

GENESEE & WYOMING INC
Form 10-K
March 15, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange

Act of 1934 For the Fiscal Year Ended December 31, 2005

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 0-20847

Genesee & Wyoming Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

66 Field Point Road, Greenwich, Connecticut
(Address of principal executive offices)

06-0984624
(I.R.S. Employer

Identification No.)

06830
(Zip Code)

(203) 629-3722
(Telephone No.)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Class A Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered
NYSE

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, \$0.01 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers to Item 405 of Regulations S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Aggregate market value of Class A Common Stock held by non-affiliates based on closing price on June 30, 2005, as reported by the New York Stock Exchange on the last business day of Registrant's most recently completed second fiscal quarter: \$421,075,058. Shares of Class A Common Stock held by each executive officer, director and holder of 5% or more of the outstanding Class A Common Stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determinant for other purposes.

Shares of common stock outstanding as of the close of business on March 7, 2006:

Class	Number of Shares Outstanding
Class A Common Stock	37,325,678
Class B Common Stock	3,975,183

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed in connection with the Annual Meeting of the Stockholders to be held on May 31, 2006 are incorporated in Part III hereof and made a part hereof.

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FORM 10-K

For The Fiscal Year Ended December 31, 2005

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Unless the context otherwise requires, when used in this Annual Report on Form 10-K, the terms Genesee & Wyoming, we, our, and us refer to Genesee & Wyoming Inc. and its subsidiaries and affiliates, and when we use the term ARG we are referring to the Australian Railroad Group Pty Ltd and its subsidiaries. ARG is our 50%-owned affiliate based in Perth, Western Australia. All references to currency amounts included in this Annual Report on Form 10-K, including the financial statements, are in U.S. dollars unless specifically noted otherwise.

Cautionary Statement Regarding Forward-Looking Statements

The information contained in this Annual Report on Form 10-K (Annual Report), including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events and future performance of Genesee & Wyoming Inc. Words such as anticipates, intends, plans, believes, seeks, expects, estimates, variations of these words and similar expressions are intended to identify these forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Actual results may differ materially from those expressed or forecast in these forward-looking statements. These risks and uncertainties include those noted under the caption "Risk Factors" in Item 1A, as well as those noted in documents that we file from time to time with the Securities and Exchange Commission (the SEC), which contain additional important factors that could cause actual results to differ from current expectations and from the forward-looking statements contained herein. Examples of forward-looking statements include all statements that are not historical in nature, including statements regarding:

- n our operations, competitive position, growth strategy and prospects;
- n industry conditions, including downturns in the general economy;
- n the effects of economic, political or social conditions and changes in foreign exchange policy or rates;
- n our ability to complete, integrate and benefit from acquisitions, joint ventures and strategic alliances;
- n the outcome of pending material transactions;
- n governmental policies affecting our railroad operations, including laws and regulations regarding environmental liabilities;
- n our funding needs and financing sources; and
- n the outcome of pending legal proceedings.

In light of the risks, uncertainties and assumptions associated with forward-looking statements, you should not place undue reliance on any forward-looking statements. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this Annual Report not to occur. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Annual Report.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies without fear of litigation. We are taking advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act in connection with the forward-looking statements included in this document.

Information set forth in Item 1 as well as in Item 2 should be read in conjunction with Management's Discussion and Analysis of Financial Conditions and Results of Operations in Item 7 and the discussion of risk factors in Item 1A.

PART I

Item 1. Business

OVERVIEW

We are a leading owner and operator of short line and regional freight railroads in the United States, Canada, Mexico, Australia and Bolivia. In addition, we provide freight car switching and rail-related services to industrial companies in the United States. The company's corporate predecessor was founded in 1899 as a 14-mile rail line serving a single salt mine in upstate New York. Since 1977, when Mortimer B. Fuller III purchased a controlling interest in the Genesee and Wyoming Railroad Company and became its Chief Executive Officer, we have completed 27 acquisitions, including the June 2005 acquisition from Rail Management Corporation (RMC) of substantially all of its railroad operations (collectively, Rail Partners). As of December 31, 2005, we owned, leased or operated 49 short line and regional freight railroads with approximately 9,300 miles of track and have access to more than 3,000 additional miles under track access arrangements. Based on track miles, we believe that we are the second largest operator of short line and regional railroads in North America.

RECENT DEVELOPMENTS AUSTRALIA TRANSACTIONS

On February 13, 2006, we announced that we and Wesfarmers Limited (Wesfarmers) had entered into a definitive agreement to sell our Western Australia operations and certain other assets of ARG to Queensland Rail and Babcock & Brown Limited for approximately \$956.0 million, plus certain closing adjustments estimated to be approximately \$18.0 million (ARG Sale). The ARG Sale is subject to customary closing conditions, including certain Australian government approvals, and is expected to close in the second quarter of 2006. The buyers have made a deposit of approximately \$66.0 million, which will be fully credited towards the purchase price. Simultaneous with the ARG Sale, we entered into an agreement to purchase Wesfarmers' 50 percent-ownership of the remaining ARG operations, which are principally located in South Australia and the Northern Territory for approximately \$15.0 million (GWA Purchase, collectively with the ARG Sale, the Australia Transactions). This business, which will be based in Adelaide, will be renamed Genesee & Wyoming Australia Pty Ltd (GWA) and will be a 100 percent-owned subsidiary that is reported on a consolidated basis in our financial statements. We anticipate approximately \$205 million in after-tax cash proceeds from the ARG Sale. We currently intend to use a portion of the proceeds to: (i) fund the GWA Purchase and (ii) repay all debt outstanding under our \$225 million senior revolving credit facility, the balance of which was \$88 million as of December 31, 2005. We currently intend to use the remainder of the proceeds for general corporate purposes, including acquisitions.

All payment obligations related to the Australia Transactions are in Australian dollars, and have been converted to U.S. dollar amounts based on the Australian dollar to U.S. dollar exchange rate as of February 13, 2006 of 0.735 U.S. dollars per Australian dollar.

GROWTH STRATEGY

We intend to increase our earnings and cash flow through the execution of our disciplined acquisition strategy for both domestic and international opportunities. When acquiring railroads in our existing regions, we target contiguous or nearby rail properties where our local management teams are best able to identify opportunities to reduce operating costs and increase equipment utilization. In new regions, we target rail properties that have adequate size to establish a presence in the region, provide a platform for growth in the region and attract qualified management. To help ensure accountability for the projected financial results of our potential acquisitions, we typically include the regional manager who would be operating the rail property after the acquisition as part of our due diligence team.

We derive our acquisition, investment and long-term lease opportunities from the following four sources:

- n rail lines of industrial companies, such as Bethlehem Steel Corporation, Mueller Industries, Inc. and Georgia-Pacific Corporation (GP);
- n branch lines of Class I railroads, such as Burlington Northern Santa Fe Corporation (BNSF) and CSX Corporation (CSX);
- n other regional railroads or short line railroads, such as RMC and Emons Transportation Group, Inc. (Emons); and
- n foreign government-owned railroads, such as those in Australia, that are being privatized or recently have been privatized.

From 1977 to 1997, we completed and integrated ten acquisitions in the United States. From 1997 to 2000, we acquired or made investments in seven railroads located outside the United States, including in South Australia (1997), Canada (1997), Mexico (1999), Western Australia (2000) and Bolivia (2000). From 2001 to 2004, we made six acquisitions in the United States and Canada, including South Buffalo Railway Company (South Buffalo) (2001); Emons (2002); Utah Railway Company (2002); a rail line leased from BNSF in Oregon (2002); Arkansas

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Louisiana & Mississippi Railroad Company, Chattahoochee Industrial Railroad and Fordyce and Princeton R.R. Co. (collectively, the GP Railroads), acquired from GP (December 2003); and Tazewell and Peoria Railroad, Inc. (TZPR), which commenced operations under a 20-year agreement to lease the assets of the Peoria and Pekin Union Railway (PPU) (November 2004). In 2005, we acquired Rail Partners, which included fourteen rail operations with locations in Florida, Alabama, Mississippi, Georgia, Arkansas, Texas, North Carolina, Tennessee, Kentucky and Wisconsin (June 2005). In addition, our subsidiary, First Coast Railroad Inc. (FCRD), commenced operations over a 31-mile rail line between Seals, Georgia and Fernandina, Florida under a 20-year lease agreement with CSX (April 2005).

We believe that additional acquisition opportunities in the United States exist among the over 500 short line and regional railroads operating approximately 42,000 miles of track, as well as additional lines expected to be sold or leased by Class I railroads. We also believe that there are additional acquisition candidates in Australia, Europe, Canada, South America and other markets outside the United States. We believe that we are well-positioned to capitalize on additional acquisition opportunities.

Our strategy of building regional rail systems through acquisitions is best illustrated by our original U.S. region, the New York-Pennsylvania Region. Starting with our original rail line, the Genesee & Wyoming, we have completed seven contiguous acquisitions since 1985, creating a regional railroad linking western New York with western Pennsylvania. Our recent acquisitions in this region include the South Buffalo, which we acquired from Bethlehem Steel Corporation in 2001, and a contiguous 17-mile rail line reaching a power plant in Homer City, Pennsylvania, which we acquired from CSX in 2004. From the year ended December 31, 1987, to the year ended December 31, 2005, we increased the annual revenues generated by our New York-Pennsylvania Region from \$8.0 million to \$61.3 million. The region has a diverse commodity base including coal, petroleum, auto parts, chemicals, pulp and paper, salt and steel.

In addition, the development of our Australia operations, ARG, as well as the recently announced agreement to sell the majority of ARG, demonstrate our ability to build a business and create shareholder value. Over the past several years, we have been sequentially building a rail business that operates across the Australian continent. In Australia, we: (1) entered the market through the acquisition of the previously government-owned rail system of South Australia in 1997; (2) secured a contract to operate iron ore supply rail-lines and in-plant rail operations for a steel mill in Whyalla, South Australia in 1999; (3) combined our South Australian railroad business with previously government-owned rail assets of Western Australia, which we acquired with Wesfarmers for \$334.0 million in December 2000; (4) acquired an equity interest (2.0% at December 31, 2005) in a consortium that operates a rail line from Tarcoola in South Australia to Darwin in the Northern Territory of Australia in April 2001; and (5) added a significant new customer contract in New South Wales, on the east coast of Australia, in November 2003. For the year ended December 31, 2005, ARG generated \$344.5 million in revenues. ARG's principal commodities are grain and various ores and minerals that are destined for export markets, particularly Asia. Finally, on February 13, 2006, we announced the Australia Transactions.

OPERATING STRATEGY

We intend to increase our earnings and cash flow through the execution of our operating strategy for both our domestic and international operations. Our railroads operate under strong local management, with centralized administrative support and oversight. Our operations are conducted in nine regions. These regions are, in the United States: Illinois; New York-Pennsylvania; Oregon; Rail Link (which includes industrial switching and port operations in various geographic locations); and Utah, and outside the United States: Australia (50% owned); Bolivia (22.9% owned); Canada; and Mexico. In each of our regions, we seek to encourage the entrepreneurial drive, local knowledge and customer service that we view as prerequisites for us to achieve our financial goals. At the regional level, our operating strategy consists of the following four principal elements:

- n *Focused Regional Marketing.* We build each regional rail system on a base of large industrial customers, grow that business through marketing efforts, and pursue additional revenues by attracting new customers and providing ancillary rail services. These ancillary rail services include railcar switching, repair, storage, cleaning, weighing and blocking, and bulk transfer, which enable shippers and Class I carriers to move freight more easily and cost-effectively.
- n *Lower Operating Costs.* We focus on lowering operating costs and have historically been able to operate acquired rail lines more efficiently than the companies and governments from whom we acquired these properties. We typically achieve efficiencies by lowering administrative overhead, consolidating equipment and track maintenance contracts, reducing transportation costs and selling surplus assets.
- n *Efficient Use of Capital.* We invest in track and rolling stock to ensure that we operate safe railroads that meet the demands of our customers. At the same time, we seek to maximize our return on invested capital by focusing on cost effective capital programs. For example, we rebuild older locomotives rather than purchase new locomotives, and invest in track at levels appropriate for traffic type and density. In addition, in some instances, we are able to obtain state and/or federal grants to rehabilitate track because of the

importance of certain of our customers and railroads to the regional economies where the tracks are located. Typically, we seek government funds to support investments that would not be economically viable for us to make on a stand-alone basis.

- n *Continuous Safety Improvement.* We believe that a safe work environment is essential for our employees and customers and the long-term success of our business. Each year we establish stringent safety targets. Through the execution of our safety program, we have reduced our injury frequency rate, measured as reportable injuries as defined by the Federal Railroad Administration (FRA), from 5.89 injuries per 200,000 man-hours worked in 1998 to 1.99 in 2005.

FINANCIAL STRATEGY

A significant portion of our management performance bonuses, at both the corporate and regional levels, is tied by formula to achieving return on capital targets. Starting with bonuses for 2002 performance, our Board of Directors adopted a new incentive compensation program, the Genesee Value Added Bonus Program, which is designed to create objective standards against which performance can be measured to determine whether we are operating in a manner that generates increased stockholder value. By focusing our corporate and regional management teams on improving our return on invested capital, we intend to continue to increase earnings and cash flow. In addition, we require that each potential acquisition strictly adheres to our return on capital targets and that existing operations improve year-over-year financial returns.

INDUSTRY

According to the Association of American Railroads (AAR), there are 556 railroads in the United States operating over 140,246 miles of track. The AAR segments U.S. railroads into one of three categories based on the amount of revenues and track miles. Class I railroads, those with over \$289.4 million in revenues, represent over 92% of total rail revenues. Regional and local railroads operate approximately 42,000 miles of track in the United States. The primary function of these smaller railroads is to provide feeder traffic to the Class I carriers. Regional and local railroads combined account for approximately 8% of total rail revenues.

The following table shows the breakdown of U.S. railroads by classification.

Classification of Railroads	Number	Aggregate Miles Operated	Revenues and Track Miles Operated
Class I (1)	7	97,496	Over \$289.4 million
Regional (2)	31	15,641	\$40.0 to \$289.4 million and/or 350 or more miles operated
Local	518	27,109	Less than \$40.0 million and less than 350 miles operated
Total	556	140,246	

(1) Class 1 railroads include Canadian National Railway (CN), CSX, BNSF, Norfolk Southern (NS), Kansas City Southern Railway Company (KCS), Union Pacific (UP) and Canadian Pacific Railway (CP)

(2) Includes groups of non-contiguous smaller railroads
Source: Association of American Railroads, Railroad Facts, 2005 Edition.

The railroad industry in the United States has undergone significant change since the passage of the Staggers Rail Act of 1980, which deregulated the pricing and types of services provided by railroads. Following the passage of the Staggers Act, Class I railroads in the United States took steps to improve profitability and recapture market share lost to other modes of transportation, primarily trucks. In furtherance of that goal, Class I railroads focused their management and capital resources on their long-haul core systems, and some of them sold branch lines to smaller and more cost-efficient rail operators willing to commit the resources necessary to meet the needs of the customers located on these lines. Divestiture of branch lines enabled Class I carriers to minimize incremental capital expenditures, concentrate traffic density, improve operating efficiency, and avoid traffic losses associated with rail line abandonment.

Although the acquisition market is competitive in the railroad industry, we believe we will continue to find opportunities to acquire rail properties in the United States and Canada from Class I railroads, industrial companies, and independent local and regional railroads. We also believe we will continue to find additional acquisition opportunities in markets outside of the United States. For additional information, see the discussion under Item 1A. Risk Factors.

NORTH AMERICAN OPERATIONS

As of December 31, 2005, we owned, leased or operated 45 short line and regional freight railroads with approximately 4,300 miles of track in the United States, Mexico and Canada.

North American Customers

Our North American operations served over 980 customers in 2005 compared with approximately 910 customers in 2004. Freight revenue from our ten largest North American freight revenue customers accounted for approximately 24%, 27% and 27% of our North American revenues in 2005, 2004 and 2003, respectively. As of December 31, 2005, four of our ten largest North American customers operated in the paper and forest products industry. In 2005 and 2004, our largest North American freight revenue customer was a company in the paper and forest products industry, freight revenue from which accounted for approximately 8% of our North American revenues in these years. In 2003, our largest North American freight revenue customer was a coal-fired electricity generating plant, freight revenue from which accounted for approximately 5% of our North American revenues. We typically handle freight pursuant to transportation contracts among us, our connecting carriers and the customer. These contracts are in accordance with industry norms and vary in duration, with terms as long as 20 years. These contracts establish price but do not typically obligate the customer to move any particular volume and are not typically linked to the prices of the commodities being shipped.

North American Commodities

Our North American railroads transport a wide variety of commodities. Some of our railroads have a diversified commodity mix while others transport one or two principal commodities. The following table compares North American freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2005 and 2004:

North American Freight Revenues and Carloads Comparison by Commodity Group

Years Ended December 31, 2005 and 2004

(dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
	2005	% of Total	2004	% of Total	2005	% of Total	2004	% of Total	2005	2004
Pulp & Paper	\$ 59,401	21.0%	\$ 40,486	17.9%	129,807	17.6%	94,340	14.9%	\$ 458	\$ 429
Coal, Coke & Ores	51,803	18.3%	45,126	19.9%	197,891	26.8%	191,038	30.2%	262	236
Lumber & Forest Products	35,336	12.5%	25,295	11.2%	98,087	13.3%	76,055	12.0%	360	333
Minerals & Stone	29,050	10.3%	22,294	9.9%	73,307	9.9%	59,197	9.3%	396	377
Metals	28,432	10.0%	23,464	10.4%	78,221	10.6%	73,412	11.6%	363	320
Petroleum Products	25,717	9.1%	24,465	10.8%	33,041	4.5%	32,401	5.1%	778	755
Chemicals-Plastics	21,481	7.6%	16,270	7.2%	40,434	5.5%	31,262	4.9%	531	520
Farm & Food Products	17,842	6.3%	16,203	7.2%	52,501	7.1%	40,520	6.4%	340	400
Autos & Auto Parts	6,584	2.3%	6,362	2.8%	13,600	1.8%	14,665	2.3%	484	434
Intermodal	2,151	0.8%	2,409	1.1%	4,805	0.7%	6,425	1.0%	448	375
Other	5,094	1.8%	3,891	1.6%	16,328	2.2%	14,034	2.3%	312	277
Totals	\$ 282,891	100.0%	\$ 226,265	100.0%	738,022	100.0%	633,349	100.0%	\$ 383	\$ 357

Commodity Group Description

The Pulp and Paper commodity group consists primarily of inbound shipments of pulp and outbound shipments of kraft and finished papers and container board.

The Coal, Coke and Ores commodity group consists primarily of shipments of coal to power plants and industrial customers.

The Lumber and Forest Products commodity group consists primarily of finished lumber, plywood, oriented strand board and particle board used in construction and furniture manufacturing, and wood chips and pulpwood used in paper manufacturing.

The Minerals and Stone commodity group consists primarily of cement, gravel and stone used in construction, and salt used in highway ice control.

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The Metals commodity group consists primarily of scrap metal, finished steel products and coated pipe.

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The Petroleum Products commodity group consists primarily of fuel oil and crude oil.

The Chemicals-Plastics commodity group consists primarily of various chemicals used in manufacturing, particularly in the paper industry.

The Farm and Food Products commodity group consists primarily of sugar, molasses, rice and other grains and fertilizer.

The Autos and Auto Parts commodity group consists primarily of finished automobiles and stamped auto parts.

The Intermodal commodity group consists of various commodities shipped in trailers or containers on flat cars.

The Other commodity group consists of all freight moved not included in the commodity groups set forth above.

North American Non-Freight Revenues

The primary components of our North American non-freight revenues are as follows:

- n Railcar switching revenues, which include:
 - n intra-plant switching revenues revenues earned by providing services dedicated to the movement of railcars within industrial plants, and
 - n intra-terminal switching revenues revenues earned for the movement of customer railcars from one track to another track on the same railroad.
- n Car hire and rental services charges paid by other railroads for use of our railcars for moving freight.
- n Demurrage and storage charges to customers for holding or storing railcars.
- n Car repair services charges for repairing freight cars owned by others, either under contract or in accordance with AAR rules.
- n Other operating income, which includes:
 - n Haulage and trackage rights fees charges to other railroads for running over our railroads;
 - n terminal services charges to customers for freight transfer and trucking services;
 - n scrap metal sales; and
 - n management fees charges for managing railcars and rail-related facilities.

In 2005 and 2004, non-freight revenues constituted 26.6% and 25.5%, respectively, of our total North American operating revenues with railcar switching representing 48.5% and 51.0%, respectively, of total North American non-freight revenues. The following table compares North American non-freight revenues for the years ended December 31, 2005 and 2004:

North American Non-Freight Revenues Comparison

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Years Ended December 31, 2005 and 2004

(dollars in thousands)

	2005	% of Total	2004	% of Total
Railcar switching	\$ 49,683	48.5%	\$ 39,539	51.0%
Car hire and rental income	16,328	15.9%	11,858	15.3%
Demurrage and storage	11,624	11.3%	7,533	9.7%
Car repair services	5,112	5.0%	5,460	7.0%
Other operating income	19,751	19.3%	13,129	17.0%
 Total non-freight revenues	 \$ 102,498	 100.0%	 \$ 77,519	 100.0%

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North American Revenues By Geographic Area

The following table compares total North American revenues by geographic area for the years ended December 31, 2005 and 2004:

North American Revenues Comparison by Geographic Area

Years Ended December 31, 2005 and 2004

(dollars in thousands)

	2005	% of Total	2004	% of Total
Revenues:				
United States	\$ 299,440	77.7%	\$ 226,521	74.6%
Canada	50,960	13.2%	44,008	14.5%
Mexico	34,989	9.1%	33,255	10.9%
Total operating revenues	\$ 385,389	100.0%	\$ 303,784	100.0%

For additional financial information with respect to each of our geographic areas, see Note 17 to our Consolidated Financial Statements set forth in Part IV, Item 15. of this Annual Report.

North American Traffic

Rail traffic shipped on our North American rail lines can be categorized as interline, local or overhead traffic. Interline traffic either originates or terminates with customers located along a rail line and is interchanged with other rail carriers. Local traffic both originates and terminates on the same rail line and does not involve other carriers. Overhead traffic passes over the line from one connecting rail carrier to another without the carload originating or terminating on the line. Unlike overhead traffic, interline and local traffic provide us with a more stable source of revenue, because this traffic represents shipments to or from customers located along our rail lines and is less susceptible to competition from other rail routes or other modes of transportation. In 2005, revenues generated from overhead traffic constituted approximately 2.0% of our total North American revenues.

Seasonality of Operations

Typically, we experience relatively lower revenues in the first and fourth quarters of each year as the winter season and colder weather tend to reduce shipments of certain products, such as construction materials. In addition, due to adverse winter weather conditions, we also tend to incur higher operating costs during the first and fourth quarters. We typically initiate capital projects in the second and third quarters when weather conditions are more favorable. However, certain of our traffic, such as salt for road de-icing, often benefits from particularly cold weather.

