



# PROXY PAPER

## CSX Corporation

NYSE: CSX

Industry: Railroads

Meeting Date: June 25, 2008

Record Date: April 21, 2008

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### 2008 CONTESTED MEETING MANAGEMENT (WHITE) CARD

Proposal	Issue	Board	GL&Co.
1.00	Election of Directors	Do Not Vote	Do Not Vote
1.01	Elect Donna Alvarado	Do Not Vote	Do Not Vote
1.02	Elect Elizabeth Bailey	Do Not Vote	Do Not Vote
1.03	Elect John Breaux	Do Not Vote	Do Not Vote
1.04	Elect Steven Halverson	Do Not Vote	Do Not Vote
1.05	Elect Edward Kelly, III	Do Not Vote	Do Not Vote
1.06	Elect Robert Kunisch	Do Not Vote	Do Not Vote
1.07	Elect John McPherson	Do Not Vote	Do Not Vote
1.08	Elect David Ratcliffe	Do Not Vote	Do Not Vote
1.09	Elect William Richardson	Do Not Vote	Do Not Vote
1.10	Elect Frank Royal	Do Not Vote	Do Not Vote
1.11	Elect Donald Shepard	Do Not Vote	Do Not Vote
1.12	Elect Michael Ward	Do Not Vote	Do Not Vote
2.00	Ratification of Auditor	Do Not Vote	Do Not Vote
3.00	Bylaw Amendments Regarding Special Shareholder Meetings	Do Not Vote	Do Not Vote
4.00	Shareholder Proposal Regarding Right to Call Special Meetings	Do Not Vote	Do Not Vote
5.00	Shareholder Proposal Regarding Nullification of Bylaw Amendments	Do Not Vote	Do Not Vote

# CSX Corporation 2008 Contested Proxy

## 2008 CONTESTED MEETING DISSIDENT (BLUE) CARD

<b>Proposal</b>	<b>Issue</b>	<b>Board</b>	<b>GL&amp;Co.</b>
1.00	Election of Directors	Do Not Vote	Split
1.01	Elect Christopher Hohn	Do Not Vote	Withhold
1.02	Elect Alexandre Behring	Do Not Vote	For
1.03	Elect Gilbert Lamphere	Do Not Vote	For
1.04	Elect Timothy O'Toole	Do Not Vote	Withhold
1.05	Elect Gary Wilson	Do Not Vote	Withhold
2.00	TCI Bylaw Amendments Regarding Special Shareholder Meetings	Do Not Vote	For
3.00	Company Bylaw Amendments Regarding Special Shareholder Meetings	Do Not Vote	Against
4.00	Nullification of Bylaw Amendments	Do Not Vote	For
5.00	Ratification of Auditor	Do Not Vote	For

# Company Profile

## ADDRESS

500 Water Street  
 Jacksonville, FL 32202  
 www.csx.com  
 Phone: +1 (904) 3593200  
 Fax: +1 (804) 7821409

Employees: 35,000

## COMPANY DESCRIPTION

CSX Corporation (CSX) based in Jacksonville, Florida, owns companies providing rail, intermodal and rail-to-truck transload services that combine to form transportation companies, connecting more than 70 ocean, river and lake ports. CSX's principal operating company, CSX Transportation Inc. (CSXT), operates the railroad in the eastern United States with approximately 21,000-mile rail network linking commercial markets in 23 states, the District of Columbia, and the Canadian provinces of Ontario and Quebec. CSX Intermodal Inc. (Intermodal) is a coast-to-coast intermodal transportation provider, an integrated intermodal company serving customers from origin to destination with its own truck and terminal operations, plus a dedicated domestic container fleet. Containers and trailers are loaded and unloaded from trains, with trucks providing the link between intermodal terminals and the customer.

