

GENESEE & WYOMING INC  
Form 10-Q  
May 05, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

**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. 001-31456

**GENESEE & WYOMING INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**06-0984624**  
*(I.R.S. Employer  
Identification No.)*

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

**06830**  
*(Zip Code)*

**(203) 629-3722**  
*(Registrant's telephone number, including area code)*

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  YES  NO

Indicate by check mark whether the registrant has submitted electronically or posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):  YES  NO

## Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

Shares of common stock outstanding as of the close of business on April 30, 2010:

<b>Class</b>	<b>Number of Shares Outstanding</b>
Class A Common Stock	38,747,748
Class B Common Stock	2,493,540

**Table of Contents**

**INDEX**

	<b>Page</b>
Part I. Financial Information	
Item 1. Financial Statements (Unaudited):	
<u>Consolidated Balance Sheets - As of March 31, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations - For the Three Months Ended March 31, 2010 and 2009</u>	4
<u>Consolidated Statements of Cash Flows - For the Three Months Ended March 31, 2010 and 2009</u>	5
<u>Notes to Consolidated Financial Statements</u>	6-11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12-21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
Part II. <u>Other Information</u>	22
Item 1. <u>Legal Proceedings</u>	22
Item 1A. <u>Risk Factors</u>	22
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3. <u>Defaults Upon Senior Securities</u>	22
Item 4. <u>(Removed and Reserved)</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits</u>	22
<u>Signatures</u>	23
<u>Index to Exhibits</u>	24

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF MARCH 31, 2010 and DECEMBER 31, 2009****(in thousands, except share amounts)****(Unaudited)**

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 133,448	\$ 105,707
Accounts receivable, net	108,269	109,931
Materials and supplies	8,918	8,939
Prepaid expenses and other	14,697	13,223
Deferred income tax assets, net	15,162	15,161
Current assets of discontinued operations	265	282
<b>Total current assets</b>	<b>280,759</b>	<b>253,243</b>
PROPERTY AND EQUIPMENT, net	1,022,857	1,024,297
GOODWILL	160,611	161,208
INTANGIBLE ASSETS, net	242,488	244,464
DEFERRED INCOME TAX ASSETS, net	3,053	3,122
OTHER ASSETS, net	10,855	10,698
<b>Total assets</b>	<b>\$ 1,720,623</b>	<b>\$ 1,697,032</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 27,954	\$ 27,818
Accounts payable	103,042	104,813
Accrued expenses	40,226	38,181
Deferred income tax liabilities, net	656	971
Current liabilities of discontinued operations	13	11
<b>Total current liabilities</b>	<b>171,891</b>	<b>171,794</b>
LONG-TERM DEBT, less current portion	415,728	421,616
DEFERRED INCOME TAX LIABILITIES, net	249,003	244,924
DEFERRED ITEMS - grants from outside parties	146,616	146,345
OTHER LONG-TERM LIABILITIES	25,354	23,476
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY:</b>		
Class A Common Stock, \$0.01 par value, one vote per share; 90,000,000 shares authorized; 51,164,834 and 50,876,873 shares issued and 38,739,590 and 38,466,567 shares outstanding (net of 12,425,244 and 12,410,306 shares in treasury) on March 31, 2010 and December 31, 2009, respectively	512	509
Class B Common Stock, \$0.01 par value, ten votes per share; 15,000,000 shares authorized; 2,493,540 and 2,558,790 shares issued and outstanding on March 31, 2010 and December 31, 2009, respectively	25	26
Additional paid-in capital	336,572	330,710
Retained earnings	556,885	540,925

Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

Accumulated other comprehensive income	21,304	19,483
Treasury stock, at cost	(203,267)	(202,776)
Total equity	712,031	688,877
Total liabilities and equity	\$ 1,720,623	\$ 1,697,032