North American Employees

As of December 31, 2005, our North American railroads and industrial switching locations had 2,332 full time employees. Of this total, 1,073 railroad employees are members of national labor organizations. Our North American railroads have 35 contracts with these national labor organizations, seven of which are currently in negotiations. The Railway Labor Act (RLA) governs the labor relations of employers and employees engaged in the railroad industry. The RLA establishes the right of railroad employees to organize and bargain collectively along craft or class lines and imposes a duty upon carriers and their employees to exert every reasonable effort to make and maintain collective bargaining agreements. The RLA also contains detailed procedures that must be exhausted before a lawful work stoppage may occur. We have also entered into collective employee bargaining agreements with an additional 70 employees who are not represented by a national labor organization. We believe our relationship with our employees is good.

AUSTRALIA OPERATIONS (Equity Accounting)

ARG, which is 50% owned by Genesee & Wyoming and 50% owned by Wesfarmers, is reflected in our statement of income using the equity method of accounting. In the years ended December 31, 2005 and 2004, ARG contributed \$9.5 million, or 18.9%, and \$14.2 million, or 37.8%, respectively, of our total net income.

ARG is composed of three principal subsidiaries, Australia Southern Railroad Pty Ltd (ASR), Australia Western Railroad Pty Ltd (AWR), and WestNet Rail Pty Ltd (WestNet). Both AWR and ASR operate locomotives and rail cars to provide rail freight service to customers in the states of Western Australia and South Australia, respectively. WestNet is the owner and maintainer of most of the standard gauge and narrow gauge track infrastructure in Western Australia and charges track access fees to rail operators that use its track infrastructure,

including AWR. ARG is also accredited to operate in all the mainland states of Australia, thereby providing ARG with the ability to provide rail freight service across the Australian continent. On February 13, 2006, we announced the Australia Transactions. For additional information on the Australia Transactions, please see Item 1. Business Recent Developments Australia Transactions.

Under the terms of the ARG shareholders' agreement, neither shareholder has any capital commitment obligation, any obligation to fund ARG's operations nor any obligation to purchase the shares of the other shareholder, but there are transfer restrictions that limit the ability of a shareholder to sell its shares in ARG to a third party. ARG finances its operations through internally generated cash and stand-alone Australian dollar debt which has no recourse to either shareholder. ARG has no plans to pay cash dividends, although in July 2004 ARG did repay the remaining outstanding balance on subordinated notes to the shareholders of \$5.4 million each. According to the terms of the shareholders' agreement, each shareholder has the right to appoint certain officers of ARG and half of the number of directors of ARG. Further, certain material and significant decisions require the unanimous consent of the board of ARG or both shareholders.

Australian Customers

ARG currently serves over 100 customers. A significant portion of ARG's revenues is attributable to customers operating in the grain, ores, minerals and alumina industries. ARG's ten largest customers accounted for approximately 72%, 74% and 70% of its revenues for the years ended December 31, 2005, 2004 and 2003, respectively. In 2005 and 2004, ARG's largest freight revenue customer was AWB Limited (AWB), a major marketer and the sole exporter of Australian wheat, which accounted for 17%, 25% and 20% of ARG's revenues for the years ended December 31, 2005, 2004 and 2003. ARG typically ships freight under transportation contracts which vary from customer to customer including terms that range from one to up to 15 years, subject to certain review and extension provisions.

Australian Commodities

The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2005 and 2004:

Australian Railroad Group Freight Revenues and Carloads Comparison by Commodity Group

Years ended December 31, 2005 and 2004

(U.S. dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenue	
	2005	% of Total	2004	% of Total	2005	% of Total	2004	% of Total	per Carload	
									2005	2004
Grain	\$ 80,974	28.8%	\$ 101,987	36.6%	196,938	20.6%	265,712	27.0%	\$ 411	\$ 384
Other Ores and Minerals	61,072	21.7%	58,386	20.9%	104,067	10.9%	109,418	11.1%	587	534
Iron Ore	57,806	20.5%	45,536	16.3%	222,357	23.3%	201,613	20.5%	260	226
Alumina	21,913	7.8%	19,666	7.1%	159,689	16.7%	157,168	16.0%	137	125
Bauxite	14,749	5.2%	12,733	4.6%	140,034	14.7%	125,793	12.8%	105	101
Hook and Pull (Haulage)	6,474	2.3%	1,713	0.6%	9,753	1.0%	7,332	0.7%	664	234
Gypsum	3,961	1.4%	3,662	1.3%	46,679	4.9%	50,394	5.1%	85	73
Other	34,506	12.3%	35,256	12.6%	76,194	7.9%	67,891	6.8%	453	519
Total	\$ 281,455	100.0%	\$ 278,939	100.0%	955,711	100%	985,321	100.0%	294	283

Commodity Group Description

The Grain commodity group consists of wheat, barley, lupins, canola and oats, which are primarily destined for export markets.

The Other Ores and Minerals commodity group consists primarily of shipments of coal to power plants and refineries, nickel and minerals sands destined for export markets, and lime used in the resources industry.

The Iron Ore commodity group consists primarily of lump and fine ores destined for export markets and used in the domestic production of steel.

Alumina is a refined product destined for export markets.

Bauxite is a raw material used in the production of alumina.

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Hook & Pull service consists of various commodities shipped in containers on flat cars.

Gypsum is a raw material used in the production of plasterboard.

Other commodities consist primarily of caustic chemicals used in the production of alumina and various commodities in containers on flat cars.

Australian Non-Freight Revenues

ARG's non-freight revenues consist of rail services such as track access fees charged to other railroads, services related to operation management of the Tarcoola to Darwin rail line, diesel fuel sales to other railroads and other ancillary revenues. The following table compares ARG's non-freight revenues for the years ended December 31, 2005 and 2004:

Australian Railroad Group Non-Freight Revenues Comparison

Years Ended December 31, 2005 and 2004

(U.S. dollars in thousands)

	2005	% of Total	2004	% of Total
Third party track access fees	\$ 20,104	31.9%	\$ 21,208	38.8%
Tarcoola to Darwin Line	6,888	10.9%	6,557	12.0%
Other operating income	36,099	57.2%	26,943	49.2%
Total non-freight revenues	\$ 63,091	100.0%	\$ 54,708	100.0%

Australian Employees

As of December 31, 2005, ARG had 1,181 full-time employees. Of this total, approximately 66% are employed under collective bargaining agreements. In each of Western Australia and New South Wales, ARG has a collective enterprise bargaining agreement covering the majority of employees. During 2004, ARG renegotiated the Western Australia and New South Wales collective enterprise bargaining agreements, each of which has a term of approximately three years. In South Australia, ARG has one collective bargaining agreement that was renegotiated and became effective in April 2005. ARG believes its relationship with its employees is good.

NORTH AMERICAN SAFETY

Our safety program involves all employees and focuses on the prevention of accidents and injuries. The Senior Vice President of each region is accountable for the results of the program. Each region has a safety representative responsible for day-to-day program administration. Operating personnel are trained and certified in train operations, the transportation of hazardous materials, safety and operating rules, and governmental rules and regulations. We also participate in committees of the AAR, governmental and industry sponsored safety programs and the American Short Line and Regional Railroad Association Safety Committee. Our reportable injury frequency ratio, measured as reportable injuries as defined by the FRA, per 200,000 man hours worked, was 1.99 and 2.01 in 2005 and 2004, respectively.

NORTH AMERICAN INSURANCE

We maintain insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. The liability policies have self-insured retentions of up to \$500,000 per occurrence. In addition, we maintain excess liability policies which provide supplemental coverage for losses in excess of primary policy limits. With respect to the transportation of hazardous commodities, our liability policy covers sudden releases of hazardous materials, including expenses related to evacuation. Personal injuries associated with grade crossing accidents are also covered under our liability policies. The property damage policies have self-insured retentions ranging from \$100,000 to \$500,000, depending on the category of incident.

Employees of our United States railroads are covered by the Federal Employers' Liability Act (FELA), a fault-based system under which injuries and deaths of railroad employees are settled by negotiation or litigation. FELA-related claims are covered under our liability insurance policies. Employees of our industrial switching business are covered under workers' compensation policies.

We believe our insurance coverage is adequate in light of our experience and the experience of the rail industry.

NORTH AMERICAN COMPETITION

Each of our railroads is typically the only rail carrier directly serving our customers; however, our railroads compete directly with other modes of transportation, principally motor carriers, and, on some routes, ship, barge and pipeline operators. Competition is based primarily upon the rate charged and the transit time required, as well as the quality and reliability of the service provided. Most of the freight we handle is transferred either to or from other railroads prior to reaching its final destination. As a result, to the extent other rail carriers are involved in transporting a shipment, we cannot necessarily control the cost and quality of such service. To the extent highway competition is involved, the effectiveness of that competition is affected by government policy with respect to fuel and other taxes, highway tolls, and permissible truck sizes and weights.

To a lesser degree, we also face competition with similar products made in other areas, a kind of competition commonly known as geographic competition. For example, a paper producer may choose to increase or decrease production at a specific plant served by one of our railroads depending on the relative competitiveness of that plant versus paper plants in other locations. In some instances, we face product competition, where commodities we transport are exposed to competition from substitutes. For example, our fuel oil traffic in Mexico is used to generate electricity for a power grid where competition from natural gas generation is substantial.

In acquiring rail properties, we generally compete with other short line and regional railroad operators as well as private equity firms operating in conjunction with short line rail operators. Competition for rail properties is based primarily upon price and the seller's assessment of the buyer's railroad operating expertise and financing capability. We believe our established reputation as a successful acquirer and operator of short line rail properties, combined with our managerial and financial resources, effectively positions us to take advantage of acquisition opportunities.

REGULATION

United States

Our U.S. railroads are subject to regulation by:

- n the Surface Transportation Board (STB),

- n the FRA,

- n state departments of transportation, and

- n some state and local regulatory agencies.

The STB is the successor to certain regulatory functions previously administered by the Interstate Commerce Commission (ICC). Established by the ICC Termination Act of 1995, the STB has jurisdiction over, among other things, freight rates (where there is no effective competition), extension or abandonment of rail lines, the acquisition of rail lines, and consolidation, merger or acquisition of control of rail common carriers. In limited circumstances, the STB may condition its approval of an acquisition upon the acquirer of a railroad agreeing to provide severance benefits to certain subsequently terminated employees. The FRA has jurisdiction over safety, which includes the regulation of equipment standards, track maintenance, handling of hazardous shipments, locomotive and rail car inspection, repair requirements, operating practices and crew qualifications.

Canada

St. Lawrence & Atlantic Railroad (Quebec) is a federally regulated railroad and falls under the jurisdiction of the Canada Transportation Agency (CTA) and Transport Canada (TC) and is subject to the Railway Safety Act. The CTA regulates construction and operation of federally regulated railroads, financial transactions of federally regulated railway companies, all aspects of rates, tariffs and services, and the transferring and discontinuing of the operation of railway lines. TC administers the Railway Safety Act which ensures that federally regulated railway companies abide by all regulations with respect to engineering standards governing the construction or alteration of railway works and the operation and maintenance standards of railway works and equipment.

Quebec Gatineau Railway and Huron Central Railway are subject to the jurisdiction of provincial governments of Quebec and Ontario, respectively. Provincially regulated railroads only operate within one province and hold a Certificate of Fitness delivered by a provincial authority. In the Province of Quebec, the Fitness Certificate is delivered by the Transport Commission of Quebec, while in Ontario, under the Short Line Railways Act, a license must be obtained from the Registrar of Short Line Railways. Construction, operation and discontinuance of operation are regulated, as well as railway services.

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Acquisitions of additional railroad operations in Canada, whether federally or provincially regulated, may be subject to review under the Investment Canada Act (ICA), a federal statute which applies to the acquisition of a Canadian business or establishment of a new Canadian business by a non-Canadian. In the case of an acquisition that is subject to review, the non-Canadian investor must observe a statutory waiting period prior to completion and satisfy the Minister responsible for the administration of the ICA that the investment will be of net benefit to Canada, considering certain evaluative factors set out in the legislation.

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Any contemplated acquisitions may also be subject to the provision of the Competition Act (Canada), which contains provisions relating to pre-merger notification as well as substantive merger provisions.

Australia

In Australia, regulation of rail safety is generally governed by state legislation and administered by state regulatory agencies. Regulation of access is governed by overriding federal legislation with state-based regimes operating in compliance with that legislation. ARG's assets are therefore subject to the regulatory regimes governing safety in each of the states in which it operates. In addition, with respect to rail infrastructure access, ARG's Australian assets are subject to state-based access regimes and Part IIIA of the Trade Practices Act 1974.

ARG's interstate access includes the standard gauge tracks linking Wodonga (in Victoria), Melbourne (in Victoria), Adelaide (in South Australia), Broken Hill (in New South Wales), Tarcoola (in South Australia) and Kalgoorlie (in Western Australia). The interstate network is part of the larger standard gauge network linking all capital cities in Australia from Brisbane to Perth, as well as Broken Hill in New South Wales and Alice Springs in the Northern Territory. Those parts of this larger standard gauge network which are not covered by the interstate network are governed by the various state access regimes and the national access regime.

Assuming completion of the Australia Transactions, our ongoing interest in Australia will principally comprise the current South Australian and Northern Territory interests of ARG, which will be named Genesee & Wyoming Australia (GWA). GWA's intrastate track (leased from the State of South Australia) will continue to be subject to South Australia's access regime. GWA's interstate access will continue in respect of the standard gauge tracks in South Australia, connecting standard gauge tracks in Victoria, and the Northern Territory. GWA will continue to be subject to the state rail safety legislation and regulatory agencies in those locations it does business.

Mexico

In Mexico, the Communications and Transport Department (SCT) has jurisdiction over, among other things:

- n policies and programs related to the railroad system;
- n the granting of concessions;
- n the regulation of the concessions and resolution of any issues regarding amendments or terminations to the concessions;
- n the regulation of tariff application; and
- n the imposition of sanctions when operators have not complied with the terms of a concession.

Our Mexican operation, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM), is also subject to the Mexican Foreign Investments Law and the Federal Law of Economic Competition. The Foreign Investments Law governs the ownership of Mexican Railroads, such as our Mexican railroad, by foreign entities while the Law of Economic Competition is an antitrust statute.

ENVIRONMENTAL MATTERS

Our operations are subject to various federal, state, provincial and local laws and regulations relating to the protection of the environment. In the United States, these environmental laws and regulations, which are implemented principally by the Environmental Protection Agency and comparable state agencies, govern the management of hazardous wastes, the discharge of pollutants into the air and into surface and underground waters, and the manufacture and disposal of certain substances. Similarly, in Canada, these functions are administered at the federal level by Environment Canada and the Ministry of Transport and comparable agencies at the provincial level. In Mexico, these functions are administered at the federal level by the Secretary of Environment, Natural Resources and Fisheries and the Attorney General for Environmental Protection, and by comparable agencies at the state level. In Australia, these functions are administered primarily by the Department of Transport at the federal level and by environmental protection agencies at the state level. There are no material environmental claims currently pending or, to our knowledge, threatened against us or any of our railroads. In addition, we believe our railroads operate in material compliance with current environmental laws and regulations. We estimate any expenses incurred in maintaining compliance with current environmental laws and regulations will not have a material effect on our earnings or capital expenditures.

In Mexico, FCCM was awarded a 30-year concession (expiring in 2029) to operate certain railways owned by the government-owned rail company. Under the terms of the concession agreement, the federal railway company remains responsible for remediation of all contamination that occurred

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prior to the execution date of the concession agreement.

The Commonwealth of Australia has acknowledged that certain portions of the leasehold and freehold land acquired under the sale and purchase agreement by ASR contain contamination arising from activities associated with previous operators. The Commonwealth has carried out certain remediation work to meet existing South Australian environmental standards which reflect the purpose for which the land was used at the date of the sale and purchase agreement.

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AVAILABLE INFORMATION

We were incorporated in Delaware on September 1, 1977. We completed our initial public offering in June 1996 and since September 27, 2002, our shares have been listed on the New York Stock Exchange. Our principal executive offices and corporate headquarters are located at 66 Field Point Road, Greenwich, Connecticut, 06830, and our telephone number is (203) 629-3722.

Our Internet address is www.gwrr.com. We make available free of charge, on or through our Internet web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after those materials are electronically filed with or furnished to the SEC. Also, filings made pursuant to Section 16 of the Exchange Act with the SEC by our executive officers, directors and other reporting persons with respect to our common shares are made available, free of charge, through our website.

Our website also contains hyperlinks to charters for each of the committees of our Board of Directors, our corporate governance guidelines and our Code of Ethics.

The information regarding our website and its content is for your convenience only. The information contained on or connected to our website is not deemed to be incorporated by reference in this Annual Report or filed with the SEC.

In addition, you may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically. The SEC website address is www.sec.gov.

Item 1A. Risk Factors

Our operations and financial condition are subject to certain risks that could cause actual operating and financial results to differ materially from those expressed or forecast in our forward-looking statements, including the risks described below and the risks identified in other documents which are filed or furnished with the SEC.

GENERAL RISKS ASSOCIATED WITH OUR BUSINESS

If we are unable to consummate additional acquisitions or investments, we may not be able to successfully implement our growth strategy.

Our growth strategy is based on the selective acquisition, development and investment in rail properties, both in new regions and in regions in which we currently operate. The success of this strategy will depend on, among other things:

- n the availability of suitable opportunities;
- n the level of competition from other companies that may have greater financial resources;
- n our ability to value acquisition and investment candidates accurately and negotiate acceptable terms for those acquisitions and investments;
- n our ability to identify and enter into mutually beneficial relationships with venture partners; and
- n the availability of management resources to oversee the integration and operation of the new businesses.

If we are not successful in implementing our growth strategy, the market price for our Class A Common Stock may be adversely affected.

Our inability to integrate acquired businesses successfully or to realize the anticipated cost savings and other benefits could have adverse consequences to our business.

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We have experienced significant growth through acquisitions and we expect to continue to grow through additional acquisitions. Acquisitions generally result in increased operating and administrative costs and, to the extent financed with debt, additional interest costs. We may not be able to manage or integrate the acquired companies or businesses successfully. The process of combining acquired businesses may be disruptive to our business and may cause an interruption or reduction of our business as a result of the following factors, among others:

- n loss of key employees or customers;

- n possible inconsistencies in or conflicts between standards, controls, procedures and policies among the combined companies and the need to implement company-wide financial, accounting, information technology and other systems;

- n failure to maintain the quality of services that have historically been provided;

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n failure to integrate employees of rail lines acquired from Class I railroads, governments or other entities into the our regional railroad culture;

n failure to coordinate geographically diverse organizations; and

n the diversion of management s attention from our day-to-day business as a result of the need to manage any disruptions and difficulties and the need to add management resources to do so.

These disruptions and difficulties, if they occur, may cause us to fail to realize the cost savings, revenue enhancements and other benefits that we expect to result from integrating acquired companies, and may cause material adverse short- and long-term effects on our operating results, financial condition and liquidity.

Even if we are able to integrate the operations of acquired businesses into our operations, we may not realize the full benefits of the cost savings, revenue enhancements or other benefits that we may have expected at the time of acquisition. The expected revenue enhancements and cost savings are based on analyses completed by members of our management. These analyses necessarily involve assumptions as to future events, including general business and industry conditions, the longevity of specific customer plants and factories served, operating costs and competitive factors, many of which are beyond our control and may not materialize. While we believe these analyses and their underlying assumptions to be reasonable, they are estimates which are necessarily speculative in nature. In addition, even if we achieve the expected benefits, we may not be able to achieve them within the anticipated time frame. Also, the cost savings and other synergies from these acquisitions may be offset by costs incurred in integrating the companies, increases in other expenses, operating losses or problems in the business unrelated to these acquisitions.

Most of our recent and material acquisitions have involved the purchase of stock of existing companies. These acquisitions, as well as acquisitions of substantially all of the assets of a company may expose us to liability for actions by an acquired business and its management before the acquisition. The due diligence we conduct in connection with an acquisition, and any contractual guarantees or indemnities that we receive from the sellers of acquired companies, may not be sufficient to protect us from, or compensate us for, actual liabilities. For our two most recently completed material acquisitions, the GP Railroads and Rail Partners acquisition, other than certain representations related to fundamental matters, such as ownership of capital stock, most of the representations made by the sellers have expired in the case of GP or will expire on or before June 2008 in the case of Rail Partners. A material liability associated with an acquisition, especially where there is no right to indemnification, could adversely affect our financial condition and operating results.

We may need additional capital to fund our acquisitions. If we are unable to obtain additional capital, we may be required to forego potential acquisitions, which would impair the execution of our growth strategy.

Since 1996, we have acquired interests in 40 railroads, the majority of which were for cash. As of December 31, 2005, we had undrawn revolver capacity of approximately \$135 million available for acquisitions or other activities. We intend to continue to review acquisition candidates and potential purchases of railroad assets, and to attempt to acquire companies and assets that meet our investment criteria. We expect that, as in the past, we will pay cash for some or the entire purchase price of any acquisitions or purchases that we make. Depending on the number of acquisitions or purchases and the prices of the acquisitions, we may not generate enough cash from operations to pay for the acquisitions or purchases. We may, therefore, need to raise substantial additional capital to fund our acquisitions. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution of our existing stockholders. If we raise additional funds through the issuance of debt securities, the terms of such debt could impose additional restrictions and costs on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional capital, we may be required to forego potential acquisitions, which could impair the execution of our growth strategy.

Because we depend on Class I railroads and other connecting carriers for our North American operations, our operating results, financial condition and liquidity may be adversely affected if our relationships with these carriers deteriorate.

The railroad industry in the U.S. and Canada is dominated by seven Class I carriers that have substantial market control and negotiating leverage. In 2005, more than 85% of our total carloads in North America were interchanged with Class I carriers. A decision by any of these Class I carriers to use alternate modes of transportation, such as motor carriers or cease certain freight movements, could have a material adverse effect on our operating results, financial condition and liquidity. The quantitative impact of such a decision would depend on which Class I carrier made such a decision and which of our routes were affected.

Our ability to provide rail service to customers in the U.S. and Canada depends in large part upon our ability to maintain cooperative relationships with connecting carriers with respect to, among other matters, freight rates, revenue divisions, car supply, reciprocal switching, interchange and trackage rights. Deterioration in the operations of, or service provided by, those connecting carriers, or in our relationship with those connecting carriers, would adversely affect our operating results, financial condition and liquidity.

Class I carriers also have traditionally been significant sources of business for us, as well as sources of potential acquisition candidates as they divest branch lines to smaller rail operators. We lease several railroads from Class I carriers under long term lease arrangements, which collectively accounted for approximately 13% of our 2005 revenues. In addition, we own several railroads that also lease portions of the track or right of way upon which they operate from Class I railroads. Failure of our railroads to comply with the terms of these leases and agreements in all material respects could result in the loss of operating rights with respect to those rail properties, which would adversely affect our operating results, financial condition and liquidity. Because we depend on Class I carriers for our U.S. and Canadian operations, our operating results, financial condition and liquidity may be adversely affected if our relationships with those carriers deteriorate.