Source: FactSet

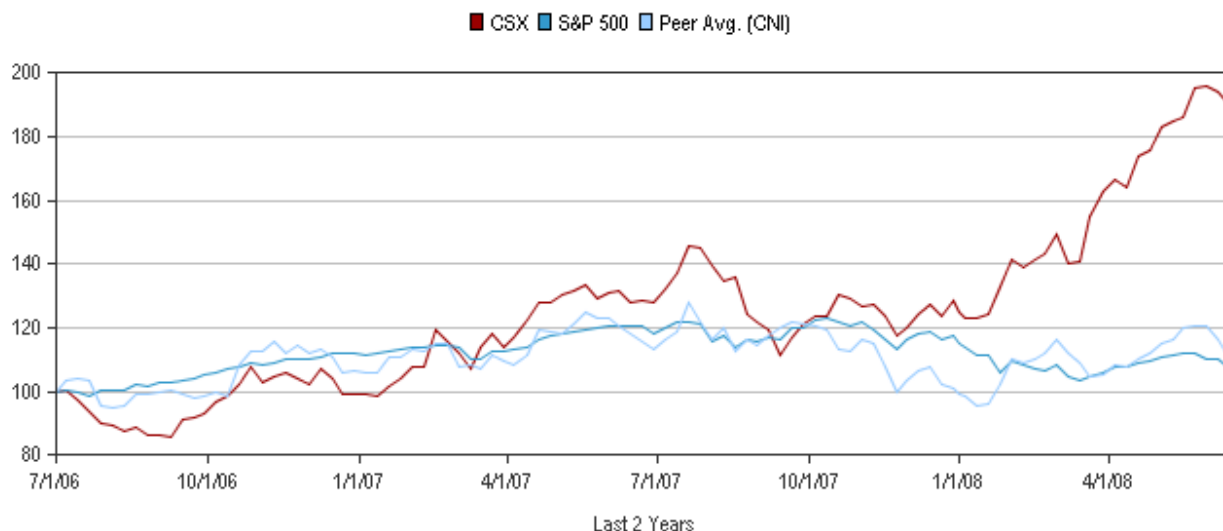
## STOCK

Ticker: CSX  
 Exchange: NYSE  
 Industry: Railroads

## TOP 20 INSTITUTIONAL HOLDERS

Holder	% Owned
1. Deutsche Bank Investment Management, Inc.	8.93%
2. Citigroup Global Markets (United States)	4.63%
3. TCI Fund Management (UK) LLP	4.40%
4. 3G Capital Management, Inc.	4.26%
5. Barclays Global Investors NA (California)	3.92%
6. State Street Global Advisors	3.62%
7. Vanguard Group, Inc.	3.14%
8. TPG-Axon Capital	2.41%
9. Tiger Global Management LLC	2.06%
10. New Jersey Division of Investment	1.42%
11. Merrill Lynch, Pierce, Fenner & Smith, Inc.	1.39%
12. Dimensional Fund Advisors, Inc.	1.23%
13. Morgan Stanley & Co., Inc.	1.18%
14. Northern Trust Investments	1.02%
15. BlackRock Advisors, Inc.	0.97%
16. Seneca Capital Advisors LLC	0.91%
17. Chase Investment Counsel Corp.	0.86%
18. Kensico Capital Management Corp.	0.85%
19. JPMorgan Asset Management, Inc.	0.83%
20. Egerton Capital Ltd.	0.82%

## INDEXED STOCK PRICE



# Competitors / Peer Comparison<sup>1</sup>

	CSX Corporation	Canadian National Railway (USA)	Union Pacific Corporation	Norfolk Southern Corp.
<b>Ticker</b>	CSX	CNI	UNP	NSC
Closing Price (06/17/08)	\$ 63.37	\$ 49.95	\$ 72.47	\$ 62.12
Shares Outstanding (mm)	404.9	478.7	516.6	375.8
Market Capitalization (mm)	\$ 25,657.8	\$ 23,911.1	\$ 37,436.1	\$ 23,341.9
Enterprise Value (mm)	\$ 32,228.8	\$ 29,756.0	\$ 44,727.1	\$ 29,470.9
Revenue (LTM) (mm)	\$ 10,321.0	\$ 7,714.7	\$ 16,493.0	\$ 9,685.0
<b>Growth Rate</b>				
Revenue Growth Rate (5 Yrs)	5.7%	6.8%	8.6%	9.9%
EPS Growth Rate (5 Yrs)	43.5%	27.8%	9.7%	32.3%
<b>Profitability (LTM)</b>				
Return on Equity (ROE)	15.0%	21.6%	12.3%	15.2%
Return on Assets (ROA)	5.2%	9.0%	5.1%	5.6%
Dividend Rate	1.1%	1.8%	1.2%	1.9%
<b>Stock Performance</b>				
1 Year Stock Performance	40.6%	-6.5%	20.5%	11.2%
3 Year Stock Performance	187.4%	67.4%	116.9%	88.6%
5 Year Stock Performance	314.3%	195.3%	140.2%	191.8%
Annualized 1 Year Total Return (past 3 yrs)	65.8%	24.9%	42.1%	32.7%
<b>Valuation Multiples (LTM)</b>				
P/E Ratio	19.9x	11.8x	19.9x	16.3x
TEV/Revenue	3.1x	3.9x	2.7x	3.0x
TEV/EBIT	12.7x	10.2x	12.5x	10.8x
<b>Margins Analysis (LTM)</b>				
Gross Profit Margin	52.1%	39.7%	28.8%	26.4%
Operating Income Margin	23.1%	35.8%	28.8%	26.4%
Net Income Margin	13.0%	27.1%	11.6%	15.2%
<b>Liquidity/Risk</b>				
Current Ratio	1.3x	0.8x	0.8x	0.9x
Debt-Equity Ratio	0.94x	0.63x	0.52x	0.67x
<b>Auditor Data<sup>2</sup></b>				
Year	2007	2006	2007	2007
Auditor	Ernst & Young	KPMG	Deloitte & Touche	KPMG
Auditor Fees	\$ 2,595,000	\$ 3,009,000	\$ 2,961,635	\$ 2,134,000
Audit Related Fees	\$ 233,000	\$ 930,000	\$ 662,279	\$ 152,950
Tax + All Other Fees	\$ 54,000	\$ 479,000	-	-
<b>Executive Compensation<sup>3</sup></b>				
Year of Data	2007	-	2007	2007
Chief Executive Officer	\$6,287,206	-	\$10,231,542	\$7,885,947
Other Named Executives	\$9,422,885	-	\$11,956,093	\$14,834,135

Source: FactSet Research Systems, Reuters, Thomson Financial, and Glass, Lewis & Co. LLC

1. Listed competitors are based on GICS® industry classifications and other financial metrics including market capitalization and revenue.

