	$439	$91	$62	$592
Short-term Investments	472	—	15	487
Accounts Receivable - Net	3	240	809	1,052
Receivable from Affiliates	1,141	2,635	(3,776)	—
Materials and Supplies	—	252	—	252
Deferred Income Taxes	(5)	161	(1)	155
Other Current Assets	1	57	6	64
Total Current Assets	2,051	3,436	(2,885)	2,602
Properties	1	34,987	2,196	37,184
Accumulated Depreciation	(1)	(8,778)	(1,114)	(9,893)
Properties - Net	—	26,209	1,082	27,291
Investments in Conrail	—	—	752	752
Affiliates and Other Companies	(39)	612	(27)	546
Investment in Consolidated Subsidiaries	20,226	—	(20,226)	—
Other Long-term Assets	217	388	(14)	591
Total Assets	$22,455	$30,645	$(21,318)	$31,782
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$110	$809	$38	$957
Labor and Fringe Benefits Payable	38	491	58	587
Payable to Affiliates	3,298	535	(3,833)	—
Casualty, Environmental and Other Reserves	—	136	15	151
Current Maturities of Long-term Debt	200	333	—	533
Income and Other Taxes Payable	(397)	479	9	91
Other Current Liabilities	—	103	2	105
Total Current Liabilities	3,249	2,886	(3,711)	2,424
Casualty, Environmental and Other Reserves	—	231	69	300
Long-term Debt	8,308	714	—	9,022
Deferred Income Taxes	(64)	8,548	178	8,662
Other Long-term Liabilities	479	512	(121)	870
Total Liabilities	11,972	12,891	(3,585)	21,278
Shareholders' Equity				
Common Stock, $1 Par Value	1,009	181	(181)	1,009
Other Capital	61	5,077	(5,077)	61
Retained Earnings	9,936	12,514	(12,514)	9,936
Accumulated Other Comprehensive Loss	(523)	(43)	43	(523)
Noncontrolling Minority Interest	—	25	(4)	21
Total Shareholders' Equity	10,483	17,754	(17,733)	10,504

Total Liabilities and Shareholders' Equity	$22,455	$30,645	$(21,318)	$31,782

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CSX CORPORATION
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NOTE 16. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

Fiscal Year Ended December 2014	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$583	$3,278	$(518)	$3,343
Investing Activities				
Property Additions	—	(2,192)	(257)	(2,449)
Purchases of Short-term Investments	(1,419)	—	(14)	(1,433)
Proceeds from Sales of Short-term Investments	1,642	—	32	1,674
Proceeds from Property Dispositions	—	62	—	62
Other Investing Activities	—	(128)	91	(37)
Net Cash Provided by (Used in) Investing Activities	223	(2,258)	(148)	(2,183)
Financing Activities				
Long-term Debt Issued	1,000	—	—	1,000
Long-term Debt Repaid	(600)	(333)	—	(933)
Dividends Paid	(629)	(660)	660	(629)
Stock Options Exercised	—	—	—	—
Shares Repurchased	(517)	—	—	(517)
Other Financing Activities	11	(18)	3	(4)
Net Cash Provided by (Used in) Financing Activities	(735)	(1,011)	663	(1,083)
Net Decrease in Cash and Cash Equivalents	71	9	(3)	77
Cash and Cash Equivalents at Beginning of Period	439	91	62	592
Cash and Cash Equivalents at End of Period	$510	$100	$59	$669

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NOTE 16. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

Fiscal Year Ended December 2013	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$1,004	$3,005	$(742)	$3,267
Investing Activities				
Property Additions	—	(2,053)	(260)	(2,313)
Purchases of Short-term Investments	(1,251)	—	(5)	(1,256)
Proceeds from Sales of Short-term Investments	1,335	—	66	1,401
Proceeds from Property Dispositions	—	53	—	53
Other Investing Activities	(134)	(315)	337	(112)
Net Cash Provided by (Used in) Investing Activities	(50)	(2,315)	138	(2,227)
Financing Activities				
Long-term Debt Issued	500	—	—	500
Long-term Debt Repaid	(700)	(80)	—	(780)
Dividends Paid	(600)	(730)	730	(600)
Stock Options Exercised	9	—	—	9
Shares Repurchased	(353)	—	—	(353)
Other Financing Activities	148	(24)	(132)	(8)
Net Cash Provided by (Used in) Financing Activities	(996)	(834)	598	(1,232)
Net (Decrease) Increase in Cash and Cash Equivalents	(42)	(144)	(6)	(192)
Cash and Cash Equivalents at Beginning of Period	481	235	68	784
Cash and Cash Equivalents at End of Period	$439	$91	$62	$592