Approximately 63% of our Mexican revenues originate and terminate on FCCM's railroad and FCCM is dependent on its relationship with Ferrosur S.A. de C.V. (Ferrosur), the connecting carrier, for the remainder of its revenues. To the extent that we experience service or other commercial disruptions with Ferrosur, our ability to serve existing customers and expand our business will suffer. In November 2005 Grupo Mexico, the majority owner of Ferrocarril Mexicano S.A. de C.V. (Ferromex), which is one of the largest railroads in Mexico and principally operates in the north and western parts of Mexico, announced that it intended to acquire Ferrosur. The transaction is subject to review by the Mexican Commission on Competition, which rejected a similar transaction in 2002. In addition, Kansas City Southern de Mexico, which operates between Ferromex and Ferrosur and in the north eastern part of Mexico, has commenced legal proceedings to prevent the transaction from closing. We are still evaluating the potential commercial impact of this transaction on FCCM, which may result in increased costs to FCCM or limitations on FCCM's ability to access traffic originating or terminating on KCS-Mexico's network.

Our North American operations are dependent on our ability to obtain railcars and locomotives from other providers.

Much of the freight transported by our U.S. and Canadian railroads moves on railcars supplied by other independent providers pursuant to short-term arrangements. In 2005, approximately 88% of our railcars were leased. If the number of railcars supplied by such other rail providers is insufficient, or if the cost of obtaining these railcars increases, we might not be able to obtain replacement railcars on favorable terms or at all and shippers may seek alternate forms of transportation. In addition, in some cases we use third-party locomotives to provide transportation services to our customers. Without these third-party locomotives, we would need to invest additional capital in locomotives.

We face competition from numerous sources, including those relating to geography, substitute products, other types of transportation and other rail operators.

Each of our railroads is typically the only rail carrier directly serving our customers. Our railroads, however, compete directly with other modes of transportation, principally motor carriers and, on some routes, ship, barge and pipeline operators. Transportation providers such as motor carriers and barges utilize public rights-of-way that are built and maintained by governmental entities while we must build and maintain our network. If the scope and quality of these alternative methods of transportation are materially increased, or if legislation is passed providing materially greater opportunity for motor carriers with respect to size or weight restrictions, we could suffer a material adverse effect on our operating results, financial condition and liquidity.

We are also subject to geographic and product competition. For example, a customer could shift production to a region where we do not have operations or could substitute one commodity for another commodity that is not transported by rail. In either case, we would lose a source of revenues, which could have a material adverse effect on our operating results, financial condition and liquidity.

The extent of this competition varies significantly among our railroads. Competition is based primarily upon the rate charged, the relative costs of substitutable products and the transit time required. In addition, competition is based on the quality and reliability of the service provided. Because approximately 86% of our carloads involve interchange with another carrier, we have only limited control over the total price, transit time or quality of such service. Any future improvements or expenditures materially increasing the quality of these alternative modes of transportation in the locations in which we operate, or legislation granting materially greater latitude for other modes of transportation, could have a material adverse effect on our operating results, financial condition and liquidity.

It is difficult to quantify the potential impact of competition on our business, since not only each customer, but also each customer location and each product shipped from such location is subject to different types of competition.

We are subject to significant governmental regulation of our railroad operations. The failure to comply with governmental regulations could have a material adverse effect on our operating results, financial condition and liquidity.

We are subject to governmental regulation in the U.S. by a significant number of federal, state and local regulatory authorities, including the STB, the FRA and state departments of transportation, with respect to our rail -

road operations and a variety of health, safety, labor, environmental and other matters. We are also subject to regulatory authorities in the other countries in which we operate. Our failure to comply with applicable laws and regulations could have a material adverse effect on our operating results, financial condition and liquidity. In addition, governments may change the regulatory framework within which we operate without providing us with any recourse for any adverse effects that the change may have on our operating results, financial condition or liquidity. Also, some of the regulations require us to obtain and maintain various licenses, permits and other authorizations, and we may not continue to be able to do so.

We could incur significant costs for violations of, or liabilities under, environmental laws and regulations.

Our railroad operations and real estate ownership are subject to extensive foreign, federal, state and local environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters, and the handling, storage, transportation and disposal of waste and other materials and cleanup of hazardous material or petroleum releases. We may incur environmental liability from conditions or practices at properties previously owned or operated by us, properties leased by us, and other properties owned by third parties (for example, properties at which hazardous substances or wastes for which we are responsible have been treated, stored, spilled or disposed), as well as at properties currently owned by us. Under some environmental statutes, such liability may be without regard to whether we were at fault, and may also be joint and several, whereby we are responsible for all the liability at issue even though we (or the entity that gives rise to our liability) may be only one of a number of entities whose conduct contributed to the liability.

Environmental liabilities may arise from claims asserted by owners or occupants of affected properties or other third parties affected by environmental conditions (for example, contractors and current or former employees) seeking to recover in connection with alleged damages to their property or with personal injury or death, as well as by governmental authorities seeking to remedy environmental conditions or to enforce environmental obligations. Environmental requirements and liabilities could obligate us to incur significant costs, including significant expenses to investigate and remediate environmental contamination, which could have a material adverse effect on our operating results, financial condition and liquidity.

Some of our employees belong to labor unions, and strikes or work stoppages could adversely affect our operating results, financial condition and liquidity.

We are a party to collective bargaining agreements with various labor unions in the United States, Mexico, Australia, Canada and Bolivia. In North America, we are party to 35 contracts with national labor organizations. We are currently engaged in negotiations with respect to seven of those agreements. We have also entered into employee bargaining agreements with an additional 70 employees who represent themselves. In each of Western Australia, South Australia and New South Wales, ARG has a collective enterprise bargaining agreement covering the majority of employees. Our inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If the unionized workers were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized or the terms and conditions in future labor agreements were renegotiated, we could experience a significant disruption of our operations and/or higher ongoing labor costs, which in either case could materially adversely affect our operating results, financial condition and liquidity. We are also subject to the risk of the unionization of our non-unionized employees which could result in higher employee compensation and restrictive working condition demands that could increase our operating costs or constrain our operating flexibility. In addition, work interruptions may be threatened which could cause customers to seek other transportation alternatives, with a corresponding adverse financial impact.

If we are unable to employ a sufficient number of skilled workers, our operating results, financial condition and liquidity may be materially adversely affected.

We believe that our success depends upon our ability to employ and retain skilled workers that possess the ability to operate and maintain our equipment and facilities. The operation and maintenance of our equipment and facilities involve complex and specialized processes and often must be performed in harsh conditions, often resulting in a high employee turnover rate when compared to many other industries. In addition, our ability to expand our operations depends in part on our ability to attract and retain skilled workers. Since 2003, our revenue has increased 57.4%. Over the same period, our annual average number of North American employees has increased 24% from 1,819 for 2003 to 2,260 for 2005. Within the next seven years, we estimate approximately 12% of the current workforce will become eligible for retirement. Approximately two-thirds of these workers hold key operating positions, such as conductors, engineers, and mechanics. In addition, the demand for workers with these types of skills has increased, especially from Class I railroads, which can usually offer higher wages and better benefits. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force or an increase in the wage rates that we must pay, or both. If either of these events were to occur, our cost structure could increase, our margins could decrease and our growth potential could be impaired, each of which could have a material adverse effect on our operating results, financial condition and

liquidity. For example, a \$1.00 per hour increase in wage rates for the average number of U.S. hourly employees during 2005 principally involved in operating activities would have increased annual labor expenses by approximately \$3.2 million.

The occurrence of losses or other liabilities which are not covered by insurance or which exceed our insurance limits could materially adversely affect our operating results, financial condition and liquidity.

We have obtained for each of our railroads insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. Unexpected or catastrophic circumstances such as accidents involving passenger trains or spillage of hazardous materials could cause our liability to exceed our insurance limits. Insurance is available from only a very limited number of insurers and we may not be able to obtain insurance protection at our current levels or obtain it on terms acceptable to us. In addition, subsequent adverse events directly and indirectly applicable to us may result in additional increases in our insurance premiums and/or our self insured retentions and could result in limitations to the coverage under our existing policies. The occurrence of losses or other liabilities which are not covered by insurance or which exceed our insurance limits could materially adversely affect our operating results, financial condition and liquidity.

Rising fuel costs could materially adversely affect our operating results, financial condition and liquidity.

Fuel costs constitute a significant portion of our total operating expenses. Fuel costs for fuel used in operations were approximately 12.2% and 10.0% of our operating expenses for the years ended December 31, 2005 and 2004, respectively. Fuel costs for fuel used in operations were approximately 11.8% and 10.0% of ARG's operating expenses for the years ended December 31, 2005 and 2004, respectively. Fuel prices and supplies are influenced significantly by factors beyond our and ARG's control, such as international political and economic circumstances. In the United States and Canada, through certain of our contractual relationships with certain Class I railroads, we are partially compensated for increases in fuel costs through fuel surcharges. For instance, for the year ended December 31, 2005, average fuel prices increased by approximately 36.4%. Through the use of fuel surcharges in the U.S., we were able to pass through approximately 73% of this increase, excluding fuel surcharges associated with acquisitions. If Class I railroads change their policies regarding fuel surcharges, if diesel fuel prices increase dramatically or if a fuel supply shortage were to arise from production curtailments, a disruption of oil imports or otherwise, these events could have a material adverse effect on our and ARG's operating results, financial condition and liquidity.

The loss of important customers or contracts may adversely affect our operating results, financial condition and liquidity.

In North America, the freight revenue from our ten largest North American freight revenue customers accounted for approximately 24%, 27% and 27% of our operating revenues in 2005, 2004 and 2003, respectively. In 2005 and 2004, our largest North American freight revenue customer was a company in the paper and forest products industry, freight revenue from which accounted for approximately 8% of our North American revenues in these years. In 2003, our largest North American freight revenue customer was a coal-fired electricity generating plant, freight revenue from which accounted for approximately 5% of our North American revenues. ARG's ten largest customers accounted for approximately 72%, 74% and 70% of its operating revenues in 2005, 2004 and 2003, respectively. In 2005, 2004 and 2003, ARG's largest customer was AWB, which accounted for approximately 17%, 25% and 20% respectively, of ARG's operating revenues. The loss of one or more of our or ARG's largest customers or the loss or material modification of one or more key contracts with such customers could have a material adverse effect on our operating results, financial condition and liquidity.

Our results of operations are susceptible to downturns in the general economy.

In any given year, we, like other railroads, are susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight we transport. In addition, many of the goods and commodities carried by us experience cyclical demand. Our results of operations can be expected to reflect this cyclical demand because of the significant fixed costs inherent in railroad operations. Should an economic slowdown or recession occur in North America or in the other countries in which we operate, the volume of rail shipments carried by us is likely to be affected.

Our results of operations are susceptible to severe weather conditions and other natural occurrences.

We are susceptible to adverse weather conditions, including floods, fires, hurricanes, droughts, earthquakes and other natural occurrences. For example:

- n Mexico's revenues were reduced in 2005 as a result of the impact of Hurricane Stan;

- n ARG's revenues may be reduced as a result of droughts (drought conditions during the 2002 growing season resulted in a significant reduction in ARG's grain shipments in 2003) or as a result of flash floods, which could damage our tracks and impact our operations;

- n Our minerals and stone revenues, which include salt, may be reduced by snow-free and ice-free winters in the Northeastern United States, which lessens demand for road salt.

Bad weather and natural disasters, such as blizzards in eastern Canada and the Northeastern United States and hurricanes in Mexico and the Southeastern United States could cause a shutdown or substantial disruption of operations, which could have a material adverse effect on our operating results, financial condition and liquidity. In addition, even if a material adverse weather or other condition does not directly affect our operations, it can impact the operations of our customers or connecting carriers. Such weather conditions could cause our customers or connecting carriers to reduce or suspend their operations, which could have a material adverse effect on our results, financial conditions and liquidity. Furthermore, our expenses could be adversely impacted by weather, including, for example, higher track maintenance and overtime costs in the winter in our New York-Pennsylvania and Canada Regions or possible track repairs related to washouts in Mexico during the rainy season.

The development of some of our business could be hindered if we fail to maintain satisfactory working relationships with our joint venture partners or other investors.

We conduct some of our operations through joint ventures in which we own a significant, but less than a controlling, ownership interest. In particular, we own a 50% interest in ARG and a 22.89% interest in our Bolivian operations. In these operations, we do not have control over the operations of the venture. The particular corporate governance provisions affecting our interests vary from venture to venture, but in general, we must obtain the cooperation of other investors in the venture in order to implement and expand upon our business strategies. Any failure to maintain satisfactory working relationships with these other investors or the need to expend significant management resources and time to align our interests with the interests of these partners could result in a material adverse effect on our operating results, financial condition and liquidity.

Certain of our capital projects and foreign operations may be impacted by our relationships with government entities.

Certain of our existing capital projects are, and certain of our future capital projects may be, at least partially dependent on our ability to obtain government funding. Within the United States, during 2005, we previously obtained funds for seven separate projects, which were funded by federal, state and municipal agencies. These funds represented 11.6% of our capital expenditures in the United States. Government funding for our projects is limited, and there is no guarantee that budget pressure at the federal, state and local level or changing governmental priorities will not eliminate future funding availability. In addition, competition for government funding from other short line railroads, Class I railroads, infrastructure and other companies is significant and the receipt of government funds is often contingent on the acceptance of contractual obligations that may not be strictly profit maximizing. In certain jurisdictions, the acceptance of government funds may impose additional legal obligations on our operations, such as compliance with prevailing wage requirements.

Our credit facilities contain numerous covenants that impose certain restrictions on the way we operate our business.

Our credit facilities contain covenants imposing restrictions on our ability to, among other things:

- n incur additional debt;
- n create liens on our assets;
- n make certain types of investments;
- n repurchase shares or pay dividends;
- n make expenditures for capital projects;
- n merge or consolidate with others;

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- n effect non-ordinary course asset acquisitions;

- n dispose of assets or use asset sale proceeds;

- n enter into sale and leaseback transactions; and

- n enter into transaction with affiliates;

Our credit facilities also contain financial covenants that require us to meet a number of financial ratios and tests. Our failure to comply with the obligations in our credit facilities could result in events of default under the credit facilities, which, if not cured or waived, could permit acceleration of our indebtedness, allowing our senior lenders to foreclose on our assets.

Acts of terrorism or anti-terrorism measures may adversely affect us.

Our rail lines, port operations and other facilities and equipment, including rail cars carrying hazardous materials, which we are required to transport under federal law, could be direct targets or indirect casualties of terrorist attacks. Any terrorist attack or other similar event could cause significant business interruption and may adversely affect our operating results, financial condition, and liquidity. In addition, regulatory measures designed to control terrorism could impose substantial costs upon us and could result in impairment to our service, which could also adversely affect our operating results, financial condition, and liquidity.

ADDITIONAL RISKS ASSOCIATED WITH OUR FOREIGN OPERATIONS

General

We are subject to the risks of doing business in foreign countries.

Some of our significant subsidiaries transact business in foreign countries, namely in Canada and Mexico, and we have equity investments in Australia and Bolivia. In addition, we may consider acquisitions or other investments in other foreign countries in the future. The risks of doing business in foreign countries include:

- n adverse renegotiation or modification of existing agreements or arrangements with governmental authorities,
- n adverse changes or greater volatility in the economies of those countries,
- n adverse effects of currency exchange controls,
- n adverse currency movements that make goods produced in those countries which are destined for export markets less competitive,
- n adverse changes to the regulatory environment of those countries,
- n adverse changes to the tax laws and regulations of those countries,
- n restrictions on the withdrawal of foreign investment and earnings,
- n the nationalization of the businesses that we operate,
- n the actual or perceived failure by us to fulfill commitments under concession agreements,
- n the potential instability of foreign governments, including from domestic insurgency, and
- n the challenge of managing a culturally and geographically diverse operation.

Because some of our significant subsidiaries and affiliates transact business in foreign currencies, and because a significant portion of our net income comes from the operations of our foreign subsidiaries, future exchange rate fluctuations may adversely affect us and may affect the comparability of our results between financial periods.

Our operations in Mexico and Canada accounted for 9.1% and 13.2% of consolidated revenues, respectively, and ARG accounted for 18.9% of consolidated net income for the year ended December 31, 2005. The results of operations of our foreign operations are reported in the local

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currency the Australian dollar, the Canadian dollar and the Mexican peso and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the U.S. dollar can impact our results. The exchange rates between these currencies and the U.S. dollar have fluctuated significantly in recent years and may continue to do so in the future. For instance, in the year ended December 31, 2005, the Australian dollar, the Canadian dollar and the Mexican peso appreciated 3.5%, 9.9% and 3.6%, respectively, relative to the U.S. dollar.

In addition, as a result of U.S. dollar denominated intercompany debt between our Mexican subsidiaries, we are subject to increased non-cash expense when the Mexican peso appreciates. For the year ended December 31, 2005, these non-cash expenses totaled \$750,000. The functional currency of our Bolivian operations is the U.S. dollar. We cannot assure that we will be able to effectively manage our exchange rate risks and the volatility in currency exchange rates may have a material adverse effect on our operating results, financial condition and liquidity. In addition, because our financial statements are stated in U.S. dollars, such fluctuations may affect our results of operations and financial position and may affect the comparability of our results between financial periods.

Failure to meet concession commitments with respect to operations of our rail lines could result in the loss of our investment and a related loss of revenues.

We have entered into long-term concession and/or lease agreements with governmental authorities in Mexico, Bolivia, South Australia and Western Australia. These concession and lease agreements are subject to a number of conditions, including those relating to the maintenance of certain standards with respect to safety, service,

price and the environment. These concession and lease agreements also typically carry with them a commitment to maintain the condition of the railroad and to make a certain level of capital expenditures. Our failure to meet these commitments under the long-term concession and lease agreements could result in the loss of those concession or lease agreements. The loss of any concession or lease agreement could result in the loss of our entire investment relating to that concession or lease agreement and the related revenues and income. Our operations in Mexico accounted for 9.1% of consolidated revenues, and our interest in ARG and Bolivia accounted for 18.9% and 1.2%, respectively of consolidated net income for the year ended December 31, 2005.

ARG-related Risks

Australia's open access regime could lead to additional competition for ARG's business and decreased revenues and profit margins.

Australia's open access regime could lead to additional competition for ARG's business, which could result in decreased revenues and profit margins. The legislative and regulatory framework in Australia allows third party rail operators to gain access to ARG's railway infrastructure, and in turn governs ARG's access to track owned by others. Access charges are paid for access onto the track of other companies, and access charges under state and federal regimes continue to evolve because privatization of railways in Australia is recent. Where ARG pays access fees to others, if those fees were increased, ARG's operating margins could be negatively affected. In addition, if the federal government or respective state regulators were to alter a regulatory regime or determine that access fees charged to current or prospective third party rail freight operators by ARG did not meet competitive standards, then ARG's income from those fees could be negatively affected.

When ARG operates over track networks owned by others, including Commonwealth-owned and State-owned networks, the owners of the network rather than the operators are responsible for scheduling the use of the tracks as well as for determining the amount and timing of the expenditures necessary to maintain the network in satisfactory condition. Therefore, in areas where ARG operates over tracks owned by others, it is subject to train scheduling set by the owners as well as the risk that the network will not be adequately maintained. Either risk could affect ARG's operating results, financial condition and liquidity.

ARG may be adversely affected by unfavorable conditions in the Australian agricultural industry because a substantial portion of ARG's railroad traffic consists of agricultural commodities.

ARG derives a significant portion of its rail freight revenues from shipments of grain. For the years ended December 31, 2005, 2004 and 2003, grain shipments generated 23.5%, 30.6% and 24.5%, respectively, of ARG's operating revenues. A decrease in grain shipments as a result of adverse weather or other negative agricultural conditions could have a material adverse effect on ARG's operating results, financial condition and liquidity. For example, drought conditions during the 2002 growing season resulted in a significant reduction in ARG's grain shipments in 2003. In addition, ARG's largest freight customer, AWB, is the subject of a government investigation and may lose its exclusive exporter status. If AWB loses its sole exporter status, under certain circumstances, it has the right to re-negotiate the terms of the contracts with ARG, which could affect ARG's operating results, financial condition and liquidity.

ARG may be subject to significant additional expenditures in order to comply with Commonwealth and/or state regulations.

In addition to the open access requirements described above, other aspects of rail operation are regulated, safety in particular, on both a Commonwealth and a state-by-state basis. ARG has received safety regulatory approval to operate on Commonwealth-owned track, in the Northern Territory and in all mainland states. Changes in safety regulations or other regulations or the imposition of new regulations or conflicts among state and/or Commonwealth regulations could require ARG to make significant expenditures and to incur significant expenses in order to comply with these regulations.

Australia Transactions-Related Risks

The closing of the Australia Transactions are subject to certain risks.

The ARG Sale and our GWA Purchase are subject to customary closing conditions, including certain approvals from the States of Western Australia and South Australia, approval of the Foreign Investment Review Board, approval of the Australian Competition and Consumer Commission and approvals of the Rail Safety Regulators in Western and South Australia. Accordingly, we cannot predict when these approvals will be obtained, or the timing of the closing of these transactions. In addition, the purchasers in the ARG Sale transaction may not be able to satisfy their obligations to complete the transaction within the deadlines specified in the relevant agreements, although the purchasers would generally forfeit their right to the return of the deposit as a result. Due to these uncertainties, we can offer no assurance that the transactions will be consummated as planned and any delays associated with transactions could impose additional costs upon us, which could adversely affect our financial condition and operating results and reduce the expected benefits associated with these transactions. Moreover,

failure to close the Australia Transactions, under certain circumstances, may lead to an adverse perception of ARG by its employees, customers or suppliers, which could have a material adverse effect on ARG's financial condition, operating results and cash flow.

Assuming the closing of the Australia Transactions, GWA will be subject to several contractual restrictions on its ability to compete.

The regulatory risks applicable to ARG under ARG-related Risks are generally applicable to GWA as well. In addition, as part of the ARG Sale, GWA will be subject to (a) a five-year non-compete in the State of Western Australia, the Melbourne to Adelaide corridor and certain areas within the State of New South Wales currently served by ARG; (b) a right of first refusal for the benefit of Queensland Rail on the sale of (i) GWA or a majority of the ownership of GWA, (ii) a number of high horse-power locomotives and intermodal wagons owned or operated by GWA and (iii) assets of GWA's yard and facilities at Port Augusta; and (c) a restriction on hiring of ARG employees who remain employed by ARG after the closing. These contractual restrictions may place limits on our ability to grow GWA's business, which could have a material adverse effect on GWA's operating results, financial condition and liquidity.

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

Genesee & Wyoming, through our subsidiaries and unconsolidated affiliates, currently has interests in 49 short line and regional freight railroads, of which 41 are located in the United States, three are located in Canada, three are located in Australia, one is located in Mexico and one is located in Bolivia. These rail properties typically consist of the track and the underlying land. Real estate adjacent to the railroad rights-of-way is generally retained by the seller, and our holdings of such property are not material. Similarly, the seller typically retains mineral rights and rights to grant fiber optic and other easements in the properties acquired by our railroads. Several of our railroads are operated under leases or operating licenses in which we do not assume ownership of the track and the underlying land.