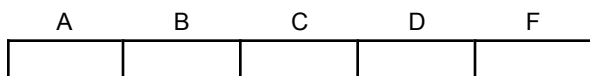
2. As disclosed by the Company and its peers in their most recent proxy filings.

3. As calculated by Glass Lewis based on information disclosed by the Company and its peers in their proxy filings.

# Pay-For-Performance

CSX's executive compensation received a **B** grade in our proprietary pay-for-performance model, which uses 36 measurement points. The Company paid: less compensation to its top officers (as disclosed by the Company) than the median compensation for 41 similarly sized companies with an average enterprise value of \$23 billion; less than a sector group of 13 large industrials companies with enterprise values ranging from \$15.1 billion to \$36.2 billion; and about the same as a sub-industry group of 7 railroads companies. The CEO was paid about the same as the median CEO in these peer groups. Overall, the Company paid less than its peers, but performed better than its peers.

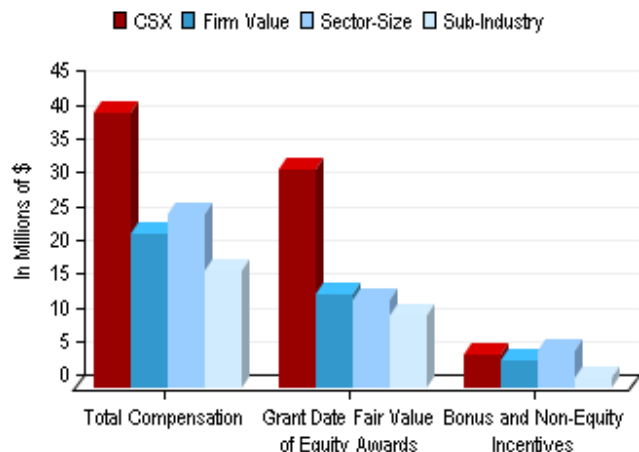
## FY 2007 Compensation Committee Grade



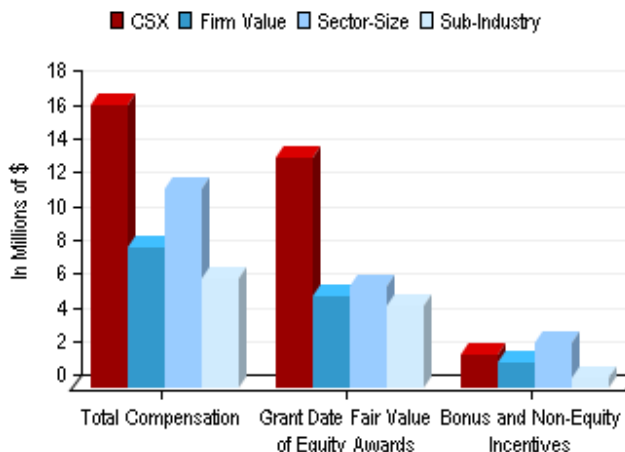
## Historical Compensation Score

Fiscal Year	2005	2006	2007
Grade	A	A	B

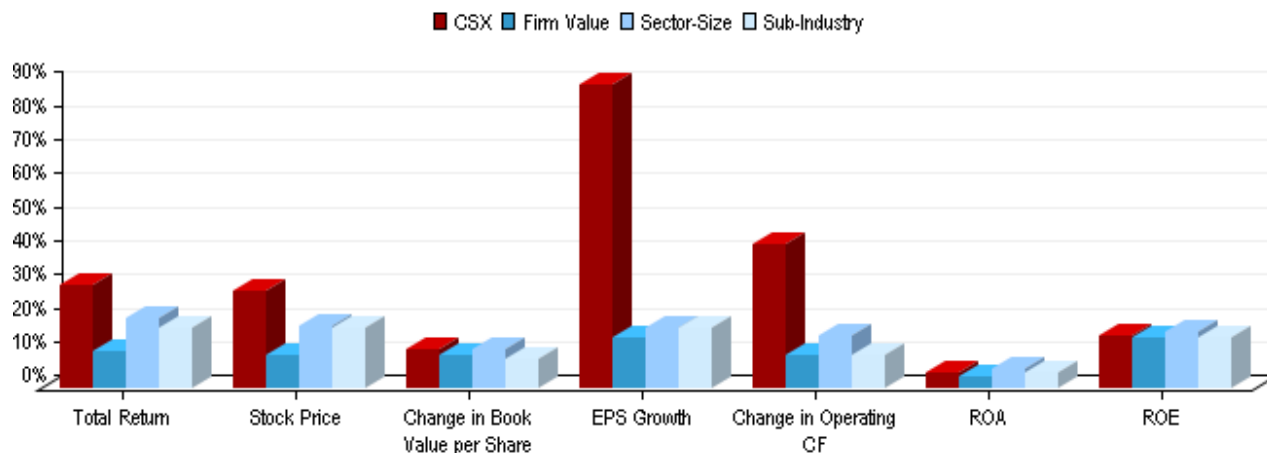
## Company Compared with Median



## CEO Compared with Median



## Shareholder Wealth and Business Performance



Note: Compensation analysis for period ending 12/2007. Performance measures based on weighted average of annualized 1, 2, and 3 year data.