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NOTE 16. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

Fiscal Year Ended December 2012	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$579	$2,716	$(349)	$2,946
Investing Activities				
Property Additions	—	(2,104)	(237)	(2,341)
Purchases of Short-term Investments	(605)	—	(28)	(633)
Proceeds from Sales of Short-term Investments	525	—	56	581
Proceeds from Property Dispositions	—	186	—	186
Other Investing Activities	(10)	102	(162)	(70)
Net Cash Provided by (Used in) Investing Activities	(90)	(1,816)	(371)	(2,277)
Financing Activities				
Long-term Debt Issued	1,100	—	—	1,100
Long-term Debt Repaid	(400)	(106)	(2)	(508)
Dividends Paid	(558)	(715)	715	(558)
Stock Options Exercised	14	—	—	14
Shares Repurchased	(734)	—	—	(734)
Other Financing Activities	21	2	(5)	18
Net Cash Provided by (Used in) Financing Activities	(557)	(819)	708	(668)
Net (Decrease) Increase in Cash and Cash Equivalents	(68)	81	(12)	1
Cash and Cash Equivalents at Beginning of Period	549	154	80	783
Cash and Cash Equivalents at End of Period	$481	$235	$68	$784

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 26, 2014, 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 December 26, 2014, 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.

Management's Report on Internal Control over Financial Reporting

CSX's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of the management of CSX, including CSX's CEO and CFO, CSX conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 26, 2014 based on the 2013 framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission which is also referred to as COSO. Based on that evaluation, management of CSX concluded that the Company's internal control over financial reporting was effective as of December 26, 2014. Management's assessment of the effectiveness of internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

The Company's internal control over financial reporting as of December 26, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

CSX CORPORATION
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CSX Corporation

We have audited CSX Corporation's (CSX) internal control over financial reporting as of December 26, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CSX's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CSX maintained, in all material respects, effective internal control over financial reporting as of December 26, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2014 consolidated financial statements of CSX and our report dated February 11, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Jacksonville, Florida
February 11, 2015

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CSX CORPORATION
PART II

Changes in Internal Control over Financial Reporting

There were no material changes in the Company’s internal control over financial reporting.

Item 9B. Other Information

None
PART III

Item 10. Directors, Executive Officers of the Registrant and Corporate Governance

In accordance with Instruction G(3) of Form 10-K, the information required by this item is incorporated herein by reference to the Proxy Statement. The Proxy Statement will be filed not later than April 25, 2015 with respect to its 2015 annual meeting of shareholders, except for the information regarding the executive officers of the Company. Information regarding executive officers is included in Part I of this report under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

Item 13. Certain Relationships and Related Transactions, and Director Independence

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

Item 14. Principal Accounting Fees and Services

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

See Index to Consolidated Financial Statements on page 52.

(2) Financial Statement Schedules

The information required by Schedule II, Valuation and Qualifying Accounts, is included in Note 5 to the Consolidated Financial Statements, Casualty, Environmental and Other Reserves. All other financial statement schedules are not applicable.

CSX CORPORATION
PART IV

(3) Exhibits
The documents listed below are being filed or have previously been filed on behalf of CSX and are incorporated herein by reference from the documents indicated and made a part hereof. Exhibits not previously filed are filed herewith.

Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments that define the rights of holders of the Registrant's long-term debt securities, where the long-term debt securities authorized under each such instrument do not exceed 10% of the Registrant's total assets, have been omitted and will be furnished to the Commission upon request.