Our railroads operate over approximately 9,300 miles of track that is owned, jointly-owned or leased by us or our affiliates. We or our affiliates railroads also operate, through various trackage rights agreements, over more than 3,000 miles of track that is owned or leased by others. The track miles listed below exclude 747 miles of sidings located in the U.S. (584 miles), in Canada (87 miles) and in Mexico (76 miles).

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The following table sets forth certain information as of December 31, 2005 with respect to our railroads:

Railroad and Location	Year Acquired	Track Miles	Notes	Structure	Connecting Carriers(1)
UNITED STATES:					
Genesee and Wyoming Railroad Company (GNWR) New York	1899	26	(2)	Owned	CP, DMM, RSR, NS, CSX
The Dansville & Mount Morris Railroad Company (DMM) New York	1985	8	(2)	Owned	GNWR
Rochester & Southern Railroad, Inc. (RSR) New York	1986	50	(3)	Owned	BPRR, CP, GNWR, CSX
Louisiana & Delta Railroad, Inc. (LDRR) Louisiana	1987	86	(4)	Owned/Leased	UP, BNSF
Bradford Industrial Rail, Inc. (BR) Pennsylvania	1988	4	(5)	Owned	BPRR,
Buffalo & Pittsburgh Railroad, Inc. (BPRR) New York, Pennsylvania	1988	338	(6)	Owned/Leased	ALY, BR, CN, CP, CSX, NS, PS, RSR, AVR
Allegheny & Eastern Railroad, Inc. (ALY) Pennsylvania	1992	130	(7)	Owned	BPRR, NS, CSX
Willamette & Pacific Railroad, Inc. (WPRR) Oregon	1993	184	(8)	Leased	UP, PNWR, HLSC
Portland & Western Railroad, Inc. (PNWR) Oregon	1995	287	(9)	Owned/Leased	BNSF, UP, WPRR, POTB
Pittsburg & Shawmut Railroad, Inc. (PS) Pennsylvania	1996	160	(10)	Owned/Leased	BPRR, NS
Illinois & Midland Railroad, Inc. (IMR) Illinois	1996	97	(11)	Owned	BNSF, IAIS, CN, NS, TZPR, TPW, UP
Commonwealth Railway, Inc. (CWRY) Virginia	1996	17	(12)	Owned/Leased	NS
Talleyrand Terminal Railroad Company, Inc. (TTR) Florida	1996	2	(13)	Leased	NS, CSX
Corpus Christi Terminal Railroad, Inc. (CCPN) Texas	1997	23	(14)	Leased	UP, BNSF, TM
Golden Isles Terminal Railroad, Inc. (GITM) Georgia	1998	20	(15)	Owned/Leased	CSX, NS
Savannah Port Terminal Railroad, Inc. (SAPT) Georgia	1998	18	(16)	Leased	CSX, NS
South Buffalo Railway (SB) New York	2001	54	(17)	Owned	BPRR, CSX, NS CP, CN
St. Lawrence & Atlantic Railroad Company (SLR) Maine, New Hampshire and Vermont	2002	168	(18)	Owned	GRS, SLQ
York Railway Company (YRC) Pennsylvania	2002	42	(18)	Owned	CSX, NS
Utah Railway Company (URC) Utah	2002	47	(19)	Owned	UP, BNSF
Salt Lake City Southern Railroad Company (SLCS) Utah	2002	2	(20)	Owned	UP, BNSF
Chattahoochee Industrial Railroad (CIRR) Georgia	2003	15	(21)	Owned	CSX, NS
Arkansas Louisiana and Mississippi Railroad Company (ALM) Arkansas, Louisiana	2003	52	(21)	Owned	UP, KCS
Fordyce & Princeton Railroad Company (F&P) Arkansas	2003	57	(21)	Owned	UP, KCS
Tazewell & Peoria Railroad, Inc. (TZPR) Illinois	2004	24	(22)	Leased	CN, UP, NS, BNSF, TPW, IAIS, IMRR
First Coast Railroad Inc. (FCRD) Florida, Georgia	2005	31	(23)	Leased	CSXT, SM
AN Railway, L.L.C. (AN) Florida	2005	96	(24)	Leased	CSX
Atlantic & Western Railway, L.P. (ATW) North Carolina	2005	11	(24)	Owned	CSX, NS
Bay Line Railroad, L.L.C. (BAYL) Alabama, Florida	2005	111	(24)	Owned	CSX, CHAT
East Tennessee Railway, L.P. (ETRY) Tennessee	2005	10	(24)	Owned/Leased	CSX, NS
Evansville Belt Railroad, Inc. (EBLR) Indiana	2005	6	(24)	Owned	
Galveston Railroad, L.P. (GVSR) Texas	2005	38	(24)	Leased	BNSF, UP
Georgia Central Railway, L.P. (GC) Georgia	2005	171	(24)	Owned/Leased	CSX, NS
KWT Railway, Inc. (KWT) Kentucky, Tennessee	2005	75	(24)	Owned	CSX
Little Rock & Western Railway, L.P. (LRWN) Arkansas	2005	79	(24)	Owned	BNSF, UP
Meridian & Bigbee Railroad, L.L.C. (MNBR) Alabama, Mississippi	2005	147	(24)	Owned/Leased	CSX, KCS, NS, AGR
Riceboro Southern Railway, L.L.C. (RSOR) Georgia	2005	18	(24)	Leased	CSX
Tomahawk Railway, L.P. (TR) Wisconsin	2005	6	(24)	Owned	CN
Valdosta Railway, L.P. (VR) Georgia	2005	10	(24)	Owned	CSX, NS
Western Kentucky Railway, L.L.C. (WKRL) Kentucky	2005	20	(24)	Owned	
Wilmington Terminal Railroad, L.L.C. (WTRY) North Carolina	2005	17	(24)	Leased	CSX

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CANADA:						
Huron Central Railway Inc. (HCR) Canada	1997	173	(25)	Leased		CP, CN
Quebec Gatineau Railway Inc. (QGRY) Canada	1997	313	(26)	Owned/Leased		CP, CN
St. Lawrence & Atlantic Railroad (Quebec) Inc. (SLQ) Canada	2002	95	(18)	Owned		CP, CN, MMA
MEXICO:						
Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM)	1999	989	(27)	Leased		FSRR
AUSTRALIA (equity accounting):						
Australian Railroad Group Pty Ltd (ARG)	Various	4,186	(28)	Leased		Open Access
BOLIVIA (equity accounting):						
Ferrovial Oriental, S.A. (Oriental)	2000	773	(29)	Leased		General Belgrano, Novoeste

(1) See Legend of Connecting Carriers following this table.

(2) The GNWR and DMM are now operated by RSR.

(3) In addition, RSR has a haulage contract over 52 miles of CP.

(4) Includes 14 miles under a lease with M.A. Patout & Sons expiring in 2011. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement. In addition, LDRR operates by trackage rights over 91 miles of UP under an agreement terminable by either party and has a haulage contract with M.A. Patout & Sons over 4 miles of track.

(5) In addition, BR operates by trackage rights over 14 miles of BPRR. BR merged with BPRR on January 1, 2004.

(6) Includes 92 miles under perpetual leases and 41 miles and 9 miles under leases with CSX expiring in 2027 and 2090, respectively. In addition, BPRR operates by trackage rights over 14 miles of CSX under an agreement expiring in 2018, and 44 miles of NS under an agreement expiring in 2027. We are seeking to sell or abandon approximately 25 miles of owned track that parallels track under the NS trackage rights agreement.

(7) ALY operates by trackage rights over 3 miles of NS. ALY merged with BPRR on January 1, 2004.

(8) All under lease with UP expiring in 2013, with renewal options subject to both parties' consent. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement. In addition, WPRR operates over 41 miles of UP under a concurrent trackage rights agreement.

(9) Includes 53 miles under lease with BNSF expiring in 2015 with a 10-year renewal unless terminated by either party, 53 miles formerly under lease which was purchased in November 1997, and is operated under a rail service easement, 92 miles purchased in July 1997 and 76 miles under lease with UP expiring in 2017. If the leases terminate, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreements. In addition, PNWR operates by trackage rights over 2 miles of UP and 4 miles of POTB.

(10) Includes 11 miles leased pursuant to an operating contract with Shannon Transport. PS merged with BPRR on January 1, 2004. In 2005, we sold approximately 30 miles of owned track that duplicates service provided by BPRR.

(11) In addition, IMR operates by trackage rights over 15 miles of CN, 9 miles of TZPR and 5 miles of UP.

(12) Includes 13 miles under lease with NS expiring in 2009.

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- (13) All under lease with Jacksonville Port Authority expiring in 2006.
- (14) All under lease with Port of Corpus Christi Authority of Nueces County Texas expiring in 2007. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement.
- (15) Includes 6.5 miles which are owned and 13 miles which are under lease with Georgia Port Authority expiring in 2006. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement.
- (16) All under lease expiring in 2006. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement.
- (17) SB was acquired October 1, 2001 from Bethlehem Steel.
- (18) Subsidiary of Emons Transportation Group, Inc., acquired February 22, 2002.
- (19) URC was acquired August 28, 2002. In addition, URC operates by trackage rights over 326 miles of UP.
- (20) Subsidiary of Utah Railway Company, acquired August 28, 2002. In addition, SLCS operates by trackage rights over 21 miles of UP.
- (21) All acquired on December 31, 2003 from Georgia Pacific Corporation.
- (22) All under lease with Peoria and Pekin Union Railway expiring in 2024.
- (23) All under lease with CSX expiring in 2025.
- (24) All acquired on June 1, 2005 from RMC. Includes certain lines under leases with CSX, Port of Galveston and the City of Wilmington, NC. EBLR is currently non-operating and does not connect to any other carriers.
- (25) All under lease with CP expiring in 2017, with renewal options subject to both parties consent.
- (26) Consists of 295 miles which are owned and 18 which are under lease expiring in 2017, with renewal options subject to both parties consent. In addition, QGRY operates by trackage rights over 37 miles of CP.
- (27) All under a 30-year concession agreement expiring in 2029 operating on track structure which is owned by a government company. In addition, FCCM operates by trackage rights over 199 miles on Ferrosur (another privatized rail concession) and a government-owned line.

(28) ARG is composed of three principal subsidiaries, ASR, AWR, and WestNet. ARG leases track infrastructure from the State of Western Australia for 49 years expiring in 2049 and from the State of South Australia for 50 years expiring in 2047. In Western Australia, ARG's operations are composed of AWR, which operates locomotives and rail cars to provide rail freight service to its customers, and WestNet, which owns the track infrastructure over which rail operations, including AWR, operate. ARG is also accredited to operate in all of the mainland states of Australia thereby providing ARG with the ability to provide rail freight service across the Australian continent without having to interchange with other railroads.

(29) All under a 40-year concession agreement expiring in 2036 operating on track structure which is owned by the state-owned rail company Red Ferroviario Oriental.

Legend of Connecting Carriers

AGR	Alabama & Gulf Coast Railway LLC
AVR	Allegheny Valley Railroad
BNSF	Burlington Northern Santa Fe Railway Company
CHAT	The Chattahoochee & Gulf Railroad Co., Inc.
CN	Canadian National
CP	Canadian Pacific Railway
CSX	CSX Transportation, Inc.
FSRR	Ferrocarriles del Sureste
GRS	Guilford Rail System
HLSC	Hampton Railway
IAIS	Iowa Interstate Railroad, Ltd.
KCS	Kansas City Southern
MMA	Montreal, Maine & Atlantic Railway, Ltd.
NS	Norfolk Southern Corp.
POTB	Port of Tillamook Bay Railroad
SM	St Mary's Railroad
TM	The Texas Mexican Railway Company
TPW	Toledo, Peoria & Western Railway Corp.
UP	Union Pacific Railroad Company

EQUIPMENT

As of December 31, 2005, rolling stock of our North American operations consisted of 431 locomotives of which 329 were owned and 102 were leased, and 9,999 freight cars, of which 1,159 were owned and 8,840 were leased. A breakdown of the types of freight cars owned and leased is set forth in the table below.

Rail Cars by Car Type:

	Leased	Owned	Totals
Box	6,214	599	6,813
Hoppers	1,020	258	1,278
Flats	1,049	194	1,243
Gondolas	159	108	267
Covered Hoppers	277		277
Tank cars	116		116
Auto Racks	5		5
	8,840	1,159	9,999

Item 3. Legal Proceedings
Rail Partners

On February 23, 2006, James Owens and the Board of Trustees of Galveston Wharves (the Port) filed an amended complaint in the County Court for Galveston County against Genesee & Wyoming Inc., Galveston Railroad, L.P. (Galveston Railroad) and certain other of our subsidiaries, and the general manager of the Galveston Railroad and RMC, the former owner of the Galveston Railroad. The claims arise in connection with the Galveston Railroad's lease of the Port's facilities and the Galveston Railroad's rail services undertaken on behalf of the Port.

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Mr. Owens alleges that prior to 2003, the Galveston Railroad violated a confidentiality agreement with a company he controls relating to the joint storage and switching of rail cars at the Port. Mr. Owens seeks \$4.6 million in damages plus an amount to be determined for punitive and similar damages.

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The Port alleges that since 1987 the Galveston Railroad has improperly engaged in efforts to reduce revenues shared with the Port. In addition, the Port alleges that in 1997, the general manager, in his prior position as an employee of the Port, improperly induced the Port to enter into a 40 year extension of the lease without the Port receiving adequate consideration. The Port seeks to have the right to unilaterally terminate the lease and has requested an accounting for its share of revenues generated by Galveston Railroad.

We acquired the Galveston Railroad in June of 2005, and thus substantially all of the alleged improper conduct occurred prior to our acquisition of the Galveston Railroad. Pursuant to the securities purchase agreement related to the purchase of the Galveston Railroad, these claims are subject to indemnification by RMC, and RMC has acknowledged that it is obligated to indemnify us for these claims in accordance with the terms of the securities purchase agreement. We and RMC believe that these claims are without merit.

Canada

In February 2002, Mr. Paquin, an individual living adjacent to the Outremont rail yard, filed a motion for authorization of class certification in the Quebec Superior Court in Canada in connection with a claim against two of our subsidiaries, Genesee Rail-One Inc. (now Genesee & Wyoming Canada Inc.) and Quebec-Gatineau Railway Inc., as well as CP. Mr. Paquin alleged that the noise emanating from the Outremont rail yard causes significant nuisance problems to the residents who live near the rail yard. The rail yard is owned by CP, part of which is leased and operated by Quebec-Gatineau Railway Inc. The plaintiff described the proposed class as comprised of all owners and tenants of dwellings who have lived within a defined section of the Outremont neighborhood in Montreal, which surrounds the rail yard. Mr. Paquin requested the issuance of an injunction in order to limit the hours when the rail yard may operate. The plaintiff has not alleged any specific monetary claim with respect to the damages of other members of the class, but is seeking to recover for his trouble and inconvenience as well as for potential devaluation of the value of his property.

On May 27, 2004, the Quebec Superior Court dismissed the plaintiff's request to institute the class action, and the plaintiff filed an appeal with Quebec Court of Appeal. On November 11, 2005, the Quebec Court of Appeal overturned the Quebec Superior Court's finding a class could not be certified, but noted the proposed class could only include owners and tenants within the defined geographic area since 1999. This case was remanded back to the same judge who previously dismissed the plaintiff's request to institute a class action. On January 9, 2006, Genesee & Wyoming Canada Inc., Quebec-Gatineau Railway Inc. and CP filed applications for leave to the Supreme Court of Canada with respect to the Quebec Court of Appeal's decision to allow the class action to proceed. The plaintiff has not yet commenced proceedings on the merits of the underlying claim. Management considers the class action certification to be improper and will contest the appropriateness of the class certification and the lawsuit on the merits.

In addition, we are a defendant in certain lawsuits resulting from our operations. Management believes we have adequate provisions in the financial statements for any expected liabilities which may result from disposition of such lawsuits. While it is possible some of the foregoing matters may be resolved at a cost greater than provided for, it is the opinion of management the ultimate liability, if any, will not be material to our operating results, financial condition or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders
None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
Stock Market Results. Our Class A Common Stock publicly trades on the New York Stock Exchange under the trading symbol GWR. On February 14, 2006, we announced a three-for-two common stock split in the form of a 50% stock dividend to be paid on March 14, 2006, to shareholders of record on February 28, 2006. All share, per share and par value amounts presented herein have been restated to reflect the retroactive effect of this stock split as well as any previous stock splits.

The tables below show the range of high and low actual trade prices for our Class A Common Stock during each quarterly period of 2005 and 2004.

Year Ended December 31, 2005	High	Low
4th Quarter	\$ 25.03	\$ 19.59
3rd Quarter	\$ 21.15	\$ 18.15
2nd Quarter	\$ 19.97	\$ 15.35
1st Quarter	\$ 18.79	\$ 15.13

Year Ended December 31, 2004	High	Low
4th Quarter	\$ 19.90	\$ 16.19
3rd Quarter	\$ 16.91	\$ 14.33
2nd Quarter	\$ 17.40	\$ 14.07
1st Quarter	\$ 16.81	\$ 14.24

Our Class B Common Stock is not publicly traded.

Number of Holders. On March 2, 2006, there were 192 Class A Common Stock record holders and 8 Class B Common Stock record holders.

We did not pay cash dividends in 2005 and 2004. We do not intend to pay cash dividends for the foreseeable future and intend to retain earnings, if any, for future operation and expansion of our business. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will be dependent upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors. For more information on contractual restrictions on our ability to pay dividends, see Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Senior U.S. and Canadian Credit Facilities in Item 7.

See Item 12—Security Ownership of Certain Beneficial Owners and Management below for the equity compensation plan table required by this Item 5.

Recent Sales of Unregistered Securities.

None.

Issuer Purchases of Equity Securities

	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans of Program
2005				
October 1 to October 31				988,500
November 1 to November 30				988,500
December 1 to December 31				988,500

On November 2, 2004, we announced that our Board of Directors had authorized the repurchase of up to 1,000,000 shares of our Class A Common Stock. The Board granted management the authority to make purchases in any amount and manner legally permissible which, in the aggregate, would offset dilution caused by the issuance of shares in connection with employee and director stock plans that may occur over time. Purchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion.

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Item 6. Selected Financial Data.

The following selected consolidated income statement data and selected consolidated balance sheet data of Genesee & Wyoming as of and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001, have been derived from our consolidated financial statements. All of the information should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

(In thousands, except per share amounts)

	2005	2004	2003	2002	2001
INCOME STATEMENT DATA:					
Operating revenues	\$ 385,389	\$ 303,784	\$ 244,827	\$ 209,540	\$ 173,576
Operating expenses	314,458	253,745	208,522	177,533	150,622
Income from operations	70,931	50,039	36,305	32,007	22,954
Interest expense	(14,900)	(11,142)	(8,646)	(8,139)	(10,049)
Gain on sale of 50% equity in Australian operations					2,985
Other Income (expense)	(218)	(131)	986	726	497
Income before income taxes and equity earnings	55,813	38,766	28,645	24,594	16,387
Income taxes	15,756	16,059	10,567	8,761	6,166
Equity earnings	10,078	14,912	10,641	9,774	8,863
Net income	50,135	37,619	28,719	25,607	19,084
Preferred stock dividends and cost accretion		479	1,270	1,172	957
Net income available to common stockholders	\$ 50,135	\$ 37,140	\$ 27,449	\$ 24,435	\$ 18,127
Basic earnings per common share:					
Net income available to common stockholders	\$ 1.36	\$ 1.03	\$ 0.77	\$ 0.71	\$ 0.72
Weighted average number of shares of common stock	36,907	36,207	35,489	34,524	25,086
Diluted earnings per common share:					
Net income	\$ 1.20	\$ 0.90	\$ 0.68	\$ 0.62	\$ 0.63
Weighted average number of shares of common stock and equivalents	41,712	41,103	40,152	39,566	29,061
BALANCE SHEET DATA AT YEAR END:					
Total assets	\$ 980,598	\$ 677,251	\$ 627,173	\$ 514,859	\$ 402,519
Total debt	338,351	132,237	158,022	125,417	60,591
Mandatorily Redeemable Convertible Preferred Stock			23,994	23,980	23,808
Stockholders' equity	397,820	341,700	267,086	209,621	185,663

We have completed a number of recent acquisitions. Because of variations in the structure, timing and size of these acquisitions, our results of operations in any reporting period may not be directly comparable to our results of operations in other reporting periods. See Note 3 of the Notes to Consolidated Financial Statements for a complete description of recent acquisitions.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

Overview

We are a leading owner and operator of short line and regional freight railroads in the United States, Canada, Mexico, Australia and Bolivia. In addition, we provide freight car switching and rail-related services to industrial companies in the United States.

Successful execution of our operating and growth strategies in 2005 led to the tenth consecutive year of record net income. Significant financial achievements for the year 2005 compared to the year 2004 included:

- n Revenue growth of 26.9% to \$385.4 million

- n Net income growth of 33.3% to \$50.1 million

Revenues

The \$81.6 million increase in our 2005 revenues was derived from growth from existing operations as well as the contribution from acquisitions.

On June 1, 2005, we completed our largest-ever acquisition in North America when we acquired Rail Partners from RMC. The revenue contribution from the Rail Partners properties, as well as other properties acquired during 2004 and 2005, provided \$55.0 million, or 67.4%, of the year-over-year growth in revenues in 2005.

Same railroad growth is the change in our revenues year-over-year associated with our existing operations (i.e., excluding the impact of acquisitions). It is an important indicator of our performance as it is a measure of our ability to increase revenues from our existing operations. Same railroad freight revenues and total revenues increased 9.7% and 8.9%, respectively, in 2005. The increase in same railroad revenues was primarily due to an improvement in the price environment, higher fuel surcharges, and favorable exchange rate movements. Growth in same railroad revenues provided \$26.6 million, or 32.6%, of the year-over-year growth in revenues in 2005.

Net Income

North American net income increased 76.4% to \$40.1 million in 2005 compared to \$22.7 million in 2004. Of this \$17.4 million increase, \$12.1 million came from an increase in pre-tax profit, with the remainder due to a reduction in the effective tax rate in North America from 41.4% to 28.2%. The reduction in effective tax rate was primarily associated with U.S. tax legislation that created a track maintenance tax credit for short line railroads.

Equity income from international affiliates decreased \$4.8 million to \$10.1 million in 2005 compared to \$14.9 million in 2004, primarily due to a \$4.8 million decrease in net income from ARG. ARG revenues were most significantly impacted by lower freight revenues from grain traffic in 2005 compared to 2004, partially offset by strong growth in freight revenues from iron ore traffic. Higher fuel expense, as well as the cost of hiring and training new locomotive drivers also impacted results.

Impact of Hurricanes

Our U.S. operations suffered modest damage as a result of Hurricanes Rita, Katrina, and Wilma. Higher fuel prices in their aftermath were the most significant impact. However, our Mexico operations were significantly impacted by Hurricane Stan in the fourth quarter of 2005. We sustained damage to 50 bridges and lost approximately 1.6 miles of track. The damaged line is expected to be out of service for the entire year in 2006.