## **Summary**

The CSX Corporation ("CSX") 2008 annual meeting involves a contested election of directors. The board has nominated twelve candidates to serve a one-year term each. If elected, their terms would expire at the Company's 2009 annual meeting of shareholders.

Each of the nominees is a current director standing for re-election and each was elected at the annual meeting in 2007, except for Mr. John D. McPherson who is standing for election for the first time. Mr. Southwood J. Morcott is not standing for re-election as he has reached the mandatory retirement age of 70 set forth in the Company's Corporate Governance Guidelines.

In this contested election of directors, the nominees receiving the greatest number of votes shall be elected, even if such votes do not constitute a majority.

The Children's Investment Master Fund ("TCI"), together with 3G Capital Partners Ltd. ("3G Capital") and certain of their affiliates (together, the "TCI Group"), are soliciting proxies for an opposition slate of five nominees for election as directors at the meeting. The Dissident believes that the current board and executives have been ineffective and that the business can be substantially more profitable.

As of the record date, the TCI Group holds, in the aggregate, approximately 8.7% of the outstanding shares of CSX. Notably, the Dissident also holds an economic interest in an additional 12.3% of the Company's shares through share-swaps.

Nonetheless, the TCI Group has stated that it holds no voting right to the shares underlying the swaps. Accordingly, in the aggregate, the Dissident holds an economic stake in approximately 20.0% of CSX's outstanding shares.

## **Background**

TCI states that it engaged the CSX board throughout 2007 regarding its concerns by requesting several meetings with CSX senior management and directors. The Dissident notes that its requests resulted in only a single private meeting with Oscar Munoz, CFO of CSX, and the Company's internal and external legal counsel. The TCI Group notes that meeting did not lead to further discussions.

Accordingly, on October 16, 2007, TCI delivered a public letter to the CSX board requesting it to take action to strengthen CSX's corporate governance, management, business performance and the board itself. TCI notes that it made the certain recommendations which it believed would be in the best long terms interests of shareholders.

On December 12, 2007, TCI and 3G Capital entered into an agreement to coordinate efforts with regard to the purchase and sale of shares and other securities conferring beneficial ownership of common stock held by them and their affiliates, and with respect to the proposal of certain actions and/or transactions to the Company.

On December 19, 2007 the TCI Group issued a press release disclosing that together they held 8.3% of CSX's common stock and also had economic exposure to the equivalent of another 11.8% of CSX through share swap transactions, and that they intended to nominate a minority slate of five nominees for the CSX board.

In January 2008, representatives of the TCI Group and CSX engaged in discussions regarding potential Dissident representation on the CSX board. The Dissident notes that, in the end, the discussions fell apart for certain reasons, including, but not limited to, that CSX require TCI to sign a multi-year standstill agreement and commit to allow the board to maintain the combined roles of Chairman and CEO.

On January 21, 2008 and January 25, 2008, the TCI Group supplemented its nominations with the addition of a proposal to allow for shareholders to call special meetings and to repeal any amendments to the bylaws made by CSX between January 1, 2008 and the date of the 2008 annual meeting.

On February 4, 2008, the Company announced a proposed amendment to the Company's bylaws allowing for shareholders to call for special meetings but only under limited circumstances and subject to a number of conditions. The Dissident believes that the board's amendment effectively prohibits a special shareholder meeting to be called to nominate directors to the CSX board or remove directors from the CSX board.

On March 17, CSX sued TCI in the federal district court for the Southern District of New York, alleging various violations of the securities laws, including violations of Sections 13(d) and 14(a) of the Securities Exchange Act of 1934.

On April 4, 2008, TCI and 3G each filed substantially similar counterclaims against the Company and Michael Ward, chairman, president and CEO of CSX. The counterclaims allege, among other things, that the 2007 long-term incentive plan target share awards to the Company's named executive officers and over 600 other employees and the May 2007 stock grants to the Company's non-employee directors under the CSX Corporation Stock Plan for Directors were made while the Board was in possession of material, non-public information, the proxy statement omits details regarding the bylaw amendments relating to shareholder requests for special meetings adopted in February 2008 and that the proxy statement mis-characterizes the TCI special shareholder meeting shareholder proposal.

On June 11, 2008, the federal district court in New York issued an opinion finding that the TCI Group has engaged in a pattern of deception and misstatements to hide the truth regarding its activity in CSX stock. The Court found, among other things, that TCI Group members testified falsely and that certain individuals' testimonies were on credible. The Court concluded that the TCI Group engaged in a "plan or scheme to evade the reporting requirements" of federal securities laws and that there is a "substantial likelihood of future violations."

The TCI Group states that it intends to appear the June 11, 2008 ruling by the New York Court. The Dissident believes that it has complied with all necessary securities laws. Further, it notes that the Court determined that TCI and 3G's Schedule 13D disclosure is not false or misleading.