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED MARCH 31, 2010 and 2009****(dollars in thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING REVENUES</b>	<b>\$ 145,579</b>	<b>\$ 138,458</b>
<b>OPERATING EXPENSES:</b>		
Labor and benefits	50,188	49,998
Equipment rents	7,649	7,890
Purchased services	10,397	9,311
Depreciation and amortization	12,448	11,506
Diesel fuel	11,037	8,993
Diesel fuel sold to third parties	3,793	3,389
Casualties and insurance	3,904	3,584
Materials	5,477	5,603
Net gain on sale of assets	(449)	(239)
Other operating expenses	11,029	12,323
<b>Total operating expenses</b>	<b>115,473</b>	<b>112,358</b>
<b>INCOME FROM OPERATIONS</b>	<b>30,106</b>	<b>26,100</b>
Interest income	423	182
Interest expense	(5,362)	(7,180)
Other income, net	450	42
Income from continuing operations before income taxes	25,617	19,144
Provision for income taxes	9,641	5,163
Income from continuing operations, net of tax	15,976	13,981
Loss from discontinued operations, net of tax	(16)	(33)
Net income	15,960	13,948
Less: Net income attributable to noncontrolling interest		(1)
Net income attributable to Genesee & Wyoming Inc.	\$ 15,960	\$ 13,947
<b>Basic earnings per common share attributable to Genesee &amp; Wyoming Inc. common stockholders:</b>		
Basic earnings per common share from continuing operations	\$ 0.41	\$ 0.42
Basic loss per common share from discontinued operations		
Basic earnings per common share	\$ 0.41	\$ 0.42
Weighted average shares Basic	38,569	33,467

## Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:

Diluted earnings per common share from continuing operations	\$ 0.39	\$ 0.38
Basic loss per common share from discontinued operations		

Diluted earnings per common share	\$ 0.39	\$ 0.38
-----------------------------------	---------	---------

Weighted average shares Diluted	41,418	36,370
---------------------------------	--------	--------

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2010 and 2009****(dollars in thousands)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 15,960	\$ 13,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	16	33
Depreciation and amortization	12,448	11,506
Compensation cost related to equity awards	2,074	1,564
Excess tax benefit from share-based compensation	(673)	(10)
Deferred income taxes	4,357	2,240
Net gain on sale of assets	(449)	(239)
Changes in assets and liabilities which provided (used) cash, net of effect of acquisitions:		
Accounts receivable trade, net	(5,988)	5,253
Materials and supplies	155	368
Prepaid expenses and other	(1,387)	175
Accounts payable and accrued expenses	6,402	(9,264)
Other assets and liabilities, net	722	(42)
Net cash provided by operating activities from continuing operations	33,637	25,532
Net cash used in operating activities from discontinued operations	(23)	(411)
Net cash provided by operating activities	33,614	25,121
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(14,328)	(20,701)
Grant proceeds from outside parties	10,100	3,771
Cash paid for acquisitions, net of cash acquired		(5,780)
Proceeds from sale of investment in South America	208	
Proceeds from disposition of property and equipment	768	3,631
Net cash used in investing activities from continuing operations	(3,252)	(19,079)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term borrowings, including capital leases	(6,820)	(76,671)
Proceeds from issuance of long-term debt		69,000
Proceeds from employee stock purchases	3,096	660
Treasury stock purchases	(491)	
Excess tax benefit from share-based compensation	673	10
Net cash used in financing activities	(3,542)	(7,001)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>895</b>	<b>242</b>

Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

CHANGE IN CASH BALANCES INCLUDED IN CURRENT ASSETS OF DISCONTINUED OPERATIONS	26	158
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	27,741	(559)
CASH AND CASH EQUIVALENTS, beginning of period	105,707	31,693
CASH AND CASH EQUIVALENTS, end of period	\$ 133,448	\$ 31,134

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**GENESEE & WYOMING INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:**

The interim consolidated financial statements presented herein include the accounts of Genesee & Wyoming Inc. and its subsidiaries (the Company). All references to currency amounts included in this Quarterly Report on Form 10-Q, including the consolidated financial statements, are in United States dollars unless specifically noted otherwise. All significant intercompany transactions and accounts have been eliminated in consolidation. These interim consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, accordingly, do not contain all disclosures which would be required in a full set of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (United States GAAP). In the opinion of management, the unaudited financial statements for the three months ended March 31, 2010 and 2009, are presented on a basis consistent with the audited financial statements (except as described below) and contain all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of the results for interim periods. The results of operations for interim periods are not necessarily indicative of results of operations for the full year. The consolidated balance sheet data for 2009 was derived from the audited financial statements in the Company's 2009 Annual Report on Form 10-K (except as described below) but does not include all disclosures required by United States GAAP.

The interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2009, included in the Company's 2009 Annual Report on Form 10-K. Certain reclassifications have been made to prior period balances to conform to the current year presentation.

In order to improve comparability of the Company's results with those of other railroad companies, effective with the Company's Consolidated Statement of Operations for the year ended December 31, 2009, the Company's operating expenses are presented using a natural classification. Previously, the Company's operating expenses were presented on a functional basis. The Company's operating expenses in its Consolidated Statement of Operations for the three months ended March 31, 2009, are presented using a natural classification to conform to this new presentation. This revised presentation had no effect on previously reported total operating expenses, net income or earnings per share.