Outlook for 2006

In 2006, we anticipate the positive impact of a full year of operation from the North American acquisitions made during 2005 and a continuing favorable rail pricing environment in North America. With respect to the financial impact of the Australia Transactions, we expect:

- n an increase in revenues due to the consolidation of the results of GWA following our acquisition of Wesfarmers' interests in GWA;

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n a reduction in equity income due to the ARG Sale; and

n a reduction in our interest expense due to repayment of borrowings under our U.S. credit facilities and an increase in interest income due to higher cash balances, both related to the anticipated uses of the proceeds from the Australia Transactions.

Changes in Operations

United States

Rail Partners: On June 1, 2005, we acquired Rail Partners from RMC for \$238.2 million in cash (net of \$4.9 million cash received), the assumption of \$1.4 million of non-interest bearing debt and \$1.8 million in acquisition

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costs. The purchase price was allocated to current assets (\$19.4 million, including \$4.9 million in cash received), property and equipment (\$186.0 million), and intangible assets (\$60.4 million), less current liabilities (\$21.3 million) and debt assumed (\$1.4 million). The intangible assets consist of customer contracts and relationships with a weighted average amortization period of 27 years. As contemplated with the acquisition, we implemented a severance program. The aggregate cost of the severance program was considered a liability assumed in the acquisition, and as such, was included in the purchase price. For U.S. tax purposes, we will treat the Rail Partners acquisition as a purchase of assets. We funded the purchase price through a combination of borrowings under our \$225.0 million senior revolving credit facility and from a private placement of \$125.0 million 10-Year Senior Floating Rate Notes (the Acquisition Notes). The acquired rail properties are operated by our Jacksonville-based Rail Link Region and commenced operations on June 1, 2005.

First Coast Railroad Inc.: On April 8, 2005, our subsidiary, the First Coast Railroad Inc. (FCRD) signed a 20-year agreement to lease 31 miles of rail line between Seals, Georgia and Fernandina, Florida from CSX Transportation, Inc. (CSX). The FCRD is operated by our Rail Link Region and commenced operations on April 9, 2005.

Homer City Branch: In July 2005, our Homer City Branch, which is located in Homer City, Pennsylvania, began operations upon completion of track rehabilitation, a portion of which was funded through government grants. The Homer City Branch rail line, which we acquired in January 2004 for approximately \$600,000 from CSX, is operated by our New York-Pennsylvania Region and is contiguous to that Region's existing railroad operation.

Pawnee Transloading Company Inc.: On December 31, 2004, our newly formed subsidiary, Pawnee Transloading Company Inc. (Pawnee) acquired the assets of a coal and slag unloading facility in Kincaid, Illinois from LeGere Investors, Inc. The facility serves one of our freight customers in our Illinois Region. The purchase price of the unloading facilities and related assets was \$785,000, net of cash received, all of which was allocated to the assets of the facility. Pawnee commenced operations on January 1, 2005.

Tazewell & Peoria Railroad, Inc.: On November 1, 2004, our newly formed subsidiary, the Tazewell & Peoria Railroad, Inc. (TZPR) commenced operations under a 20-year agreement to lease the assets of the Peoria and Pekin Union Railway (PPU) located in Peoria, Illinois. Rent is payable annually in advance and the first year's rent was \$3.0 million. Future lease payments are subject to adjustment based on certain economic indicators and customer operations stipulated in the agreement. The owners of the PPU include NS, UP and Illinois Central Railroad Company. The TZPR is operated by our Illinois Region and is contiguous to that region's existing railroad operations.

Savannah Wharf Branch: On August 30, 2004, we completed the purchase from CSX of the Savannah Wharf Branch rail line located in Savannah, Georgia for approximately \$1.6 million. The transaction included the acquisition of 6.5 miles of track and related assets and a twenty year lease of the related real estate along the line. The \$1.6 million purchase price was allocated to the track and related assets. The Savannah Wharf Branch is operated by our Rail Link Region and is contiguous to one of two existing Rail Link operations in the Savannah area.

Georgia Pacific Railroads: On December 31, 2003, we completed the purchase from Georgia-Pacific Corporation (GP) of all of the issued and outstanding shares of common stock of the GP Railroads for approximately \$54.9 million in cash. The purchase price was allocated to current assets (\$2.7 million), property and equipment (\$37.6 million), and intangible assets (\$27.1 million), less current liabilities assumed (\$12.5 million). As contemplated with the acquisition, we implemented a severance program. The aggregate cost of the severance program was considered a liability assumed in the acquisition, and as such, was included in the purchase price. In conjunction with the acquisition, we entered into two Transportation Services Agreements (TSAs) which are 20-year agreements for the GP Railroads to provide rail transportation service to GP. One of the TSAs has been determined to be an intangible asset and approximately \$27.1 million of the purchase price has been allocated to this asset. This TSA asset is being amortized on a straight-line basis over a 30-year life, which is the expected life of the plant being served, beginning January 1, 2004. No value was assigned to the other TSA.

Australia

On February 13, 2006, we announced that we and Wesfarmers had entered into a definitive agreement to sell our Western Australia operations and certain other assets of ARG to Queensland Rail and Babcock & Brown Limited for approximately \$956.0 million, plus certain closing adjustments estimated to be approximately \$18.0 million (ARG Sale). The ARG Sale is subject to customary closing conditions, including certain Australian government approvals, and is expected to close in the second quarter of 2006. The buyers have made a deposit of approximately \$66.0 million, which will be fully credited towards the purchase price. Simultaneous with the ARG Sale, we entered into an agreement to purchase Wesfarmers' 50 percent-ownership of the remaining ARG operations, which are principally located in South Australia and the Northern Territory for approximately \$15.0 million (GWA Purchase, collectively with the ARG Sale, the Australia Transactions). This business, which will be based in Adelaide, will be renamed Genesee & Wyoming Australia Pty Ltd (GWA) and will be a 100 percent-owned subsidiary that is reported on a consolidated basis in our financial statements. We anticipate approximately \$205 million in after-tax cash proceeds from the ARG Sale. We currently intend to use a portion of the proceeds to: (i) fund the

GWA Purchase and (ii) repay all debt outstanding under our \$225 million senior revolving credit facility, the balance of which was \$88 million as of December 31, 2005. We currently intend to use the remainder of the proceeds for general corporate purposes, including acquisitions.

On December 31, 2005, AWB publicly announced that it is subject to an Australian government investigation stemming from allegations that it participated in illegal transactions with the prior Iraqi regime in connection with AWB's participation in the United Nations Oil For Food Program. The government commission conducting the investigation is scheduled to issue its report on March 31, 2006. In addition to criminal and civil sanctions, the Australian government may revoke AWB's legally sanctioned exclusive control over the export of Australian wheat. Pursuant to the terms of two separate contracts between ARG and AWB (one for Western Australia and one for South Australia), if AWB loses its sole exporter status, under certain circumstances, it has the right to re-negotiate the terms of the contracts with ARG. We are continuing to assess the impact of the investigation on ARG's demand for our services and the potential impact of a renegotiation of the contracts.

Mexico

During the first week of October 2005, Hurricane Stan impacted five states in Mexico, including the State of Chiapas, causing damage to portions of FCCM's operations. The most severe impact to FCCM is concentrated in Chiapas, between the town of Tonalá and the Guatemalan border, some 175 miles to the south. FCCM performed a survey of the property and determined approximately 50 bridges on that section of track have been damaged and at least 1.6 miles of track has been lost due to washouts. As a result, this 175 mile segment south of Tonalá is inoperable. The remaining operations of FCCM's 1,100-mile network are unaffected.

Due to the damage to the Chiapas line, FCCM lost approximately 3,300 carloads during the fourth quarter of 2005. The revenue impact of this loss of traffic in the fourth quarter of 2005 was approximately \$2.3 million. In addition to lost revenue, FCCM incurred additional operating costs in the fourth quarter related to the storm's impact covering matters such as car hire and additional security, a portion of which is covered by our insurance. The after-tax impact of the storm in the fourth quarter of 2005 on net income was approximately \$1.4 million, net of anticipated recovery from insurance proceeds.

FCCM operates pursuant to a concession agreement, meaning it does not own the track, bridges or related materials damaged by the hurricane. Accordingly, FCCM believes it has no legal obligation to reconstruct the damaged line and FCCM's failure to reconstruct the damaged line is not cause for terminating the concession agreement. However, to facilitate a rapid return of rail transportation to the Chiapas region, FCCM is working with the Mexican government on a plan to reconstruct the line. This plan contemplates that reconstruction would take five to seven months once an agreement on funding has been finalized with the government. Although it does not own the track or bridges over which it operates in Mexico, FCCM did carry property insurance on the track and bridges underlying its concession agreement. FCCM has offered to contribute the insurance proceeds it may receive for the track and bridge damage towards the cost of the complete reconstruction. However, the full cost of restoration will exceed the insurance proceeds available, and FCCM is seeking government funding for the balance. We can provide you no assurance that the Mexican government will provide the remaining funding or provide such funding in a timely manner. The book value of the assets associated with the damaged line is less than \$6.0 million. In light of these circumstances we will continue to review our long-lived assets in Mexico for impairment.

Because of the uncertainty around the timing of the conclusion of the reconstruction discussions with the Mexican authorities, we believe the damaged line in Chiapas will remain out of service for the remainder of 2006.

Results of Operations

When comparing our results of operations from one reporting period to another, you should consider that we have historically experienced fluctuations in revenues and expenses due to one-time freight moves, customer plant expansions and shut-downs, sales of land and equipment, accidents and derailments. In periods when these events occur, results of operations are not easily comparable to other periods. Also, we have completed and entered into a number of recent transactions which have changed and will change our operations. Because of variations in the structure, timing and size of these transactions our operating results in any reporting period may not be directly comparable to our operating results in other reporting periods.

Certain of our commodity shipments are sensitive to general economic conditions in North America, including paper products in Canada, chemicals in the United States, and cement in Mexico. However, shipments of other commodities are less affected by economic conditions and are more closely affected other factors, such as inventory levels maintained at a customer power plant (coal) and winter weather (salt).

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Operating Revenues

Overview

Operating revenues (which exclude revenues from our equity investments) were \$385.4 million in the year ended December 31, 2005, compared to \$303.8 million in the year ended December 31, 2004, an increase of \$81.6 million or 26.9%. The \$81.6 million increase in operating revenues consisted of \$40.3 million, \$9.8 million, \$3.3 million and \$1.6 million in revenues from Rail Partners, TZPR, FCRD and Savannah Wharf operations, respectively, and an increase of \$27.1 million, or 8.9%, in revenues on existing operations. The \$27.1 million increase in revenues on existing operations included approximately \$22.5 million in increased freight revenues and \$4.6 million in increased non-freight revenues. The increase in revenues on existing operations included approximately \$4.6 million in revenues from the 9.9% strengthening of the Canadian dollar relative to the U.S. dollar in 2005 compared to 2004, and approximately \$1.2 million in revenue from the 3.6% strengthening of the Mexican peso relative to the U.S. dollar in 2005 compared to 2004. In addition, total revenue from fuel surcharges increased to \$11.2 million in 2005 from \$2.1 million in 2004. The following table sets forth our operating revenues by acquisitions and existing operations for the years ended December 31, 2005 and 2004 (dollars in thousands):

	2005			2004		2005-2004 Variance Information			
	Total Operations \$	New Operations \$	Existing Operations \$	Total Operations \$	Increase in Total Operations \$ %	Increase in Existing Operations \$ %			
Freight revenues	\$ 282,891	\$ 34,172	\$ 248,719	\$ 226,265	\$ 56,626 25.0%	\$ 22,454 9.9%			
Non-freight revenues	102,498	20,375	82,123	77,519	24,979 32.2%	4,604 5.9%			
Total operating revenues	\$ 385,389	\$ 54,547	\$ 330,842	\$ 303,784	\$ 81,605 26.9%	\$ 27,058 8.9%			

The \$56.6 million increase in freight revenues consisted of \$25.8 million, \$5.6 million and \$2.8 million in revenues from Rail Partners, TZPR and FCRD operations, respectively, and an increase of \$22.4 million in revenues on existing operations. The \$22.4 million increase in freight revenues on existing operations consisted of \$13.5 million attributable to rate increases, \$6.4 million attributable to fuel surcharge increases, and \$2.5 million attributable to a 1.2% increase in carloads. The \$25.0 million increase in non-freight revenues consisted of \$14.5 million, \$3.8 million, \$500,000 and \$1.6 million in non-freight revenues from the Rail Partners, TZPR, FCRD and Savannah Wharf operations, respectively, and \$4.6 million in non-freight revenues on existing operations. The \$4.6 million in non-freight revenues consisted of \$2.7 million in switching revenues and \$2.1 million in demurrage and storage revenues, offset by a net decrease of \$200,000 in all other non-freight revenues.

The following table compares freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2005 and 2004:

Freight Revenues

Freight Revenues and Carloads Comparison by Commodity Group

Years Ended December 31, 2005 and 2004

(dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
	2005	% of Total	2004	% of Total	2005	% of Total	2004	% of Total	2005	2004
Pulp & Paper	\$ 59,401	21.0%	\$ 40,486	17.9%	129,807	17.6%	94,340	14.9%	\$ 458	\$ 429
Coal, Coke & Ores	51,803	18.3%	45,126	19.9%	197,891	26.8%	191,038	30.2%	262	236
Lumber & Forest Products	35,336	12.5%	25,295	11.2%	98,087	13.3%	76,055	12.0%	360	333
Minerals & Stone	29,050	10.3%	22,294	9.9%	73,307	9.9%	59,197	9.3%	396	377
Metals	28,432	10.0%	23,464	10.4%	78,221	10.6%	73,412	11.6%	363	320
Petroleum Products	25,717	9.1%	24,465	10.8%	33,041	4.5%	32,401	5.1%	778	755

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Chemicals-Plastics	21,481	7.6%	16,270	7.2%	40,434	5.5%	31,262	4.9%	531	520
Farm & Food Products	17,842	6.3%	16,203	7.2%	52,501	7.1%	40,520	6.4%	340	400
Autos & Auto Parts	6,584	2.3%	6,362	2.8%	13,600	1.8%	14,665	2.3%	484	434
Intermodal	2,151	0.8%	2,409	1.1%	4,805	0.7%	6,425	1.0%	448	375
Other	5,094	1.8%	3,891	1.6%	16,328	2.2%	14,034	2.3%	312	277
Totals	\$ 282,891	100.0%	\$ 226,265	100.0%	738,022	100.0%	633,349	100.0%	\$ 383	\$ 357

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Total carloads were 738,022 in the year ended December 31, 2005, compared to 633,349 in the year ended December 31, 2004, an increase of 104,673 carloads, or 16.5%. The increase consisted of 97,024 carloads from Rail Partners, TZPR and FCRD, and an increase of 7,649 carloads, or 1.2%, on existing operations.

Average revenue per carload increased \$26, or 7.3%, to \$383 in the year ended December 31, 2005, compared to \$357 per carload in the year ended December 31, 2004. Of the \$26 increase in average revenue per carload, \$15 was due to increased fuel surcharge and the remaining \$11 was due to rate increases, changes in the mix of commodities hauled, and the differences between the average revenue per carload of existing and acquired operations.

The following table sets forth freight revenues by acquisitions and existing operations for the years ended December 31, 2005 and 2004 (dollars in thousands):

Freight revenues	2005			2004		2005-2004 Variance		Information	
	Total Operations	New Operations	Existing Operations	Total Operations	Total Operations	Increase in Operations	Increase in Existing Operations		
Pulp & Paper	\$ 59,401	\$ 11,971	\$ 47,430	\$ 40,486	\$ 18,915	46.7%	\$ 6,944	17.2%	
Coal, Coke & Ores	51,803	2,524	49,279	45,126	6,677	14.8%	4,153	9.2%	
Lumber & Forest Products	35,336	5,347	29,989	25,295	10,041	39.7%	4,694	18.6%	
Minerals & Stone	29,050	3,178	25,872	22,294	6,756	30.3%	3,578	16.0%	
Metals	28,432	2,588	25,844	23,464	4,968	21.2%	2,380	10.1%	
Petroleum Products	25,717	913	24,804	24,465	1,252	5.1%	339	1.4%	
Chemicals & Plastics	21,481	3,218	18,263	16,270	5,211	32.0%	1,993	12.2%	
Farm & Food Products	17,842	3,702	14,140	16,203	1,639	10.1%	(2,063)	(12.7)%	
Autos & Auto Parts	6,584	40	6,544	6,362	222	3.5%	182	2.9%	
Intermodal	2,151		2,151	2,409	(258)	(10.7)%	(258)	(10.7)%	
Other	5,094	691	4,403	3,891	1,203	30.9%	512	13.2%	
Total freight revenues	\$ 282,891	\$ 34,172	\$ 248,719	\$ 226,265	\$ 56,626	25.0%	\$ 22,454	9.9%	

The following information discusses the material changes in commodity groups for freight revenues from existing operations.

Pulp and Paper revenues increased by \$6.9 million, or 17.2%, of which \$2.3 million was from increased carloads and \$4.6 million was due to an increase in average revenue per carload.

Coal, Coke and Ores revenues increased by \$4.2 million, or 9.2%, of which \$700,000 was from increased carloads and \$3.5 million was due to an increase in average revenue per carload primarily from increased fuel surcharges. Carloads of coal on existing operations are primarily destined for electricity generating facilities.

Lumber and Forest Products revenues increased by \$4.7 million, or 18.6%, of which \$2.3 million was from increased carloads primarily in our Oregon Region, and \$2.4 million was from an increase in average revenue per carload.

Minerals and Stone revenues increased by \$3.6 million, or 16.0%, of which \$1.7 million was from increased carloads and \$1.9 million was from an increase in average revenue per carload.

Metals revenues increased by a net \$2.4 million, or 10.1%, resulting from a \$3.4 million increase in average revenue per carload, partially offset by a \$1.0 million decrease due to a decrease in carloads.

Chemicals-Plastics revenues increased by \$2.0 million, or 12.2%, of which \$400,000 was from increased carloads and \$1.6 million was from an increase in average revenue per carload.

Farm and Food Products revenues decreased by \$2.1 million, or 12.7%, of which \$1.9 million was from a decrease in carloads, primarily in our Mexico and Rail Link Regions, and \$200,000 was from a decrease in average revenue per carload due to the impact of lower average revenue per carload from acquired railroads.

Freight revenues from all remaining commodities increased by a net \$775,000.

Non-Freight Revenues

Non-freight revenues were \$102.5 million in the year ended December 31, 2005, compared to \$77.5 million in the year ended December 31, 2004, an increase of \$25.0 million, or 32.2%. The \$25.0 million increase in non-freight revenues consisted of \$14.5 million, \$3.8 million, \$1.6 million and \$500,000 in non-freight revenues from Rail Partners, TZPR, Savannah Wharf and FCRD operations, respectively, and \$4.6 million in non-freight revenues on existing operations. The \$4.6 million increase in non-freight revenues consisted of \$2.7 million in switching revenues and \$2.1 million in demurrage and storage revenues, offset by a net decrease of \$200,000 in all other non-freight revenues. The following table compares non-freight revenues for the years ended December 31, 2005 and 2004:

Non-Freight Revenues Comparison

Years Ended December 31, 2005 and 2004

(dollars in thousands)

	% of		% of	
	2005	Total	2004	Total
Railcar switching	\$ 49,683	48.5%	\$ 39,539	51.0%
Car hire and rental income	16,328	15.9%	11,858	15.3%
Demurrage and storage	11,624	11.3%	7,533	9.7%
Car repair services	5,112	5.0%	5,460	7.0%
Other operating income	19,751	19.3%	13,129	17.0%
Total non-freight revenues	\$ 102,498	100.0%	\$ 77,519	100.0%

The following table sets forth non-freight revenues by new acquisitions and existing operations for the years ended December 31, 2005 and 2004 (in thousands):

	2005			2004		2005-2004 Variance Information			
	Total Operations	New Acquisitions	Existing Operations	Total Operations	Total Operations	Increase in Total Operations	Increase in Existing Operations	%	%
	\$	\$	\$	\$	\$	\$	\$		
Railcar switching	\$ 49,683	\$ 7,451	\$ 42,232	\$ 39,539	\$ 10,144	25.7%	\$ 2,693	6.8%	
Car hire and rental income	16,328	4,871	11,457	11,858	4,470	37.7%	(401)	(3.4)%	
Demurrage and storage	11,624	2,004	9,620	7,533	4,091	54.3%	2,087	27.7%	
Car repair services	5,112	409	4,703	5,460	(348)	(6.4)%	(757)	(13.9)%	
Other operating income	19,751	5,640	14,111	13,129	6,622	50.4%	982	7.5%	
Total non-freight revenues	\$ 102,498	\$ 20,375	\$ 82,123	\$ 77,519	\$ 24,979	32.2%	\$ 4,604	5.9%	

The following information discusses the material changes in non-freight revenues from existing operations. Railcar switching revenues increased \$2.7 million, or 6.8%, primarily in our Rail Link Region due to new customers and volume and rate increases at existing customers. Demurrage and storage revenues increased \$2.1 million, or 27.7%, due primarily to carload increases. All other non-freight revenues, net decreased by approximately \$200,000.

Operating Expenses

Overview

Operating expenses were \$314.5 million in the year ended December 31, 2005, compared to \$253.7 million in the year ended December 31, 2004, an increase of \$60.7 million, or 23.9%. The increase was attributable to increases of \$36.3 million from the Rail Partners, TZPR, FCRD and Savannah Wharf operations, and an increase of \$24.4 million on existing operations, primarily as a result of increases of \$9.4 million in diesel fuel expense, \$8.4 million in labor and benefits expense and \$3.5 million in purchased services, partially offset by a \$3.2 million gain on the sale of assets. All other operating expenses combined increased \$6.3 million.

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Operating Ratios

Our operating ratio, defined as total operating expenses divided by total operating revenues, improved to 81.6% in the year ended December 31, 2005 from 83.5 % in the year ended December 31, 2004.

The following table sets forth a comparison of our operating expenses in the years ended December 31, 2005 and 2004:

Operating Expense Comparison

Years Ended December 31, 2005 and 2004

(dollars in thousands)

	2005		2004	
	\$	Percentage of Operating Revenues	\$	Percentage of Operating Revenues
Labor and benefits	\$ 122,941	31.9%	\$ 105,079	34.6%
Equipment rents	34,364	8.9%	27,692	9.1%
Purchased services	26,250	6.8%	18,358	6.0%
Depreciation and amortization	24,575	6.4%	19,243	6.3%
Diesel fuel	38,414	10.0%	25,432	8.4%
Casualties and insurance	17,704	4.6%	15,710	5.2%
Materials	19,933	5.2%	15,336	5.0%
Net gain on sale and impairment of assets	(3,207)	(0.8)%	(13)	0.0%
Other expenses	33,484	8.6%	26,908	8.9%
Total operating expenses	\$ 314,458	81.6%	\$ 253,745	83.5%

Labor and benefits expense increased \$17.9 million, or 17.0%, due to \$9.5 million from Rail Partners, TZPR, FCRD, and Savannah Wharf operations, and an increase of \$8.4 million, or 8.0%, on existing operations. The \$8.4 million increase on existing operations consisted of \$5.4 million in labor expense and \$3.0 million in benefits expense. The labor increase was primarily attributable to \$3.4 million of labor expense related to new hires and increased work hours for existing employees, and \$2.0 million from regular wage increases for all employees. The \$3.0 million increase in benefits expense consisted of \$1.6 million in benefits expense related to the new hires and a \$1.4 million increase for existing employees.