## **Dissident Argument**

The TCI Group believes that CSX can be the best railroad in America and that Company's executives are not being ambitious enough. The Dissident believes that the Company's earning power is twice that of management's current targets, or four times as great as the Company's current results. The TCI Group believes that industry-wide pricing improvement has yielded management's historical gains, rather than executive's operating plan.

The TCI Group believes there is significant potential to improve the operating performance of CSX. The Dissident indicates that CSX ranked "average or below average" for many operating measures relative to certain peer companies. The Dissident also takes issue with the Company's executive compensation and notes that the management team and board were the most highly compensated among the railroad industry peers. TCI is also troubled that, in its opinion, all but one of the twelve incumbent directors have no railroad operating experience.

The Dissident believes that CSX lags its peers on many key operating metrics. The TCI Group indicates that CSX ranks poorly relative to its industry peers with regard to train velocity, dwell time, accident rates, and cost inflation. See TCI Group Shareholder Presentation at 22 (June 3, 2008).

Going forward, the TCI Group believes that CSX should emulate Canadian National's operating model in order to achieve significant productivity gains. The Dissident believes that increased efficiency in yard operations and scheduling will yield sizable gains for shareholders. The TCI Group also believes that CSX's capital structure could be more aggressive and notes that the Company could increase shareholder value by leveraging its balance sheet. See TCI Group Shareholder Presentation at 61 (June 3, 2008).

The TCI Group believes that management's current growth plan "undershoots" the actual growth opportunity available to CSX. The Dissident believe that CSX could realize \$2.2 billion in productivity gains over the next ten years under its plan, more than five times management's current estimate of \$400 million.

The TCI Group is also concerned that the Company's safety record is lower than that of Norfolk Southern and that the Company's pricing is lower than Norfolk Southern. See TCI Group Shareholder Presentation at 37 and 52 (June 3, 2008). The TCI Group also calls into question the corporate governance record of the board. The Dissident believes that the targeted incumbent directors have little railroad industry experience. Id at 66.

The Dissident notes that as one of the largest shareholders of CSX, it has a clear interest in promoting that which is best for CSX. TCI Group believes that by adding its five highly qualified nominees to the board, it will be better positioned to establish operating goals for management and to decide what's best for the Company, its shareholders, customers and employees.

## **Board Response**

The CSX board believes that the Company has delivered outstanding performance in every relevant measure of operations, created industry leading shareholder value and that its business strategy includes detailed plans to create sustainable growth for the Company.

The board notes that the Company's stock has outperformed the Standard & Poors 500 Index (S&P500) and its industry peers for the one, three and five year periods ended April 25, 2008. See CSX

Shareholder Presentation at 8 (May 2, 2008). The board notes that the management team has also generated the greatest earnings growth and improvements to safety and service relative to its industry peers over the three year period from 2004 through 2007.

Financially, the board notes that the Company's tripled earnings have tripled and that its operating margins have doubled, since 2004. The Company's earning growth between 2004 to 2007 was the highest among the industry, representing a 39% compound annual growth rate ("CAGR"). See CSX Shareholder Presentation at 29 (May 2, 2008). CSX's operating income increased 28% from 2004 to 2007, which ranked it second highest among the operating income growth for the industry peers. The board also adds that the Company's operating margins increased 900 basis points over that period, the largest gain among the peers. Id at 29.

CSX notes that it achieved personal injury and train accident frequency improvements of 47% and 41%, respectively, from 2004 through 2007. Further, the Company's personal injury and train accident rates are among the lowest of their peers. See CSX Shareholder Presentation at 27 (May 2, 2008). The board also notes substantial improvements to the Company's on-time origination, on-time arrivals, velocity and terminal dwell statistics through 2007, noting that they are at all-time bests.

The board indicates that it has taken a balanced approach to CSX's capital structure and believes that such a plan is optimal for the Company and shareholders. Specifically, the board notes that its planned capital expenditure is in line with its industry peers. CSX also notes that it has substantially increased its dividend and completed \$3.0 billion of share buybacks since 2006. The board is targeting an addition \$3.0 billion of share repurchases to be completed through 2009. The board also notes that CSX has the most aggressive capital structure among its industry peers and maintains investment grade debt ratings.

The CSX board believes that the TCI Group is making misleading statements in an effort to call into question the effectiveness of the current management team as well as the board leadership of CSX. Further, the CSX board believes that the incumbent nominees have significantly more railroad experience than the TCI Group nominees.

CSX believes that the TCI Group's productivity plan is flawed and could potentially over-leverage CSX with excessive debt, stall expansion efforts and alienate customers and regulators. The CSX board notes that TCI Group's plan includes \$1.8 billion in "productivity" gains. However, CSX executives characterize the Dissident's estimates as volume gains, or said another way, revenue synergies. See Glass Lewis CSX Management Proxy Talk (June 17, 2008).

CSX also takes issue with the integrity of the Dissident and its nominees in light of the New York Court ruling on June 11, 2008. CSX believes that the TCI Group's nominees can not be reasonable considered as CSX board members in light of the Court's determination that that certain TCI Group nominees testified falsely under oath and that their testimonies could not be considered credible. Id.