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
2.1	Distribution Agreement, dated as of July 26, 2004, by and among CSX Corporation, CSX Transportation, Inc., CSX Rail Holding Corporation, CSX Northeast Holding Corporation, Norfolk Southern Corporation, Norfolk Southern Railway Company, CRR Holdings LLC, Green Acquisition Corp., Conrail Inc., Consolidated Rail Corporation, New York Central Lines LLC, Pennsylvania Lines LLC, NYC Newco, Inc. and PRR Newco, Inc.	September 2, 2004, Exhibit 2.1, Form 8-K
3.1*	Amended and Restated Articles of Incorporation of the Registrant, effective as of December 16, 2014	
3.2	Bylaws of the Registrant, amended effective as of September 24, 2008	September 25, 2008, Exhibit 3.2, Form 8-K
Instruments Defining the Rights of Security Holders, Including Debentures:		
4.1(a)	Indenture, dated August 1, 1990, between the Registrant and The Chase Manhattan Bank, as Trustee	September 7, 1990, Form SE
4.1(b)	First Supplemental Indenture, dated as of June 15, 1991, between the Registrant and The Chase Manhattan Bank, as Trustee	May 28, 1992, Exhibit 4(c), Form SE
4.1(c)	Second Supplemental Indenture, dated as of May 6, 1997, between the Registrant and The Chase Manhattan Bank, as Trustee	June 5, 1997, Exhibit 4.3, Form S-4 (Registration No. 333-28523)
4.1(d)	Third Supplemental Indenture, dated as of April 22, 1998, between the Registrant and The Chase Manhattan Bank, as Trustee	May 12, 1998, Exhibit 4.2, Form 8-K
4.1(e)	Fourth Supplemental Indenture, dated as of October 30, 2001, between the Registrant and The Chase Manhattan Bank, as Trustee	November 7, 2001, Exhibit 4.1, Form 10-Q
4.1(f)	Fifth Supplemental Indenture, dated as of October 27, 2003 between the Registrant and The Chase Manhattan Bank, as Trustee	October 27, 2003, Exhibit 4.1, Form 8-K
4.1(g)	Sixth Supplemental Indenture, dated as of September 23, 2004 between the Registrant and JP Morgan Chase Bank, formerly The Chase Manhattan Bank, as Trustee	November 3, 2004, Exhibit 4.1, Form 10-Q
4.1(h)	Seventh Supplemental Indenture, dated as of April 25, 2007, between the Registrant and The Bank of New York (as	April 26, 2007, Exhibit 4.4, Form 8-K

successor to JP Morgan Chase Bank), as Trustee

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CSX CORPORATION
PART IV

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
4.1(i)	Eighth Supplemental Indenture, dated as of March 24, 2010, between the Registrant and The Bank of New York Mellon(as successor to JP Morgan Chase Bank), as Trustee	April 19, 2010, Exhibit 4.1, Form 10-Q
Material Contracts:		
10.2**	CSX Directors' Pre-2005 Deferred Compensation Plan (as amended through January 8, 2008)	February 22, 2008, Exhibit 10.2, Form 10-K
10.3**	CSX Directors' Deferred Compensation Plan effective January 1, 2005	February 22, 2008, Exhibit 10.3, Form 10-K
10.4**	CSX Directors' Charitable Gift Plan, as amended	March 4, 1994, Exhibit 10.4, Form 10-K
10.5**	CSX Directors' Matching Gift Plan (as amended through February 9, 2011)	
10.6**	Railroad Retirement Benefits Agreement with Michael J. Ward	February 26, 2003, Exhibit 10.13, Form 10-K
10.12**	Special Retirement Plan of CSX Corporation and Affiliated Companies (as amended through February 14, 2001)	March 4, 2002, Exhibit 10.23, Form 10-K
10.13**	Supplemental Retirement Benefit Plan of CSX Corporation and Affiliated Companies (as amended through February 14, 2001)	March 4, 2002, Exhibit 10.24, Form 10-K
10.14**	Senior Executive Incentive Compensation Plan	March 17, 2000, Appendix B, Definitive Proxy Statement
10.16	Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC, with certain schedules thereto	July 8, 1997, Exhibit 10, Form 8-K
10.17	Amendment No. 1, dated as of August 22, 1998, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings, LLC	June 11, 1999, Exhibit 10.1, Form 8-K
10.18	Amendment No. 2, dated as of June 1, 1999, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings, LLC	June 11, 1999, Exhibit 10.2, Form 8-K