Equipment rent expense increased \$6.7 million, or 24.1%, due to \$5.5 million from Rail Partners, TZPR, FCRD and Savannah Wharf operations, and an increase of \$1.2 million, or 4.3%, on existing operations. The \$1.2 million increase on existing operations was primarily attributable to an increase of \$1.3 million in freight car, locomotive and other equipment rental expense, primarily due to increased coal traffic from our New York-Pennsylvania Region and increased paper traffic from our Rail Link Region, offset by a decrease of \$100,000 in net car hire expense from all other regions.

Purchased services expense increased \$7.9 million, or 43.0%, due to \$4.4 million from Rail Partners, TZPR, FCRD and Savannah Wharf operations, and an increase of \$3.5 million, or 18.8%, on existing operations. The \$3.5 million increase on existing operations was primarily attributable to an increase of \$1.6 million in our Mexico Region resulting from a full year of terminal services, \$450,000 from our Illinois Region from a full year of transloading services, \$400,000 from our New York-Pennsylvania Region for new dispatching services which began in 2005, and \$1.1 million from all remaining Regions primarily for higher track and locomotive maintenance services.

Depreciation and amortization expense increased \$5.3 million, or 27.7%, due to \$4.4 million from Rail Partners, TZPR, FCRD, and Savannah Wharf operations, and an increase of \$900,000, or 4.9%, on existing operations related to capital spending in 2004 and 2005.

Diesel fuel expense increased \$13.0 million, or 51.0%, due to \$3.3 million from Rail Partners, TZPR, FCRD, and Savannah Wharf operations, and an increase of \$9.7 million, or 38.0%, on existing operations. The \$9.7 million increase on existing operations was primarily attributable to a \$9.3 million increase resulting from higher fuel prices in 2005 as the average price per gallon of fuel increased 36.4%.

Casualties and insurance increased \$2.0 million, or 12.7%, due to \$1.8 million from Rail Partners, TZPR, FCRD and Savannah Wharf operations, and an increase of \$200,000, or 1.2%, on existing operations.

Materials increased \$4.6 million, or 30.0%, due to \$2.9 million from Rail Partners, TZPR, FCRD and Savannah Wharf operations, and an increase of \$1.7 million, or 10.8%, on existing operations due primarily to higher spending on track, freight car and locomotive repairs.

Net gain on sale and impairment of assets was \$3.2 million, primarily due to the gain on sale of track property in our New York-Pennsylvania Region.

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Other expenses increased \$6.6 million, or 24.4%, due to \$4.4 million from Rail Partners, TZPR, FCRD and Savannah Wharf operations, and an increase of \$2.2 million, or 8.0%, on existing operations. The \$2.2 million

increase on existing operations included increases in acquisition-related expenses of \$900,000 and increases in consulting, legal and accounting expenses of \$600,000.

Interest Expense

Interest expense in the year ended December 31, 2005 was \$14.9 million compared to \$11.1 million in the year ended December 31, 2004, an increase of \$3.8 million, or 33.7%. The \$3.8 million increase was primarily due to higher outstanding debt resulting from the June 1, 2005 acquisition of Rail Partners. The 2004 interest expense of \$11.1 million included a non-cash \$1.6 million write-off related to unamortized deferred financing costs of refinanced debt, and a cash expense of \$250,000 associated with the termination of interest rate swaps related to the former debt.

Other Expense, Net

Other expense, net, was \$200,000 in the year ended December 31, 2005, compared to \$100,000 in the year ended December 31, 2004, an increase of \$100,000. Other expense, net, increased primarily due to non-cash translation losses on intercompany balances, partially offset by a decrease in minority interest expense.

Income Taxes

Income tax expense was \$15.8 million in the year ended December 31, 2005, compared to \$16.1 million in the year ended December 31, 2004, with an effective tax rate of 28.2% and 41.4%, respectively. The 13.2% decrease in the 2005 tax rate was primarily attributable to an income tax credit enacted as part of the American Jobs Creation Act of 2004. The legislation provides for an annual credit against U.S. income taxes for track maintenance expenditures incurred during the three year period from January 1, 2005 through December 31, 2007. The annual credit is equal to 50% of qualifying expenditures incurred during the year and is limited to \$3,500 multiplied by the number of miles of U.S. railroad track we own or lease as of the year end. Also reflected in the 2005 income tax provision is an increase of \$300,000 as a result of enacted changes to provincial income tax rates in Quebec. The 2004 rate includes an increase in the tax rate used to compute our U.S. income taxes to the highest corporate bracket of 35% based on our 2004 and projected level of profitability. As a result, we increased our 2004 fourth quarter tax accrual by \$1.0 million, of which approximately \$250,000 related to 2004 and approximately \$750,000 related to a revaluation of our pre-2004 net U.S. deferred tax liabilities.

Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the year ended December 31, 2005 were \$10.1 million compared to \$14.9 million in the year ended December 31, 2004, a decrease of \$4.8 million, or 32.4%. Equity earnings in the year ended December 31, 2005, consisted of \$9.5 million from ARG and \$600,000 from South American affiliates. Equity earnings in the year ended December 31, 2004, consisted of \$14.2 million from ARG and \$700,000 from South American affiliates. See additional information regarding ARG's financial results and the impact of exchange rate changes in Supplemental Information - Australian Railroad Group.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2005, was \$50.1 million compared to net income in the year ended December 31, 2004, of \$37.6 million, an increase of \$12.5 million, or 33.3%. The increase in net income was the result of an increase from operations of \$17.3 million, offset by a decrease in equity earnings of unconsolidated affiliates of \$4.8 million.

Basic earnings per share increased by \$0.33, or 32.0%, to \$1.36 in the year ended December 31, 2005, from \$1.03 in the year ended December 31, 2004. Diluted earnings per share increased by \$0.30, or 33.3%, to \$1.20 in the year ended December 31, 2005, from \$0.90 in the year ended December 31, 2004. Weighted average shares for basic and diluted calculations were 36.9 million and 41.7 million, respectively, in the year ended December 31, 2005, compared to 36.2 million and 41.1 million, respectively, in the year ended December 31, 2004, as adjusted for the stock split announced February 14, 2006.

Supplemental Information - Australian Railroad Group

ARG is 50% owned by Genesee & Wyoming and 50% owned by Wesfarmers, a public corporation based in Perth, Western Australia. We account for our 50% ownership in ARG under the equity method of accounting. As a result of the strengthening of the Australian dollar in 2005, the average currency translation rate for the year ended December 31, 2005 was 3.5% more favorable than the rate for the year ended December 31, 2004, the impact of which should be considered in the following discussions of equity earnings, freight and non-freight revenues, and operating expenses. In addition, on February 13, 2006, we announced the Australia Transactions.

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In the years ended December 31, 2005 and 2004, we recorded \$9.5 million and \$14.2 million, respectively, of equity earnings from ARG, which is reported in the accompanying consolidated statements of income under the caption Equity in Net Income of International Affiliates Australia. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2005 and 2004.

Freight Revenues

Australian Railroad Group Freight Revenues and Carloads by Commodity Group

Years ended December 31, 2005 and 2004

(U.S. dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
	2005	% of Total	2004	% of Total	2005	% of Total	2004	% of Total	2005	2004
									\$	\$
Grain	\$ 80,974	28.8%	\$ 101,987	36.6%	196,938	20.6%	265,712	27.0%	\$ 411	\$ 384
Other Ores and Minerals	61,072	21.7%	58,386	20.9%	104,067	10.9%	109,418	11.1%	587	534
Iron Ore	57,806	20.5%	45,536	16.3%	222,357	23.3%	201,613	20.5%	260	226
Alumina	21,913	7.8%	19,666	7.1%	159,689	16.7%	157,168	16.0%	137	125
Bauxite	14,749	5.2%	12,733	4.6%	140,034	14.7%	125,793	12.8%	105	101
Hook and Pull (Haulage)	6,474	2.3%	1,713	0.6%	9,753	1.0%	7,332	0.7%	664	234
Gypsum	3,961	1.4%	3,662	1.3%	46,679	4.9%	50,394	5.1%	85	73
Other	34,506	12.3%	35,256	12.6%	76,194	7.9%	67,891	6.8%	453	519
Total	\$ 281,455	100.0%	\$ 278,939	100.0%	955,711	100.0%	985,321	100.0%	294	283

ARG's freight revenues were \$281.5 million in the year ended December 31, 2005, compared to \$278.9 million in the year ended December 31, 2004, an increase of \$2.5 million or 0.9%. In local currency, freight revenues decreased 2.5% in the year ended December 31, 2005, compared to the year ended December 31, 2004.

Total ARG carloads were 955,711 in the year ended December 31, 2005 compared to 985,321 in the year ended December 31, 2004, a net decrease of 29,610 carloads, or 3.0%. The net decrease of 29,610 carloads resulted primarily from a decrease in Grain of 68,774 carloads due to smaller grain harvests in Western Australia and South Australia, a decrease in Other Ores and Minerals of 5,351 carloads due to reduced production and haulage of coal, nickel, mineral sands and sulphur, and a decrease in Gypsum of 3,715 carloads due to lower customer volume requirements. These declines were partially offset by an increase in Iron Ore of 20,744 carloads due to increased customer production in Western Australia and an increase in Bauxite of 14,241 carloads. All other commodities combined increased 13,245 carloads.

The average revenues per carload increased to \$294 in the year ended December 31, 2005, compared to \$283 per carload in the year ended December 31, 2004, an increase of 3.9%, primarily due to the strength of the Australian dollar relative to the U.S. dollar in 2005 versus 2004. In local currency, the average revenue per carload increased 0.5% in the year ended December 31, 2005, compared to the year ended December 31, 2004.

Non-Freight Revenues

ARG's non-freight revenues were \$63.1 million in the year ended December 31, 2005, compared to \$54.7 million in the year ended December 31, 2004, an increase of \$8.4 million, or 15.3%. In local currency, non-freight revenues increased 11.0% in the year ended December 31, 2005, compared to the year ended December 31, 2004. The increase in non-freight revenues was primarily attributable to an increase in diesel fuel sales to third parties and a higher level of track and crossing work for third parties.

The following table compares ARG's non-freight revenues for the years ended December 31, 2005 and 2004:

Australian Railroad Group Non-Freight Revenues Comparison

Years Ended December 31, 2005 and 2004

(U.S. dollars in thousands)

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		Percentage of		Percentage of
	2005	Total	2004	Total
Third party track access fees	\$ 20,104	31.9%	\$ 18,085	33.1%
Tarcoola to Darwin Line	6,888	10.9%	6,557	12.0%
Other operating income	36,099	57.2%	30,066	54.9%
 Total non-freight revenues	 \$ 63,091	 100.0%	 \$ 54,708	 100.0%

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ARG Operating Expenses

ARG's operating expenses were \$288.5 million in the year ended December 31, 2005, compared to \$265.7 million in the year ended December 31, 2004, an increase of \$22.8 million, or 8.6%. The following table sets forth a comparison of ARG's operating expenses in the years ended December 31, 2005 and 2004:

Australian Railroad Group Operating Expense Comparison**Years Ended December 31, 2005 and 2004****(U.S. dollars in thousands)**

	2005	Percentage of Operating Revenues	2004	Percentage of Operating Revenues
Labor and benefits	\$ 70,280	20.4%	\$ 59,566	17.8%
Equipment rents	3,392	1.0%	2,519	0.7%
Purchased services	65,067	18.9%	78,775	23.6%
Depreciation and amortization	32,127	9.3%	27,346	8.2%
Diesel fuel used in operations	33,974	9.9%	26,671	8.0%
Diesel fuel for sales to third parties	22,139	6.4%	19,944	6.0%
Casualties and insurance	10,949	3.2%	9,570	2.9%
Materials	16,178	4.7%	13,726	4.1%
Net gain on sale and impairment of assets	(229)	(0.1%)	(336)	(0.1%)
Other expenses	34,611	10.0%	27,921	8.4%
Total operating expenses	\$ 288,488	83.7%	\$ 265,702	79.6%

Labor and benefits as a percentage of revenues increased to 20.4% in the year ended December 31, 2005 compared to 17.8% in the year ended December 31, 2004. In local currency, labor and benefits increased 14.0%. The increase was primarily due to an increase in employee costs associated with a transition of locomotive maintenance work from external contractors to in-house employees, an increase in employee wages, and the hiring and training of new locomotive drivers.

Purchased services decreased to 18.9% of revenues in the year ended December 31, 2005, compared to 23.6% of revenues in the year ended December 31, 2004. In local currency, purchased services decreased 20.5%. The decrease was due to a transition of locomotive maintenance work from external contractors to in-house employees, a decrease in the average number of contract drivers by 55 individuals compared with 2004, and a reduction in grain transfer costs.

Depreciation and amortization expense as a percentage of revenues increased to 9.3% in the year ended December 31, 2005, compared to 8.2% in the year ended December 31, 2004. In local currency, depreciation and amortization expense increased 13.6%. The increase was due to higher depreciation related to an increase in capital expenditures during 2004 and 2005.

Diesel fuel used in operations increased to 9.9% of revenues in the year ended December 31, 2005, compared to 8.0% of revenues in the year ended December 31, 2004. In local currency, the cost of fuel used in operations increased 23.0% in 2005 compared to 2004 due to a 30.5% increase in fuel prices partially offset by a 5.0% reduction in fuel consumed due to lower freight traffic.

Diesel fuel sold to third parties increased to 6.4% of revenues in the year ended December 31, 2005, compared to 6.0% in the year ended December 31, 2004. In local currency, the cost of diesel fuel sold to third parties increased 7.0% in 2005 compared to 2004 due to an increase in fuel prices.

Casualties and insurance as a percentage of revenues increased to 3.2% in the year ended December 31, 2005, compared to 2.9% in the year ended December 31, 2004. In local currency, casualties and insurance expense increased 11.5% in 2005 compared to 2004. The increase was primarily due to two major derailments in Western Australia near Kalgoorlie.

Materials expense as a percentage of revenues increased to 4.7% in the year ended December 31, 2005, compared to 4.1% in the year ended December 31, 2004. In local currency, materials expense increased 13.8% in 2005 compared to 2004.

Net gain on sale and impairment of assets as a percentage of revenues remained unchanged at 0.1%

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Other expenses as a percentage of revenues increased to 10.0% in the year ended December 31, 2005, compared to 8.4% in the year ended December 31, 2004. In local currency, other expenses increased 19.9% in 2005 compared to 2004. The increase was due to a higher level of track and crossing work for third parties.

Income Taxes

ARG's effective income tax rate in the year ended December 31, 2005 was 30.5%, compared to 30.1% in the year ended December 31, 2004. The 2005 and 2004 effective tax rates were approximately equal to the statutory rate of 30%.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Operating Revenues

Overview

Operating revenues (which exclude revenues from our equity investments) were \$303.8 million in the year ended December 31, 2004 compared to \$244.8 million in the year ended December 31, 2003, an increase of \$59.0 million or 24.1%. The \$59.0 million increase in operating revenues consisted of \$27.6 million in revenues from the new GP railroads, TZPR and Savannah Wharf operations and an increase of \$31.4 million, or 12.8%, in revenues on existing operations. The following table sets forth operating revenues by new acquisitions and existing operations for the years ended December 31, 2004 and 2003 (dollars in thousands):

	2004			2003		2004-2003 Variance Information		Increase in	
	Total Operations \$	New Acquisitions \$	Existing Operations \$	Total Operations \$	Increase in Total Operations \$	%	Increase in Existing Operations \$	%	
Freight revenues	\$ 226,265	\$ 19,903	\$ 206,362	\$ 182,567	\$ 43,698	23.9%	\$ 23,795	13.0%	
Non-freight revenues	77,519	7,737	69,782	62,260	15,259	24.5%	7,522	12.1%	
Total operating revenues	\$ 303,784	\$ 27,640	\$ 276,144	\$ 244,827	\$ 58,957	24.1%	\$ 31,317	12.8%	

The \$43.7 million increase in freight revenues consisted of \$18.9 million and \$1.0 million in freight revenues from the new GP railroads and TZPR operations, respectively, and \$23.8 million in freight revenues on existing operations.

Freight Revenues

The following table compares freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2004 and 2003:

Freight Revenues and Carloads Comparison by Commodity Group

Years Ended December 31, 2004 and 2003

(dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
	2004	% of Total	2003	% of Total	2004	% of Total	2003	% of Total	2004	2003
Coal, Coke & Ores	\$ 45,126	19.9%	\$ 37,881	20.7%	191,038	30.2%	167,363	31.2%	\$ 236	\$ 226
Pulp & Paper	40,486	17.9%	30,939	16.9%	94,340	14.9%	74,662	14.1%	429	414
Lumber & Forest Products	25,295	11.2%	17,093	9.4%	76,055	12.0%	53,793	10.2%	333	318
Petroleum Products	24,465	10.8%	24,455	13.4%	32,401	5.1%	31,798	6.0%	755	769
Metals	23,464	10.4%	17,445	9.6%	73,412	11.6%	59,502	11.2%	320	293
Minerals & Stone	22,294	9.9%	21,983	12.0%	59,197	9.3%	56,484	10.7%	377	389
Chemicals-Plastics	16,270	7.2%	11,067	6.1%	31,262	4.9%	23,517	4.5%	520	471
Farm & Food Products	16,203	7.2%	12,133	6.6%	40,520	6.4%	32,589	6.2%	400	372
Autos & Auto Parts	6,362	2.8%	5,775	3.2%	14,665	2.3%	14,235	2.8%	434	406
Intermodal	2,409	1.1%	1,574	0.9%	6,425	1.0%	5,518	1.1%	375	285

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Other	3,891	1.6%	2,222	1.2%	14,034	2.3%	10,292	2.0%	277	216
Totals	\$ 226,265	100.0%	\$ 182,567	100.0%	633,349	100.0%	529,753	100.0%	357	345

Total carloads were 633,349 in the year ended December 31, 2004 compared to 529,753 in the year ended December 31, 2003, an increase of 103,596 carloads or 19.6%. The increase consisted of 54,552 carloads from the new GP Railroads and TZPR, and an increase of 49,044 carloads, or 9.3%, on existing operations.

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Average revenues per carload increased \$12, or 3.5%, to \$357 in the year ended December 31, 2004, compared to \$345 per carload in the year ended December 31, 2003. Of the \$12 increase in average revenue per carload, \$3 was due to increased fuel surcharge and the remaining \$9 was due to rate increases, changes in the mix of commodities and the differences in average revenue per carload between existing and acquired operations.

The following table sets forth freight revenues by new acquisitions and existing operations for the years ended December 31, 2004 and 2003 (dollars in thousands):

Freight revenues	2004			2003		2004-2003 Variance Information			
	Total Operations	New Acquisitions	Existing Operations	Total Operations	Increase in Total Operations	Increase in Total Operations	Increase in Existing Operations	Increase in Existing Operations	Increase in Existing Operations
Coal, Coke & Ores	\$ 45,126	\$ 1,060	\$ 44,066	\$ 37,881	\$ 7,245	19.1%	\$ 6,185	16.3%	
Pulp & Paper	40,486	7,246	33,240	30,939	9,547	30.9%	2,301	7.4%	
Lumber & Forest Products	25,295	5,550	19,745	17,093	8,202	48.0%	2,652	15.5%	
Petroleum Products	24,465	378	24,087	24,455	10	0.0%	(368)	(1.5%)	
Metals	23,464	203	23,261	17,445	6,019	34.5%	5,816	33.3%	
Minerals & Stone	22,294	738	21,556	21,983	311	1.4%	(427)	(1.9%)	
Chemicals Plastics	16,270	3,092	13,178	11,067	5,203	47.0%	2,111	19.1%	
Farm & Food Products	16,203	596	15,607	12,133	4,070	33.5%	3,474	28.6%	
Autos & Auto Parts	6,362	2	6,360	5,775	587	10.2%	585	10.1%	
Intermodal	2,409	669	1,740	1,574	835	53.0%	166	10.5%	
Other	3,891	369	3,522	2,222	1,669	75.1%	1,300	58.5%	
Total Freight Revenues	\$ 226,265	\$ 19,903	\$ 206,362	\$ 182,567	\$ 43,698	23.9%	\$ 23,795	13.0%	

The following information discusses the material changes in commodity groups for freight revenues from existing operations.

Coal, Coke and Ores revenues increased by \$6.2 million, or 16.3%, of which \$4.9 million was from increased carloads and \$1.3 million was due to an increase in revenue per carload. Carloads of coal on existing operations were primarily destined for electricity generating facilities.

Pulp and Paper revenues increased by \$2.3 million, or 7.4%, of which \$2.6 million was due to an increase in average revenue per carload, offset by \$300,000 due to a decrease in carloads.

Lumber and Forest Products revenues increased \$2.7 million, or 15.5%, of which \$1.8 million was from increased carloads and \$900,000 was due to an increase in revenue per carload.

Metals revenues increased by \$5.3 million, or 33.3%, of which \$3.8 million was from increased carloads and \$1.5 million was due to an increase in revenue per carload.

Chemicals-Plastics revenues increased by \$2.1 million, or 19.1%, of which \$1.0 million was from increased carloads and \$1.1 million was due to an increase in revenue per carload.

Farm and Food Products revenues increased by \$3.5 million, or 28.6%, of which \$2.0 million was from increased carloads and \$1.5 million was due to an increase in revenue per carload.

Freight revenues from all remaining commodities increased by \$1.8 million on existing operations.

Non-Freight Revenues

Non-freight revenues were \$77.5 million in the year ended December 31, 2004, compared to \$62.3 million in the year ended December 31, 2003, an increase of \$15.3 million, or 24.5%. The \$15.3 million increase in non-freight revenues consisted of approximately \$6.1 million, \$900,000 and \$700,000 in non-freight revenues from the new GP Railroads, TZPR and Savannah Wharf operations, respectively, and \$7.5 million in non-freight revenues on existing operations.

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The following table compares non-freight revenues for the years ended December 31, 2004 and 2003:

Non-Freight Revenues Comparison

Years Ended December 31, 2004 and 2003

(dollars in thousands)

	% of		% of	
	2004	Total	2003	Total
Railcar switching	\$ 39,539	51.0%	\$ 33,371	53.6%
Car hire and rental income	11,858	15.3%	7,054	11.3%
Demurrage and storage	7,533	9.7%	6,127	9.9%
Car repair services	5,460	7.0%	4,447	7.1%
Other operating income	13,129	17.0%	11,261	18.1%
 Total non-freight revenues	 \$ 77,519	 100.0%	 \$ 62,260	 100.0%

The following table sets forth non-freight revenues by new acquisitions and existing operations for the years ended December 31, 2004 and 2003 (in thousands):

	2004			2003		2004-2003 Variance Information			
	Total	New	Existing	Total	Increase in		Increase in		
	Operations	Acquisitions	Operations	Operations	Total	Operations	Existing	Operations	
	\$	\$	\$	\$	\$	%	\$	%	
Railcar switching	\$ 39,539	\$ 951	\$ 38,588	\$ 33,371	\$ 6,168	18.5%	\$ 5,217	15.6%	
Car hire and rental income	11,858	3,966	7,892	7,054	4,804	68.1%	838	11.9%	
Demurrage and storage	7,533	1,383	6,150	6,127	1,406	22.9%	23	0.4%	
Car repair services	5,460	356	5,104	4,447	1,013	22.8%	657	14.8%	
Other operating income	13,129	1,080	12,049	11,261	1,868	16.6%	788	7.0%	
 Total non-freight revenues	 \$ 77,519	 \$ 7,736	 \$ 69,783	 \$ 62,260	 \$ 15,259	 24.5%	 \$ 7,523	 12.1%	

The following information discusses the material changes in non-freight revenues on existing operations.