### **Glass Lewis' Analysis**

As discussed in prior contests, we begin with the premise that a well-functioning, informed and independent board of directors should receive reasonable deference (though not complete deference) from shareholders on strategic matters. Such a board is often in the best position -- with more information and experts at its disposal -- to assess the Company's strategic alternatives.

Having said this, as a general rule, we are reticent to recommend removal of incumbent directors, or in

favor of Dissident nominees unless one of the following two things has occurred: (i) there are serious problems at the company and the newly proposed nominees has a clear and realistic plan to solve these problems; or (ii) the current board has undertaken an action clearly contrary to the interests of shareholders (or failed to undertake an action clearly to the benefit of shareholders).

We note that the two parties have a substantial difference of opinion with regard to the Company's productivity opportunity. CSX believes that it can achieve \$400 million in productivity gains while the Dissident is targeting \$2.2 billion. Notably, the TCI Group and CSX each use different metrics in their productivity analyses, specifically, CSX uses the Cost/Route Total Miles ("RTM") as its productivity measure while the TCI Group focuses on carload metrics. The Dissident believes that the Cost/RTM metric may overstate the Company's productivity rankings presented by the board in its shareholder presentation.

The two parties also disagree about the Company's safety record. CSX believes that it is one of the safest railroad companies in its industry, however, the Dissident believes that the Company is using flawed metrics and analyses to exaggerate its track record. The TCI Group takes issue with CSX's claim that its Personal Injury rate is among the lowest in the industry and believes that is not consistent with the industry standard. The TCI Group notes that the Federal Railroad Association ("FRA") uses the Accident Rate measure within its Safety Statistics Annual Report. In this regard, the Dissident notes that CSX's Accident Rate is merely average.

Regarding the executive compensation of CSX management, while the absolute numbers may be high, we note that on a relative basis, CSX received two A grades and one B grade in the Glass Lewis Pay-for-Performance model during the last three years. As such, we do not believe that shareholders should be overly concerned regarding the board's historical compensation practices.

In reviewing CSX's share price performance, we examined the unaffected period beginning on January 31, 2003 through December 18, 2007, one day prior to the TCI Group's public announcement of its holdings of CSX shares. (Mr. Ward was appointed CEO in January 2003). During this period, CSX's shares underperformed the industry average. Specifically, CSX shares increased 329.5% while a railroad industry peer index increased 350.7%. (The peer index is comprised of Burlington Northern Santa Fe Corp., Canadian National Railway Company, Canadian Pacific Railway Ltd, Norfolk Southern Corp. and Union Pacific Corp.) During this same period, the Standard & Poors 500 Railroad Index increased 277.5%. Source: CapitalIQ

Further, we note that during the tenure of the incumbent directors targeted for removal by the TCI Group (approximately 15 years), CSX's share price underperformed the S&P Railroad and noted industry peer indices by a wide margin (285% vs. 365% and 814%, respectively). Id.

Though the CSX board highlights its earnings growth and operating margin expansion for the period from 2004 through 2007, the board doesn't point out that in 2004, the Company had the lowest operating margins among its peers. Nor does it indicate that in spite of its high margin growth, CSX only moved ahead of a single industry peer in the rankings. CSX's operating margin remains the second lowest among its peers. See CSX Shareholder Presentation at 38 (May 2, 2008).

Further, we reviewed equity and capital returns that CSX generated for shareholders relative to its industry peer returns. While CSX's return on capital and return on equity results have generally improved over time, we note that the Company's returns were below the peer mean and median returns in each year from 2003 through 2007. Source: CapitalIQ

## *Conclusion*

In our opinion, given the above mentioned considerations, CSX shareholders could benefit from the involvement of new independent directors with substantial railroad operating experience on the board of directors. The Company's share price has traded below the peer average, and shareholders should be concerned regarding the long-term below average returns achieved by the current executive team. As such, we believe that fresh independent voices on the board could provide incremental management oversight.

We believe that the participation of Messrs. Behring and Lamphere could provide needed railroad operating experience to the board of CSX. Mr. Behring has significant railroad operating experience through his time at America Latina Logistica S.A. ("ALL") where he reduced the railroad's accident rate and generated a substantial return on investment for shareholders. Mr. Lamphere has served on the boards of multiple railroad companies. In our opinion, such experiences are more relative to the need of the Company when compared to the long serving CSX directors that have little to no railroad industry experience.

Though the two sides continue to disagree on the total value opportunity available to CSX and the operating model to achieve the productivity goals, we make our recommendation knowing that the Dissident will hold a minority position on the board. As such, the director nominees will need to work proactively with the board to create long-term shareholder value.