CSX CORPORATION
PART IV

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
10.19	Amendment No. 3, dated as of August 1, 2000, to the Transaction Agreement by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings, LLC.	March 1, 2001, Exhibit 10.34, Form 10-K
10.20	Amendment No. 4, dated and effective as of June 1, 1999, and executed in April 2004, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings, LLC	August 6, 2004, Exhibit 99.1, Form 8-K
10.21	Amendment No. 5, dated as of August 27, 2004, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC	September 2, 2004, Exhibit 10.1, Form 8-K
10.22	Shared Assets Area Operating Agreement for Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Corporation, with exhibit thereto	June 11, 1999, Exhibit 10.6, Form 8-K,
10.23	Shared Assets Area Operating Agreement for North Jersey, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto	June 11, 1999, Exhibit 10.4, Form 8-K
10.24	Shared Assets Area Operating Agreement for South Jersey/Philadelphia, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto	June 11, 1999, Exhibit 10.5, Form 8-K
10.25	Monongahela Usage Agreement, dated as of June 1, 1999, by and among CSX Transportation, Inc., Norfolk Southern Railway Company, Pennsylvania Lines LLC and New York Central Lines LLC, with exhibit thereto	June 11, 1999, Exhibit 10.7, Form 8-K
10.26	Tax Allocation Agreement, dated as of August 27, 2004, by and among CSX Corporation, Norfolk Southern Corporation, Green Acquisition Corp., Conrail Inc., Consolidated Rail Corporation, New York Central Lines LLC and Pennsylvania Lines LLC	September 2, 2004, Exhibit 10.2, Form 8-K
10.27**	Restricted Stock Award Agreement with Oscar Munoz	February 10, 2012, Exhibit 10.1, Form 8-K
10.28**	Restricted Stock Award Agreement with Michael J. Ward	February 12, 2014, Exhibit 10.28, Form 10-K
10.29**	Restricted Stock Award Agreement with Fredrik J. Eliasson	

		February 12, 2014, Exhibit 10.29, Form 10-K
10.30**	Restricted Stock Award Agreement with Clarence W. Gooden	February 12, 2014, Exhibit 10.30, Form 10-K
10.31	Revolving Credit Agreement, dated September 30, 2011	October 4, 2011, Exhibit 10.1, Form 8-K

CSX CORPORATION
PART IV

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
10.32**	Long-term Incentive Plan, dated May 8, 2012	May 11, 2012, Exhibit 10.1, Form 8-K
10.33**	Long-term Incentive Plan, dated May 7, 2013	May 13, 2013, Exhibit 10.1, Form 8-K
10.34**	Long-term Incentive Plan, dated May 6, 2014	May 8, 2014, Exhibit 10.1, Form 8-K
10.35**	CSX Stock and Incentive Award Plan	May 7, 2010, Exhibit 10.1, Form 8-K
Officer certifications:		
31*	Rule 13a-14(a) Certifications	
32*	Section 1350 Certifications	
99*	Annual CEO Certification pursuant to NYSE Rule 303A.12(a)	
Interactive data files:		
101*	The following financial information from CSX Corporation's Annual Report on Form 10-K for the year ended December 26, 2014 filed with the SEC on February 11, 2015, formatted in XBRL includes: (i) Consolidated Income Statements for the fiscal periods ended December 26, 2014, December 27, 2013 and December 28, 2012, (ii) Consolidated Comprehensive Income Statements for the fiscal periods ended December 26, 2014, December 27, 2013 and December 28, 2012, (iii) Consolidated Balance Sheets at December 26, 2014 and December 27, 2013, (iv) Consolidated Cash Flow Statements for the fiscal periods ended December 26, 2014, December 27, 2013 and December 28, 2012, and (v) the Notes to Consolidated Financial Statements.	
Other exhibits:		
21*	Subsidiaries of the Registrant	
23*	Consent of Independent Registered Public Accounting Firm	
24*	Powers of Attorney	

* Filed herewith
** Management Contract or Compensatory Plan or Arrangement
Note: Items not filed herewith have been submitted in previous SEC filings.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 11, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 11, 2015.

Signature	Title
/s/ MICHAEL J. WARD Michael J. Ward	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ FREDRIK J. ELIASSON Fredrik J. Eliasson	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ CAROLYN T. SIZEMORE Carolyn T. Sizemore	Vice President and Controller (Principal Accounting Officer)
/s/ ELLEN M. FITZSIMMONS Ellen M. Fitzsimmons	Executive Vice President of Law and Public Affairs, General Counsel and Corporate Secretary *Attorney-in-Fact

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SIGNATURES

Signature	Title
* Donna M. Alvarado	Director
* John B. Breaux	Director
* Pamela L. Carter	Director
* Steven T. Halverson	Director
* Edward J. Kelly, III	Director
* Gilbert H. Lamphere	Director
* John D. McPherson	Director
* Timothy T. O'Toole	Director
* David M. Ratcliffe	Director
* Donald J. Shepard	Director
* J. Steven Whisler	Director

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