Railcar switching revenues increased \$5.2 million, or 15.6%, of which \$4.1 million was in our Rail Link Region and \$1.1 million was from all remaining Regions. The \$4.1 million increase in our Rail Link Region was attributable to a \$2.0 million increase in industrial switching, of which \$1.0 million was from new customers, and \$2.1 million in railroad switching, primarily from growth of Rail Link's port operations.

Car hire and rental income increased \$800,000, or 11.9%, of which approximately \$400,000 was in our Mexico Region and \$400,000 was from all remaining Regions.

Car repair revenues increased \$650,000, or 14.8%, of which \$525,000 was in our New York-Pennsylvania Region due to an increase in contract repair services.

Other operating income increased approximately \$800,000, or 7.0%, primarily due to revenues attributable to our management of a coal unloading facility in our Illinois Region.

Operating Expenses

Overview

Operating expenses were \$253.7 million in the year ended December 31, 2004, compared to \$208.5 million in the year ended December 31, 2003, an increase of \$45.2 million, or 21.7%. The increase was attributable to increases of \$15.1 million, \$2.0 million and \$357,000 from the new GP

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Railroads, TZPR and Savannah Wharf operations, respectively, and an increase of \$27.7 million on existing operations.

Operating Ratios

Our operating ratio, defined as total operating expenses divided by total operating revenues, improved to 83.5% in the year ended December 31, 2004 from 85.2% in the year ended December 31, 2003.

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The following table sets forth a comparison of our operating expenses in the years ended December 31, 2004 and 2003:

Operating Expense Comparison

Years Ended December 31, 2004 and 2003

(dollars in thousands)

	2004		2003	
	\$	Percent of Operating Revenues	\$	Percent of Operating Revenues
Labor and benefits	\$ 105,079	34.6%	\$ 87,315	35.7%
Equipment rents	27,692	9.1%	18,409	7.5%
Purchased services	18,358	6.0%	17,766	7.3%
Depreciation and amortization	19,243	6.3%	15,471	6.3%
Diesel fuel	25,432	8.4%	18,325	7.5%
Casualties and insurance	15,710	5.2%	13,831	5.6%
Materials	15,336	5.0%	15,189	6.2%
Net gain on sale and impairment of assets	(13)	0.0%	(87)	0.0%
Other expenses	26,908	8.9%	22,303	9.1%
Total operating expenses	\$ 253,745	83.5%	\$ 208,522	85.2%

Labor and benefits expense increased \$17.8 million, or 20.3%, due to an increase of \$5.8 million from the new GP Railroads, TZPR and Savannah Wharf operations and an increase of \$12.0 million on existing operations. The \$12.0 million increase on existing operations consisted of \$8.0 million in labor expense and \$4.0 million in benefits expense. The labor increase was primarily attributable to \$5.0 million of labor expense related to ninety-five new hires and increased work hours for all employees resulting from higher shipment levels on existing operations and \$3.0 million from regular wage increases for all employees. The \$4.0 million increase in benefits expense consisted of \$3.0 million in benefits expense related to the new hires and increased work hours on existing operations for all employees and \$1.0 million of increased benefits expense for all employees.

Equipment rent expense increased \$9.3 million, or 50.4%, due to an increase of \$4.4 million from the new GP Railroads and TZPR, and an increase of \$4.9 million on existing operations. The \$4.9 million increase on existing operations was primarily attributable to an increase of \$2.2 million in car hire and an increase of \$2.7 million in freight car, locomotive and other equipment rental expense, primarily due to a 9.3% increase in carloads in 2004.

Depreciation and amortization expense increased \$3.8 million, or 24.4%, due to an increase of \$2.3 million from the new GP Railroads and TZPR, and an increase of \$1.5 million on existing operations.

Diesel fuel expense increased \$7.1 million, or 38.8%, due to an increase of \$600,000 from the new GP Railroads and TZPR, and an increase of \$6.5 million on existing operations. The \$6.5 million increase on existing operations was primarily attributable to a \$5.0 million increase resulting from higher fuel prices in 2004 as the average price per gallon of fuel increased 27.4%, and secondarily attributable to a \$1.5 million increase resulting from a 6.7% increase in fuel consumption due to higher traffic levels.

Casualties and insurance expense increased \$1.9 million, or 13.6%, due to an increase of \$297,000 from the new GP Railroads and TZPR, and an increase of \$1.6 million on existing operations. The \$1.6 million increase on existing operations was primarily attributable to an increase in derailment expense in our Oregon Region.

All other expenses combined (purchased services, materials, gain on asset sales and other expenses) increased \$5.4 million, or 9.8%, due to an increase of \$4.1 million from the new GP Railroads, TZPR and Savannah Wharf operations and an increase of \$1.3 million on existing operations.

Interest Expense

Interest expense in the year ended December 31, 2004, was \$11.1 million compared to \$8.6 million in the year ended December 31, 2003, an increase of \$2.5 million, or 28.9%. The \$2.5 million increase was primarily due to a non-cash \$1.6 million write-off related to unamortized deferred financing costs of the refinanced debt (see Note 9 to Consolidated Financial Statements), a cash expense of \$257,000 for the termination of interest rate swaps related to the former debt, and a slightly higher average outstanding debt balance resulting from the GP Railroads acquisition in December 2003.

Other (Expense) Income, Net

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Other income was \$131,000 in the year ended December 31, 2004, compared to Other income of \$986,000 in the year ended December 31, 2003, a decrease of \$1.1 million. Other (expense) income, net, in the years ended December 31, 2004 and 2003 consisted primarily of currency gains and losses on Australian dollar denominated cash and receivable balances, and interest income.

Income Taxes

Our effective income tax rate in the years ended December 31, 2004 and 2003, was 41.4% and 36.9%, respectively. The increase in 2004 was primarily due to the tax rate used to compute our U.S. income taxes being stepped up to the highest corporate bracket of 35% based on our current and projected level of profitability. As a result, we increased our fourth quarter tax accrual by \$1.0 million, of which approximately \$250,000 related to the first three quarters of 2004 and approximately \$750,000 related to a revaluation of our pre-2004 net U.S. deferred tax liabilities.

Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the year ended December 31, 2004, were \$14.9 million compared to \$10.6 million in the year ended December 31, 2003, an increase of \$4.3 million, or 40.1%. Equity earnings in the year ended December 31, 2004, consisted of \$14.2 million from ARG and \$677,000 from South American affiliates. Equity earnings in the year ended December 31, 2003, consisted of \$10.4 million from ARG and \$270,000 from South American affiliates.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2004, was \$37.6 million compared to net income in the year ended December 31, 2003, of \$28.7 million, an increase of \$8.9 million, or 31.0%. The increase in net income was the result of an increase from operations of \$4.6 million and an increase in equity earnings of unconsolidated affiliates of \$4.3 million.

Basic Earnings Per Share increased by \$0.26, or 33.8%, to \$1.03 in the year ended December 31, 2004, from \$0.77 in the year ended December 31, 2003. Diluted Earnings Per Share increased by \$0.22, or 32.4%, to \$0.90 in the year ended December 31, 2004, from \$0.68 in the year ended December 31, 2003. Weighted average shares for basic and diluted were 36.2 million and 41.1 million, respectively, in the year ended December 31, 2004, compared to 35.5 million and 40.2 million, respectively, in the year ended December 31, 2003. As a result of the retroactive restatement of earnings per share due to the adoption of EITF 03-06, basic and diluted earnings per share were reduced by \$.03 and \$.03, respectively, for the year ended December 31, 2003.

Supplemental Information Australian Railroad Group

As a result of the strengthening of the Australian dollar in 2004 relative to the U.S. dollar, the average currency translation rate for the year ended December 31, 2004 was 11.3% more favorable than the rate for the year ended December 31, 2003, the impact of which should be considered in the following discussions of equity earnings, freight and non-freight revenues, and operating expenses.

In the years ended December 31, 2004 and 2003, we recorded \$14.2 million and \$10.4 million, respectively, of equity earnings from ARG, which is reported in the accompanying consolidated statements of income under the caption Equity in Net Income of International Affiliates Australia. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2004 and 2003.

Freight Revenues

Australian Railroad Group Freight Revenues and Carloads by Commodity Group

Years ended December 31, 2004 and 2003

(U.S. dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	2004	% of Total	2003	% of Total	2004	% of Total	2003	% of Total	2004	2003
Grain	\$ 101,983	36.6%	\$ 61,125	29.5%	265,712	27.0%	158,462	18.7%	\$ 384	\$ 386
Other Ores and Minerals	58,384	20.9%	48,782	23.6%	109,418	11.1%	107,257	12.7%	534	455
Iron Ore	45,534	16.3%	36,238	17.5%	201,612	20.5%	179,711	21.2%	226	202
Alumina	19,666	7.1%	16,459	8.0%	157,168	16.0%	153,685	18.1%	125	107
Bauxite	12,732	4.6%	11,363	5.5%	125,793	12.8%	126,865	15.0%	101	90
Hook and Pull (Haulage)	1,713	0.6%	5,498	2.7%	7,414	0.8%	13,337	1.6%	231	412
Gypsum	3,662	1.3%	2,915	1.4%	50,394	5.1%	45,548	5.4%	73	64
Other	35,265	12.6%	24,543	11.8%	67,810	6.7%	62,865	7.3%	520	390

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Total	\$ 278,939	100.0%	\$ 206,923	100.0%	985,321	100.0%	847,730	100.0%	283	244
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ARG's freight revenues were \$278.9 million in the year ended December 31, 2004, compared to \$206.9 million in the year ended December 31, 2003, an increase of \$72.0 million or 34.8%. In local currency, freight revenues increased 21.1% in the year ended December 31, 2004, compared to the year ended December 31, 2003.

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Total ARG carloads were 985,321 in the year ended December 31, 2004, compared to 847,730 in the year ended December 31, 2003, a net increase of 137,591 carloads, or 16.2%. The net increase resulted primarily from an increase in Grain of 107,250 carloads due to a record grain harvest in Western Australia and a new customer in New South Wales, an increase in Other Ores and Minerals of 2,161 carloads due to stronger shipments of sulphuric acid and nickel in Western Australia, an increase in Iron Ore of 21,901 carloads due to a new customer and additional production from existing customers, an increase in Alumina of 3,483 carloads due to higher production in Western Australia and an increase in Gypsum of 4,846 carloads. These gains were partially offset by a decrease in Hook and Pull (haulage traffic) of 5,923 carloads due to certain non-recurring shipments in the preceding year. All other commodities combined increased by a net 3,873 carloads. The average revenues per carload increased to \$283 in the year ended December 31, 2004, compared to \$244 per carload in the year ended December 31, 2003, an increase of 16.0%, primarily due to the strength of the Australian dollar relative to the U.S. dollar in 2004 versus 2003. In local currency, the average revenue per carload increased 4.2% in the year ended December 31, 2004, compared to the year ended December 31, 2003.

Non-Freight Revenues

ARG's non-freight revenues were \$54.7 million in the year ended December 31, 2004 compared to \$42.6 million in the year ended December 31, 2003, an increase of \$12.1 million, or 28.3%. In local currency, non-freight revenues increased 15.5% in the year ended December 31, 2004, compared to the year ended December 31, 2003. The increase in non-freight revenues was primarily attributable to an increase in diesel fuel sold to third parties, partially offset by a decline in revenues from Tarcoola to Darwin Line due to the completion of construction in the fourth quarter of 2003. ARG's role in the project in 2004 was as the contract operator and as lessor of rail equipment.

The following table compares ARG's non-freight revenues for the years ended December 31, 2004 and 2003:

Australian Railroad Group Non-Freight Revenues Comparison

Years Ended December 31, 2004 and 2003

(U.S. dollars in thousands)

		% of		% of
	2004	Total	2003	Total
Third party track access fees	\$ 18,085	33.1%	\$ 14,619	34.3%
Tarcoola to Darwin Line	6,557	12.0%	12,103	28.4%
Other operating income	30,066	54.9%	15,926	37.3%
Total non-freight revenues	\$ 54,708	100.0%	\$ 42,648	100.0%

ARG Operating Expenses

ARG's operating expenses were \$265.7 million in the year ended December 31, 2004, compared to \$194.4 million in the year ended December 31, 2003, an increase of \$71.3 million, or 36.7%. The following table sets forth a comparison of ARG's operating expenses in the years ended December 31, 2004 and 2003:

Australian Railroad Group Operating Expense Comparison

Years Ended December 31, 2004 and 2003

(U.S. dollars in thousands)

	2004		2003	
	\$	% of Operating Revenues	\$	% of Operating Revenues
Labor and benefits	\$ 59,566	17.8%	\$ 47,337	19.0%
Equipment rents	2,519	0.7%	1,733	0.7%
Purchased services	78,775	23.6%	60,096	24.1%
Depreciation and amortization	27,346	8.2%	23,443	9.4%
Diesel fuel used in operations	26,671	8.0%	15,900	6.4%

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Diesel fuel for sales to third parties	19,944	6.0%	6,756	2.7%
Casualties and insurance	9,570	2.9%	8,568	3.4%
Materials	13,726	4.1%	11,635	4.6%
Net gain on sale and impairment of assets	(336)	(0.1%)	(2,081)	(0.8%)
Other expenses	27,921	8.4%	20,969	8.4%
Total operating expenses	\$ 265,702	79.6%	\$ 194,356	77.9%

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Labor and benefits as a percentage of revenues were 17.8% in the year ended December 31, 2004 compared to 19.0% in the year ended December 31, 2003. In local currency, labor and benefits increased 13.0%. The increase was due to new employee hires and longer hours worked by existing employees as a result of strong freight volumes, particularly the grain movements and the new business in New South Wales.

Purchased services decreased to 23.6% of revenues in the year ended December 31, 2004, compared to 24.1% of revenues in the year ended December 31, 2003. In local currency, purchased services increased 18.0%. The increase was primarily due to the use of contract locomotive engineers, private road carriers and the use of a rail loading facility in Western Australia. Due to a locomotive engineer shortage in Australia, the average number of contract engineers was 94 in 2004 compared to 51 in 2003.

Depreciation and amortization expense as a percentage of revenues decreased to 8.2% in the year ended December 31, 2004, compared to 9.4% in the year ended December 31, 2003. In local currency, depreciation and amortization expense increased 4.7%. The increase was due to higher depreciation related to an increase in depreciable assets due to capital expenditures.

Diesel fuel used in operations increased to 8.0% of revenues in the year ended December 31, 2004, compared to 6.4% of revenues in the year ended December 31, 2003. In local currency, the cost of fuel used in operations increased 50.8%. The increase was due to a 20.5% increase in fuel consumed in operations related to higher freight volumes on existing lines, a full year of business in New South Wales, and a 25.2% increase in fuel prices.

Diesel fuel sold to third parties increased to 6.0% of revenues in the year ended December 31, 2004, compared to 2.7% in the year ended December 31, 2003. In local currency, diesel fuel sold to third parties increased 165.3%. The increase was due to a 126.7% increase in the volume of fuel sold to other railroads caused by a new customer in South Australia and the Northern Territory and significantly higher purchases by an existing customer in Western Australia, and a 35.5% increase in fuel prices. The percentage increase in the price of fuel sold to third parties is greater than the percentage increase in the price of fuel consumed in operations due to higher fuel and related transportation costs incurred in remote geographic locations, where more of the fuel sales occurred.

Casualties and insurance as a percentage of revenues decreased to 2.9% in the year ended December 31, 2004, compared to 3.4% in the year ended December 31, 2003. In local currency, casualties and insurance expense declined 1.1%. The decrease was due to an improved safety performance.

Materials expense as a percentage of revenues decreased to 4.1% in the year ended December 31, 2004, compared to 4.6% in the year ended December 31, 2003. In local currency, materials expense increased 6.3%. The increase was due to higher rolling stock maintenance costs associated with the higher freight volumes.

Net gain on sale and impairment of assets decreased to 0.1% in the year ended December 31, 2004, compared to 0.8% in the year ended December 31, 2003, due to a decrease in asset sales.

Other expenses as a percentage of revenues remained at 8.4% in the year ended December 31, 2004, compared to the year ended December 31, 2003. In local currency, other expenses increased 19.8%. The increase was primarily due to track access fees and various other increases in administrative costs related to the new business in New South Wales.

Income Taxes

ARG's effective income tax rate in the years ended December 31, 2004 and 2003, was 30.1% and 15.7%, respectively. The 2004 effective tax rate is approximately equal to the statutory rate of 30%. The increase from 2003 was attributable to finalizing, during 2003, the tax base of assets acquired in December 2000 from the government. The net assets acquired were from a government tax exempt entity, and the determination of the tax base involved the application of complex legislation. During 2003, all matters were favorably resolved with the Australian Taxation Office, resulting in a reduction in income tax expense due to an overprovision of tax expense in prior periods.

Liquidity and Capital Resources

During 2005, 2004 and 2003, we generated \$68.1 million, \$55.4 million, and \$46.9 million, respectively, of cash from operations. The 2005 increase over 2004 was primarily due to the following items: increased net income of \$12.5 million, increased depreciation and amortization of \$5.3 million, an increase from non-cash compensation expense related to stock options of \$1.8 million and a decrease of \$4.8 million in non-cash equity earnings, partially offset by a net decrease in all other elements of working capital of \$8.5 million. The 2004 increase over 2003 was primarily due to the following items: increased net income of \$8.9 million, increased depreciation and amortization of \$3.8 million, an increase from the non-cash write off of deferred finance fees of \$1.6 million, partially offset by \$4.3 million in greater non-cash equity earnings, decreased deferred taxes of \$1.8 million, and a net decrease in all other elements of working capital of \$140,000.

During 2005, 2004 and 2003, our cash flow used in investing activities was \$271.8 million, \$25.2 million and \$75.9 million, respectively. For 2005, primary drivers of the investing activities were the purchase of Rail Partners

from RMC for \$238.2 million, capital expenditures of \$32.1 million and \$6.5 million paid in connection with the resolution of claims related to contingent purchase consideration for Genesee Rail-One, offset by \$4.3 million in proceeds from the sale of assets and cash received from unconsolidated international affiliates of \$677,000. For 2004, primary drivers of the investing activities were capital expenditures of \$28.1 million; the purchase of Homer City and Savannah Wharf rail properties and Pawnee Transloading Company Inc., for \$2.9 million; and \$500,000 in valuation adjustments of split dollar insurance assets, offset by \$5.8 million in net cash received from unconsolidated international affiliates and \$450,000 in proceeds from the sale of assets. Capital expenditures consisted of \$19.1 million for track improvements, net of funds received from governmental grants, and \$9.0 million for equipment and rolling stock. For 2003, primary drivers of investing activities were the acquisition of the GP Railroads for \$54.9 million and capital expenditures of \$23.0 million. Capital expenditures consisted of \$14.7 million for track improvements, net of funds received from government grants, and \$8.3 million for equipment and rolling stock which included \$4.1 million for a locomotive upgrade project.

During 2005, our cash flow provided by financing activities was \$206.4 million. During 2004, our cash flow used in financing activities was \$27.5 million, and during 2003, our cash flow provided by financing activities was \$28.4 million. For 2005, primary drivers of the financing activities were a net increase in outstanding debt of \$203.8 million, cash proceeds of \$3.8 million from exercise of stock options by employees and directors and stock purchases by employees, and \$750,000 from the excess tax benefit from share-based payment arrangements, offset by debt issuance cost of \$1.6 million and treasury stock purchases of \$400,000. For 2004, primary drivers of the financing activities were a net decrease in outstanding debt of \$28.8 million, debt issuance cost of \$1.4 million and dividends paid on the Convertible Preferred of \$400,000, offset by net proceeds of \$3.0 million from the exercise of stock options by employees and directors and stock purchases by employees. For 2003, primary drivers of the financing activities were a net increase in outstanding debt of \$26.9 million and cash proceeds of \$2.5 million from exercise of stock options by employees and directors and stock purchases by employees, offset by dividends paid on the Convertible Preferred of \$1.0 million.

At December 31, 2005, we had long-term debt, including current portion, totaling \$338.4 million, which comprised 46.0% of our total capitalization. At December 31, 2004, we had long-term debt, including current portion, totaling \$132.2 million, which comprised 27.9% of our total capitalization.

Senior U.S. and Canadian Credit Facilities

On May 25, 2005, in conjunction with the acquisition of Rail Partners, we entered into a Consent and First Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement, dated November 12, 2004. The consent and amendment expanded the size of our senior revolving credit facility from \$150.0 million to \$225.0 million. It also extended the maturity date of the US obligations to June 1, 2010, and consented to the acquisition of Rail Partners. Following the consent and amendment, the amended and restated credit facilities are composed of a \$225.0 million revolving loan and a \$32.0 million (C\$38.5 million) Canadian term loan. The revolving loan is due in 2010 and the Canadian term loan is due in 2009. The acquisition of Rail Partners was partially funded through a \$118.0 million draw under the senior revolving credit facility at an initial borrowing rate of LIBOR plus 1.375%. Approximately \$75,000 of the borrowing capacity is reserved for letters of credit for one of our subsidiaries. The remaining unused borrowing capacity is available for general corporate purposes, including acquisitions. Interest rates for borrowings are based on U.S. or Canadian LIBOR plus a margin, which varies from 0.75% to 1.50% depending on leverage. The credit facilities are unsecured, but the revolving loan is guaranteed by substantially all of our U.S. subsidiaries and the Canadian term loan is guaranteed by substantially all of our U.S. and Canadian subsidiaries.

Financial covenants, which are measured on a trailing twelve month basis and reported quarterly, are as follows:

(a) Maximum leverage of 3.5 times (measured as Funded Debt (indebtedness plus guarantees including Letters of Credit, plus the present value of operating leases) to EBITDAR (earnings before interest, taxes, depreciation, amortization and rental payments on operating leases)) except during the period June 1, 2005, through December 31, 2005, where the maximum leverage is 3.75.

(b) Minimum interest coverage of 3.5 times measured as EBITDA (earnings before interest, taxes, depreciation and amortization) divided by interest expense.

(c) Consolidated tangible net worth equal to 80% of net worth as of March 31, 2005, having given pro forma effect to the June 2005 acquisition plus, on a cumulative basis, 50% of net income for each quarter ending after March 31, 2005.

(d) Maximum annual capital expenditures (excluding acquisitions) of \$51.0 million. Fifty percent of unutilized permitted capital expenditures may be utilized in the succeeding year.