Accordingly, we recommend that shareholders vote on the Dissident (blue) card and vote:

**FOR:** Behring and Lamphere

**WITHHOLD:** All other nominees

NOTE: We believe that shareholders should be aware of the following issue. In the absence of the proxy contest Glass Lewis would normally recommend withholding votes from the following incumbent nominee up for election this year based on the following issue:

Nominee **RATCLIFFE** serves as chairman, president and CEO of the Southern Company, whose subsidiaries received coal delivered by CSX Transportation, a wholly-owned subsidiary of the Company. The Company states that the revenue received from the Southern Company exceeded the thresholds set forth in the NYSE listing standards regarding director independence. We question the need for the Company to engage in business relationships with its directors. We view such relationships as potentially creating conflicts for directors, as they may be forced to weigh their own interests in relation to shareholder interests when making board decisions. In addition, a company's decision regarding where to turn for the best products and services may be compromised when doing business with the firm of one of the company's directors.

## Proposal 2.00: TCI Bylaw Amendments Regarding Special Shareholder Meetings

**FOR**

This shareholder proposal requests that the Company's bylaws be amended: (i) to permit one or more shareholders that together hold at least 15% of the outstanding capital stock the power to call a special shareholder meeting; (ii) to make any amendments to the bylaws necessary to effect the clear intent of this proposal such that shareholders shall be permitted without limitation to demand that the Company call a special meeting for any purpose granted to the shareholders under Virginia law; and (iii) to repeal or modify any existing bylaws that would conflict with the proposed bylaw amendments.

### **Proponent's Perspective**

The proponent, TCI, offers two main reasons why shareholders should vote in favor of this proposal: (i) the board's February 4, 2008 amendment to the bylaws provide shareholders the opportunity to call a special meeting only for limited purposes and subject to a number of conditions, effectively providing that a special meeting could not be called to remove or elect directors; and (ii) as the 2007 shareholder proposal requested the right to call a special shareholder meeting be without any limitations or special conditions, this proposal reflects the true intent of the 2007 proposal.

### **Board's Perspective**

The board offers the following two reasons why shareholders should vote against this proposal: (i) the TCI proposal would permit a minority of shareholders holding 15% of the Company's outstanding voting stock to require more than one special meeting on the same subject, without any limitation on the number of times within a 12-month period; and (ii) the proposal provides no mechanism to verify that the persons requesting a special shareholder meeting are acting at the direction of the beneficial owners holding the requisite percentage of shares of the Company.

### **Glass Lewis' Analysis**

For our analysis on this proposal, please see Proposal 3.

Accordingly, we recommend voting **FOR** this proposal.

## Proposal 3.00: Company Bylaw Amendments Regarding Special Shareholder Meetings

**AGAINST**

This proposal seeks shareholder approval of the Company's amended bylaws to permit holders of at least 15% of the outstanding common stock the power to call a special shareholder meeting.

### **Background**

At the Company's 2007 annual meeting, a non-binding proposal regarding special shareholder meetings was approved by shareholders holding approximately 68.3% of the voted shares. The proposal requested that the board amend the Company's bylaws to permit holders of 10% to 25% of the Company's outstanding common stock to call a special shareholder meeting, but did not include any procedural elements in the bylaw amendment.

The board's bylaw amendment provides that holders of 15% of the Company's outstanding voting stock would be permitted the right to call a special meeting. Additionally, the board's bylaw amendment includes certain "safeguards" which the board states are lacking in the shareholder-proposed special shareholder meeting proposal described in Proposal 2. These safeguards, among others, include informational provisions which provide a mechanism for the Company to determine that the requesting persons are shareholders of the Company and hold the requisite percentage of shares, including evidence that the requesting persons are the beneficial owners of the shares. Moreover, the provisions require the requesting persons to hold the shares through the date of the special meeting, not just through the record date of the annual meeting, as required by the shareholder-proposed special shareholder meeting proposal described in Proposal 2.

Additionally, this proposal provides that a special meeting shall not be required to be held with respect to any matter, within 12 months after any annual or special meeting of shareholders at which the same matter was included on the agenda, or if the same matter will be included on the agenda at an annual meeting to be held within 90 days after the receipt by the Company of such request. For purposes of this, the Company considers the election or removal of directors to be the "same matter" with respect to all matters involving the election or removal of directors.

### **Board's Perspective**

The board offers the following four reasons as to why shareholders should vote in favor of this proposal: (i) the amendments offer a balanced approach to providing shareholders with an important right and opportunity to decide matters concerning the Company without creating a constant vote and election cycle; (ii) the procedural limitations would prevent shareholders from taking action earlier than the one-year anniversary of a meeting which addressed the same item; (iii) the limitations will cause shareholders to be judicious with the time and resources of the Company and their fellow shareholders in their use of the special meeting bylaw provision as special meetings are very expensive, time consuming and disruptive; and (iv) the amendments also include informational provisions which provide a mechanism for the Company to determine that the requesting persons are shareholders of the Company, hold the requisite percentage of shares and require the holders to continue to hold the requisite percentage of shares through the date of the special meeting.

### **Glass Lewis' Analysis**

Glass Lewis strongly supports the right of shareholders to call special meetings. However, in order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that shareholders representing at least a sizeable minority of shares must support such a meeting prior to its calling. In this case, the amendment establishes an acceptable percentage of shareholder votes necessary to call a meeting.

Additionally, we view favorably the board's procedural safeguard requiring the requesting persons to hold the requisite percentage of shares through the date of the special meeting, not just through the record date of the annual meeting. We feel this provides an appropriate solution to the possibility of requesting parties "dumping" their shares before the special meeting, thus causing the Company to incur significant time and expense without having an invested interest in the Company. In respect to this specific clause, we feel the board-sponsored proposal is superior to the shareholder-sponsored proposal by requiring a reasonable time frame in which a requesting party must hold their shares.

However, in the aggregate, we feel the Company's limitations on the "matters" of items that may be voted on at a special meeting are too stringent. Specifically, we take issue with the clause that excludes voting on any matter, if that matter has already been voted on within 12 months after any annual or special meeting or if the same matter will be included on the agenda at an annual meeting to be held within 90 days after the receipt by the Company of such request. Since the Company considers the election or removal of directors to be the "same matter" with respect to all matters involving the election or removal of directors, this provision essentially makes it impossible to remove directors at a special meeting given the Company holds its annual meeting once every 12 months and elects directors at such meetings (which it does).

Therefore, this proposal possesses certain provisions that act as impediments to takeover proposals and impede shareholders' ability to vote on certain items that may be in their interests. This in turn degrades share value and can limit the possibility of buyout premiums to shareholders.

While we are in favor of certain of the board's limitations, we feel, in the aggregate, they are more detrimental to shareholders than the absence of such limitations as in the shareholder-sponsored proposal. In these respects, since Proposal 2 is materially similar to this proposal but without the limitations as discussed above, we believe it is in shareholders' best interests to not support this proposal while supporting Proposal 2. For the proponent's perspective regarding the shareholder-sponsored proposal concerning special meetings, please refer to our analysis in Proposal 2.

Accordingly, we recommend voting **AGAINST** this proposal.

## Proposal 4.00: Nullification of Bylaw Amendments

**FOR**

This shareholder proposal requests that any amendment, repeal or modification to the Company's bylaws dated as of September 12, 2007 that was effected by the board from and after January 1, 2008 and prior to and including the date of this annual meeting.

### **Proponent's Perspective**

The proponent, TCI, offers two main reasons why shareholders should vote in favor of this proposal: (i) the board's action of adopting its limited special meeting bylaw is designed to appear shareholder-friendly while preventing shareholders from calling a special meeting to remove or nominate directors and putting unreasonably burdensome conditions designed to make it difficult or impossible to exercise the rights that the board is purporting to allow; and (ii) the board's proposal violates the laws of the Commonwealth of Virginia and infringes on shareholder rights guaranteed by the law as TCI has filed a claim against the Company seeking to enjoin it from presenting its proposal to shareholders.

### **Board's Perspective**

The board offers the following three reasons why shareholders should vote against this proposal: (i) this proposal seeks to repeal the February 4, 2008 bylaw amendment described in proposal 3; (ii) as indicated above, the board-sponsored amendments offer a balanced approach to providing shareholders with an important right and opportunity to decide matters concerning the Company without creating a constant vote and election cycle; (iii) any additional bylaw amendments adopted on or before the date of the annual meeting would also be nullified if this proposal is approved; and (iv) if this proposal is approved and Proposals 2 and 3 of the special shareholder meeting proposals are not approved, this proposal would have the effect of nullifying the amendments adopted by the board in February 2008 and eliminating any provision for shareholders to request a special shareholder meeting.

### **Glass Lewis' Analysis**

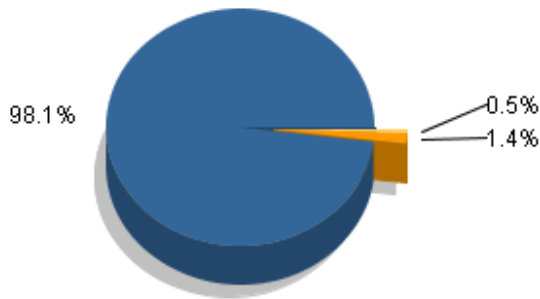
On proposals such as the present one that asks shareholders to assert their judgment in place of the judgment of the board and management, we believe the burden is on the shareholder proponents to clearly demonstrate that the directors' judgment is incorrect and that the proposal, despite management opposition, will yield an increase in shareholder value. This showing is easier in an instance where the board has a pattern of bad decision making on the topic in question, is under suspicion of illegal or unethical conduct or otherwise has provided a precedent for shareholders to have real concerns.

Having reviewed the proposal and considering our support for the Dissident proposal regarding the calling of special meetings, we believe that this proposal is in the interests of shareholders.

Accordingly, we recommend voting **FOR** this proposal.

**CSX Corporation Auditor Fees**

- Audit/Audit Related
- Tax
- All Other



The Company proposes that Ernst & Young serve as the Company's independent auditor for 2008. Ernst & Young has served as the Company's auditor for at least the last 11 years.

During the last fiscal year, the Company paid Ernst & Young audit fees of \$2,595,000, audit-related fees of \$233,000 and tax fees of \$41,000. All other fees totaled \$13,000.

We believe the fees paid for non-audit related services are reasonable as a percentage of all fees paid to the auditor. The Company appears to disclose appropriate information about these services in its filings.

Accordingly, we recommend that shareholders vote **FOR** ratification of the appointment of Ernst & Young as the Company's auditor for fiscal year 2008.

## Disclosure

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