In addition, in connection with our Australia Transactions, we entered into a Consent and Second Amendment to the Amended and Restated Revolving Credit and Term Loan Agreement, dated February 13, 2006 (the Consent and Second Amendment). The Consent and Second Amendment waives compliance with the restrictions on the dispositions of assets and adjusts the consolidated tangible net worth calculation to permit our entry into the Australia Transactions. In addition, the Consent and Second Amendment permits us to make restricted payments, consisting of stock repurchases or cash dividends, with the proceeds from the Australia Transactions for a period of eighteen months following the closing of the Australia Transactions as long as certain financial covenants governing distributions are met.

The credit facilities contain a number of covenants restricting our ability to incur additional indebtedness, make certain investments, sell assets, issue subsidiary stock, restrict distributions from subsidiaries, create certain liens, enter into certain consolidations or mergers, enter into certain transactions with affiliates, and pay dividends or make distributions. The credit facilities allow us to pay dividends and make distributions provided that Funded Debt to EBITDAR, including any borrowings made to fund the dividend or distribution, is less than 3.0 to 1. As of December 31, 2005, we were in compliance with the provisions of these covenants, but we were unable to pay dividends or make distributions.

Senior Notes

On November 15, 2004, we completed a \$75.0 million private placement of the Series A senior notes. The Series A senior notes bear interest at 4.85% and are due in 2011. We used the proceeds from the Series A senior notes private placement to repay \$75.0 million of approximately \$110.0 million of debt then outstanding at our U.S. and Canadian subsidiaries.

On July 26, 2005, we completed a private placement of \$100 million of Series B senior notes and \$25 million of Series C senior notes. The Series B senior notes bear interest at 5.36% and are due 2015. The Series C senior notes have a borrowing rate of LIBOR plus 0.70% and are due 2012. As of December 31, 2005, the Series C senior notes had an interest rate of 4.91%. We used the proceeds of the senior notes to repay the \$125.0 million Acquisition Notes issued in connection with the Rail Partners transaction.

The senior notes are unsecured but are guaranteed by substantially all of our U.S. subsidiaries. The senior notes contain a number of covenants limiting our ability to incur additional indebtedness, sell assets, create certain liens, enter into certain consolidations or mergers and enter into certain transactions with affiliates. Financial covenants, which are reported quarterly, include (a) maximum debt to capitalization of 65% and (b) minimum fixed charge coverage ratio of 1.75 times (measured as EBITDAR for the preceding twelve months divided by interest expense plus operating lease payments for the preceding twelve months). As of December 31, 2005, we were in compliance with the provisions of these covenants, but we were unable to pay dividends or make distributions.

Mexican Financings

On April 1, 2005, we and our Mexican subsidiaries, GW Servicios S.A. (Servicios) and FCCM amended loan agreements and related documents with the International Finance Corporation (IFC) and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) to revise certain terms of Servicios' existing loans from IFC and FMO as well as our existing support obligations related to such loans, effective March 15, 2005.

Under the amended terms, principal payments under Servicios' promissory notes payable (Notes) were reduced and maturity dates were extended by three years. In addition, amounts held in escrow for the benefit of IFC and FMO (approximately \$574,000) were released to prepay a portion of the loans. As of June 30, 2005, the aggregate amount outstanding on the Notes totaled \$17.0 million, with variable interest rates based on LIBOR plus 3.5 percentage points for the original term of the debt through 2007 and 2008 with an increase to LIBOR plus 4.0 percentage points for the extended term of the debt. Two of the Notes, aggregating to \$10.2 million, have a six year remaining term with combined semi-annual principal payments of \$784,000 which began March 15, 2005, and continue through the maturity date of September 15, 2011. The third Note, in the amount of \$6.8 million, has a seven year remaining term with semi-annual principal payments of \$455,000 which began March 15, 2005, and continues through the maturity date of September 15, 2012. As of December 31, 2005, the aggregate amount outstanding on the Notes totaled \$15.8 million.

The Notes contain certain financial and other covenants applicable only to FCCM and Servicios, including mandatory debt prepayments from excess free cash flow (as defined in the agreements) and restrictions on utilization of funds for capital expenditures, incurrence of debt, guarantees of obligations, sale of assets, lease of assets, creation of certain liens, payment of dividends and distributions, transactions among FCCM and Servicios and other affiliates of Genesee & Wyoming Inc., entering into certain mergers, and revising or terminating FCCM's rail concession with the government of Mexico. The Notes will continue to be secured by essentially all the assets of Servicios and FCCM, and a pledge of the Servicios and FCCM shares held by us.

Under the original loan agreements for \$27.5 million of debt, we were obligated to provide up to \$8.0 million of funding to our Mexican subsidiaries, if necessary, to meet their investment or financial obligations prior to completing the investment phase of the project funded by the Notes. The investment phase consisted of achieving several obligations related to capital investments, operating performance and management systems and controls. Thereafter, we were obligated to provide up to \$7.5 million in funding to Servicios to meet its debt service obligations prior to completing the financial phase of the project, which consisted of achieving several financial performance thresholds. Prior to the amendment, we had advanced \$2.5 million of our \$8.0 million obligation and the project was still in the investment phase. The amended agreements eliminate our obligations to provide additional funding under those terms and instead obligate us to provide up to \$8.9 million to Servicios (in addition to the \$2.5 million previously advanced), if necessary, for Servicios to meet its debt payment obligations. To the extent that FCCM's annual capital expenditures exceed 60% of FCCM's consolidated EBITDA, as defined in the

amended agreements as determined on an annual basis, we are obligated to provide additional funds to FCCM equal to the amount of such excess. Pursuant to this funding requirement, based on FCCM's 2005 EBITDA and capital expenditures, we will be obligated to advance \$2.7 million, full payment of which is due in the first quarter of 2006. Furthermore, due to the impact of Hurricane Stan on our Mexican operations, we currently expect our Mexican operations will be able to fund only \$1.9 million of the total \$3.7 million of U.S. dollar denominated principal and interest payments due in 2006. We anticipate FCCM will use \$1.8 million of the \$2.7 million we are obligated to advance to fund its debt service shortfall.

FCCM is not in default under the Note documents as a result of the damage associated with Hurricane Stan but revenue and cash flow shortfalls, among other factors, may result in a default in the future.

In conjunction with the original financing, IFC invested \$1.9 million of equity in Servicios for a 12.7% indirect interest in FCCM. Along with its equity investment, IFC received a put option exercisable in 2005 to sell its equity stake back to us. The amendments extended the term of the put option from December 31, 2009 to December 31, 2012. The value of the Servicios equity owned by IFC will be based on a multiple of FCCM's EBITDA as defined in the agreements. Exercise of this put option by IFC would result in a future cash outflow for us.

On March 3, 2006, we received notice that the IFC intends to exercise its put option to sell its 12.7% indirect equity stake in FCCM back to us. We are still determining the cash outflow that would result from the closing of the exercise of the put option, but in no case will the cash outflow exceed \$1.7 million.

Mexican Fuel Tax Credits

In 2003, FCCM could apply diesel fuel tax credits that it generated to reduce payroll taxes and value added taxes, and it utilized approximately \$3.3 million in such fuel tax credits. During 2004, tax authorities issued a ruling that limited the application of diesel fuel tax credits to income tax related obligations only, excluding payroll taxes and value added taxes. Effective January 2005, as a result of new fuel tax legislation, FCCM was again permitted to apply diesel fuel tax credits that it generates to reduce a variety of its federal tax obligations, including income taxes, payroll taxes and value added taxes. While the new legislation was a favorable development, under the fuel tax formula at current high diesel fuel prices, FCCM is paying little or no fuel taxes and therefore is not generating any significant diesel fuel tax credits. FCCM has utilized all the fuel tax credits it generated in 2004 and the small amount of fuel tax credits it generated in 2005.

South America

We have a 22.89% indirect ownership interest in Ferroviana Oriental, S.A. (Oriental) which is located in eastern Bolivia. We hold our equity interest in Oriental through a number of intermediate holding companies, and we account for our interest in Oriental under the equity method of accounting. We indirectly hold a 12.52% equity interest in Oriental through an interest in Genesee & Wyoming Chile (GWC), and we hold our remaining 10.37% equity interest in Oriental through other companies. GWC is an obligor of non-recourse debt of \$12.0 million, which has an adjustable interest rate dependent on operating results of Oriental. This non-recourse debt is secured by a lien on GWC's 12.52% indirect equity interest in Oriental.

This debt became due and payable on November 2, 2003. Due to the political and economic unrest and uncertainties in Bolivia, it has become difficult for GWC to refinance this debt and we have chosen not to repay the non-recourse obligation. GWC entered into discussions with its creditors on plans to restructure the debt, and as a result of those discussions, GWC obtained a written waiver of principal repayment from the creditors which expired on January 31, 2004. However, negotiations with the creditors continue, and currently, none of GWC's creditors have commenced court proceedings to (i) collect on the debt or (ii) exercise their rights pursuant to the lien. GWC and the creditors have an informal standstill agreement until May 21, 2006. If there is no agreement between GWC and the creditors by that date, the creditors may exercise their rights pursuant to the lien.

If we were to lose our 12.52% equity stake in Oriental due to creditors exercising their lien on GWC's indirect equity interest in Oriental, we would write-off our investment in Oriental held through GWC, which on December 31, 2005 amounted to \$360,000. A default, acceleration or effort to foreclose on the lien under the non-recourse debt will have no impact on our remaining 10.37% equity interest in Oriental because that equity interest is held indirectly through holding companies outside of GWC's ownership in Oriental. As a result of the uncertainty surrounding the \$12.0 million debt, we discontinued equity accounting for our 12.52% equity interest in Oriental held through our interest in GWC.

Oriental has no obligations associated with the \$12.0 million debt. In addition, a default, acceleration or effort to foreclose on the lien under the non-recourse debt would not result in a breach of a representation, warranty, covenant, cross-default or acceleration under our Senior Credit Facility.

Equipment Leases

We are party to several cancelable leases which have automatic renewal provisions. If we choose not to renew these leases, we would be obligated to return the underlying rolling stock and pay aggregate fees of up to approximately \$7.3 million. In addition, we have the option, at various dates, to terminate the leases by purchasing the

rolling stock. The maximum aggregate purchase price, at the next available buyout date for each qualifying lease, is approximately \$16.3 million. Management anticipates the future market value of the leased rolling stock will equal or exceed the payments necessary to purchase the rolling stock.

As noted previously, in November 2004, TZPR entered into a 20-year lease agreement for the assets of the PPU (see Note 3 to Consolidated Financial Statements). Future lease payments of \$3.1 million annually are subject to adjustment based on certain economic indicators and customer operations stipulated in the agreement.

Government Grants

Some of our railroads have entered into a number of rehabilitation or construction grants with state and federal agencies. We use the grant funds as a supplement to our normal capital programs. In return for the grants, the railroads pledge to maintain various levels of service and maintenance on the rail lines that have been rehabilitated or constructed. We believe that the levels of service and maintenance required under the grants are not materially different from those we would otherwise provide. In addition to government grants, customers occasionally provide fixed funding of certain track rehabilitation or construction projects to facilitate our service over that track. We record any excess in the fixed funding compared to the actual cost of rehabilitation and construction as gains in the current period. However, we can offer no assurance that government grants will continue to be available or that even if available, our railroads will be able to obtain them. We received government grants totaling \$4.2 million, \$5.6 million and \$2.0 million in 2005, 2004 and 2003, respectively.

2006 Budgeted Capital Expenditures

We have budgeted approximately \$48.3 million (\$36.4 million net of government grants) in capital expenditures in 2006, of which \$39.4 million (\$27.5 million net of government grants) is for track rehabilitation and \$8.9 million is for equipment. If we are unable to obtain the expected government grants, we will also reduce our net budgeted capital expenditures. We have historically relied primarily on cash generated from operations to fund working capital and capital expenditures relating to ongoing operations, while relying on borrowed funds and stock issuances to finance acquisitions and investments in unconsolidated affiliates. We believe that our cash flow from operations together with amounts available under our credit facilities will enable us to meet our liquidity and capital expenditure requirements relating to ongoing operations for at least the duration of the credit facilities.

Contractual Obligations and Commercial Commitments

As of December 31, 2005, we have contractual obligations and commercial commitments that may affect our financial condition. However, based on our assessment of the underlying provisions and circumstances of our material contractual obligations and commercial commitments, there is no known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur which would have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

The following table represents our obligations and commitments for future cash payments under various agreements as of December 31, 2005 (dollars in thousands):

Contractual Obligations	Total	Payments Due By Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations(a)	\$ 337,938	\$ 4,713	\$ 9,079	\$ 119,732	\$ 204,414
Interest on Debt(b)	97,183	18,158	35,447	32,981	10,597
Capital Lease Obligations	413	13	29	33	338
Operating Lease Obligations	111,571	19,076	30,596	15,379	46,520
Purchase Obligations(c)	18,517	4,545	10,277	3,695	
Interest Rate Swaps(d)	1,625	1,027	598		
Total	\$ 567,247	\$ 47,532	\$ 86,026	\$ 171,820	\$ 261,869

(a) Excludes capital lease obligations of \$413,000.

(b) Interest on debt includes \$5.2 million per year of interest based on the December 31, 2005 outstanding balance of \$88.0 million on our senior revolving credit facility which is due in 2010. However, we continually reduce our outstanding balance on the senior revolving credit facility with cash generated from operations.

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(c) Purchase obligations include a \$500,000 locomotive maintenance contract, \$13.3 million end of term purchase price for locomotives and freight cars under operating leases, and \$4.7 million of capital expenditures required under the terms of a rail line lease agreement.

(d) Represents future cash payments for the fixed portion of interest rate swaps.

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Impact of Foreign Currencies on Operating Revenues

As of December 31, 2005, foreign currency translation had a net positive impact on consolidated North American revenues. The following table sets forth the impact of foreign currency translation on reported operating revenues:

	Operating Revenues			
	(dollars in thousands)			
	Years Ended December 31,			2004
	As Reported	Currency Translation Impact	Revenues Excluding Currency Impact	As Reported
	2005	2005	2005	2004
U.S. Operating Revenues	\$ 299,440	n/a	\$ 299,440	\$ 226,521
Canada Operating Revenues	50,960	4,598	46,362	44,008
Mexico Operating Revenues	34,989	1,209	33,780	33,255
Total Operating Revenues	\$ 385,389	\$ 5,807	\$ 379,582	\$ 303,784

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as required to be disclosed pursuant to Item 303(a)(4) of regulation S-K.

Supplemental Information Australian Railroad Group

Credit Facilities

In December 2003, ARG refinanced all of its senior debt outstanding through new senior credit facilities (the new Credit Facilities) of \$398.0 million. The new Credit Facilities are denominated in Australian dollars. By drawing down approximately \$368.0 million under the new Credit Facilities and using previously restricted cash, ARG repaid \$439.3 million of senior debt. The new Credit Facilities are composed of a \$150.2 million revolving loan maturing in 2008, a \$90.1 million term loan maturing in 2008, a \$150.2 million term loan expiring in 2010, and a \$7.5 million working capital facility. The credit facilities accrue interest at rates based on various indices plus an applicable margin, which varies from 0.70 to 1.25 percentage points based on the bank bill bid rate, as defined in the credit agreements. ARG pays a commitment fee on all unused portions of the credit facilities which varies from 0.3 to 0.4 percentage points. The credit facilities include limited negative pledge covenants but permit prepayment. The credit facilities require the maintenance of certain covenant ratios or amounts, including, but not limited to, interest expense to EBITDA, and total debt to total assets, all as defined in the credit agreements. (Dollar amounts noted above apply the year-end 2003 exchange rate of 0.75 U.S. dollars per Australian dollar.) ARG was in compliance with the provisions of these covenants as of December 31, 2005.

Impact of Foreign Currency on ARG s Operating Revenues and Net Income

As of December 31, 2005, foreign currency translation had a positive impact on ARG s operating revenues and net income due to the strengthening of the Australian dollar. The following table sets forth the impact of foreign currency translation on reported operating revenues and net income:

ARG Operating Revenues and Net Income

(U.S. dollars in thousands)

	Years Ended December 31,			
	As Reported	Currency Translation Impact	Excluding Currency Impact	As Reported
	2005	2005	2005	2004
Operating Revenues	\$ 344,546	\$ 11,830	\$ 332,716	\$ 333,647

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Net Income	\$ 18,936	\$ 633	\$ 18,303	\$ 28,470
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Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to use judgment and to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses during the reporting period. Management uses its judgment in making significant estimates in the areas of recoverability and useful life of assets, as well as liabilities for casualty claims and income taxes. Actual results could differ from those estimates.

Management has discussed the development and selection of the critical accounting estimates described below with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to us in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Property and Equipment

We record property and equipment at historical cost, and we record acquired railroad property at the allocated cost. We capitalize major renewals or betterments, but routine maintenance and repairs are charged to expense when incurred. We credit or charge to operating expense gains or losses on sales or other dispositions. We depreciate our property and equipment on the straight-line method over the useful lives of the road property (5-50 years) and equipment (3-20 years).

The following table sets forth the estimated useful lives of our major classes of property and equipment:

Property:	Estimated useful life
Buildings & Leasehold Improvements	30 years or life of lease
Bridges/Tunnels/Culverts	30 - 50 years
Track Property	5 - 50 years
Equipment:	
Computer Equipment	3 years
Locomotives & Freight Cars	5 - 20 years
Vehicles & Mobile Equipment	5 - 10 years
Signals & Crossing Equipment	5 - 10 years
Track Equipment	5 - 10 years
Other Equipment	5 - 10 years

We continually evaluate whether events and circumstances have occurred that indicate that our long-lived tangible assets may not be recoverable. When factors indicate that an asset should be evaluated for possible impairment, we use an estimate of the related undiscounted future cash flows over the remaining life of such asset in measuring whether or not impairment has occurred. If we identify impairment on an asset, we would report a loss to the extent that the carrying value of the related asset exceeds the fair value of such asset, as determined by valuation techniques applicable in the circumstances. We closely monitor our assets in foreign operations where fluctuating currencies and unsettled economic conditions can create greater uncertainty.

Intangible Assets and Goodwill Acquired in Business Combinations

We account for our business acquisitions using the purchase method of accounting. We allocate the total cost of an acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions, including those with respect to future cash flows, discount rates, and asset lives and therefore require considerable judgment. These determinations will affect the amount of amortization expense recognized in future periods.

We review the carrying values of identifiable intangible assets with indefinite lives and goodwill at least annually to assess impairment, since these assets are not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever such events or changes in circumstances indicate that its carrying amount may not be recoverable. We assess impairment by comparing the fair value of an intangible asset or goodwill with its carrying value. The determination of fair value involves significant management judgment. Impairments are expensed when incurred. Specifically, we test for impairments in accordance with Statement of Financial Accounting Standards No. 142 (SFAS No. 142). We perform our annual impairment test on November 30th of each year and in 2005 no impairment was recognized.

For intangible assets, the impairment test compares the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible assets exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

For goodwill, a two-step impairment model is used. We first compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is less than the carrying amount, goodwill would be considered impaired and we would then record the goodwill impairment as the excess of recorded goodwill over its implied fair value.

Derailment and Property Damages, Personal Injuries and Third Party Claims

We maintain insurance, with varying deductibles up to \$500,000 per incident for liability and up to \$500,000 per incident for property damage, for claims resulting from train derailments and other accidents related to our railroad and industrial switching operations. Accruals for FELA claims by our railroad employees and third party personal injury or other claims, limited when appropriate to the applicable deductible, are recorded when such claims are determined to be probable and estimates are updated as information develops.

Pensions and Other Post-Retirement Benefits

We use third-party actuaries to assist us in properly measuring the liabilities and expenses associated with providing pension and defined contribution medical and life insurance benefits (OPEB) for union and non-union employees of two U.S. subsidiaries. In order to apply actuarial methods to value the liabilities and expenses we must make several assumptions. The critical assumptions used to measure pension obligations and expenses are the discount rate applied to future liabilities and expected future rate of return on pension assets. For other postretirement benefits, the critical assumptions are the discount rate and healthcare cost trend rate.

We evaluate our critical assumptions annually and our assumptions are based on the following factors:

- n Discount rate is based on a review of long-term bonds, including published indices. The discount rate determined on that basis was 5.75%.
- n Expected return on plan assets is based on an assumed long-term asset rate of return of 8.5%.
- n Health care cost trend rate is based on historical rates of inflation and expected market conditions and is assumed to be 11.0% in 2006 graded ratably to 5% over a seven year period.

Stock-Based Compensation

We elected to adopt SFAS 123(R), in the third quarter of 2005 using the Modified Prospective Application. SFAS 123(R) requires us to measure compensation cost for stock awards at fair value and recognize compensation over the service period for awards expected to vest. Prior to adoption we accounted for our stock-based compensation plans under APB Opinion 25, under which no compensation cost had been recognized and disclosed the pro forma expense for basic and diluted earnings per share as if stock-based compensation had been compiled under SFAS 123.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model and straight-line amortization of compensation expense over the requisite service period of the grant. Two assumptions in the Black-Scholes pricing model that require management judgment are the expected life and expected volatility of stock. The expected life is based on historical experience and is estimated for each grant. The expected volatility of stock is based on actual volatility and adjusted to reflect future expectations.

The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, the cumulative effect on current and prior periods will be recorded as compensation cost in the period of change. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates.

As of the adoption date, the impact of amortizing existing stock options in the year ended December 31, 2005 represented compensation cost of \$1.8 million pre-tax, or \$1.5 million after-tax, which reduced earnings by \$.04 per share for the year ended December 31, 2005. The total compensation cost related to non-vested awards not yet recognized of \$4.9 million is expected to be recognized through June 30, 2008. Amortization expense for the restricted stock shares was \$664,000 for the year ended December 31, 2005. Total unrecognized compensation cost for non-vested restricted stock shares and restricted stock units of \$1.4 million is expected to be recognized through June 30, 2008.

Income Taxes

We account for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes (SFAS No. 109). SFAS No. 109 requires a balance sheet approach for the financial accounting and reporting of deferred income taxes. Deferred income taxes reflect the tax effect of temporary differences between the book and tax basis of assets and liabilities, as well as available income tax credit and net operating loss carryforwards. In our consolidated balance sheets, these deferred benefits and deferred obligations are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax obligation or benefit that is not related to an asset or liability for financial reporting, including deferred tax assets related to carry-forwards, are classified according to the expected reversal date of the temporary difference as of the end of the year.

No provision is made for the U.S. income taxes applicable to the undistributed earnings of controlled foreign subsidiaries because it is the intention of management to fully utilize those earnings in the operations of foreign subsidiaries. If the earnings were to be distributed in the future, those distributions may be subject to U.S. income taxes (appropriately reduced by available foreign tax credits) and withholding taxes payable to various foreign countries. The amount of undistributed earnings of our controlled foreign subsidiaries as of December 31, 2005 was \$89.0 million.

We had net operating loss carry-forwards from our Mexican operations in 2005 and 2004 of \$19.4 million and \$16.6 million, respectively. The Mexican losses, for income tax purposes, relate to the immediate deduction of a portion of the purchase price paid for the FCCM operations and interest expense incurred in the holding company, Servicios. These loss carry-forwards