**2. CHANGES IN OPERATIONS:**

***Canada***

***Huron Central Railway Inc.:*** In the second quarter of 2009, the Company recorded charges of \$5.4 million after-tax associated with the Company's subsidiary, Huron Central Railway Inc. (HCRY), reflecting a non-cash write-down of non-current assets of \$6.7 million as well as restructuring and related charges of \$2.3 million, partially offset by tax benefits totaling \$3.6 million. However, as HCRY has agreed to operate the line through August 14, 2010, the Company does not expect to make any significant cash payments related to these restructuring and related charges until the third quarter of 2010. The Company did not incur any additional restructuring charges related to HCRY in the first quarter of 2010.

***Discontinued Operations***

In August of 2009, the Company completed the sale of 100% of the share capital of Ferrocarriles Chiapas-Mayab, S.A. de C.V. to Viablis, S.A. de C.V. As of March 31, 2010, there were net assets of \$0.3 million remaining on the Company's balance sheet related to discontinued operations in Mexico. The results of operations and cash flows of the Company's remaining Mexican subsidiary, GW Servicios S.A., which were classified as discontinued operations, were not material for the three months ended March 31, 2010 and 2009. The Company does not expect any material future adverse financial impact from our remaining Mexican subsidiary.

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Results of Continuing Operations***

When comparing the Company's results of continuing operations from one reporting period to another, you should consider that the Company has historically experienced fluctuations in revenues and expenses due to economic conditions, changes in foreign currency exchange rates, acquisitions, competitive forces, one-time freight moves, customer plant expansions and shut-downs, sales of property and equipment, derailments and weather related conditions such as hurricanes, droughts, heavy snowfall, freezing and flooding. In periods when these events occur, results of operations are not easily comparable from one period to another. Finally, certain of the Company's railroads transport commodities that are sensitive to general economic conditions, including steel products, paper products and lumber and forest products. However, the Company also transports other commodities that are relatively less affected by economic conditions and are more closely affected by other factors, such as inventory levels maintained at a customer power plant (coal), winter weather (salt) and seasonal rainfall (South Australian grain). As a result of these and other factors, the Company's operating results in any reporting period may not be directly comparable to its operating results in other reporting periods.

**3. EARNINGS PER SHARE:**

The following table sets forth the computation of basic and diluted earnings per share (EPS) (in thousands, except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Numerator:</b>		
Amounts attributable to Genesee & Wyoming Inc. common stockholders:		
Income from continuing operations, net of tax	\$ 15,976	\$ 13,980
Loss from discontinued operations, net of tax	(16)	(33)
<b>Net income</b>	<b>\$ 15,960</b>	<b>\$ 13,947</b>
<b>Denominators:</b>		
Weighted average Class A common shares outstanding - Basic	38,569	33,467
Weighted average Class B common shares outstanding	2,522	2,575
Dilutive effect of employee stock grants	327	328
<b>Weighted average shares - Diluted</b>	<b>41,418</b>	<b>36,370</b>
<b>Earnings per common share attributable to Genesee &amp; Wyoming Inc. common stockholders:</b>		
<b>Basic:</b>		
Earnings per common share from continuing operations	\$ 0.41	\$ 0.42
Loss per common share from discontinued operations		
<b>Earnings per common share</b>	<b>\$ 0.41</b>	<b>\$ 0.42</b>
<b>Diluted:</b>		
Earnings per common share from continuing operations	\$ 0.39	\$ 0.38
Loss per common share from discontinued operations		
<b>Earnings per common share</b>	<b>\$ 0.39</b>	<b>\$ 0.38</b>

## Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

For the three months ended March 31, 2010 and 2009, a total of 1,088,893 and 1,488,187 shares, respectively, of Class A common stock issuable under the assumed exercises of stock options computed based on the treasury stock method, were excluded from the calculation of diluted earnings per common share, as the effect of including these shares would have been anti-dilutive, because the value upon assumed exercise of those stock options exceeded the average market price for the Company's common stock for the respective period.

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Stock Offering**

On June 15, 2009, the Company completed a public offering of 4,600,000 shares of its Class A common stock at \$24.50 per share, which included 600,000 shares of its Class A common stock issued as a result of the underwriters' exercise of their over-allotment option. The Company received net proceeds of \$106.6 million from the sale of its Class A common stock. The Company used a portion of the proceeds along with cash on hand to repay \$108.0 million of its revolving credit facility, which represented the entire balance then outstanding.

**4. ACCOUNTS RECEIVABLE:**

Accounts receivable consisted of the following as of March 31, 2010 and December 31, 2009 (dollars in thousands):

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Accounts receivable - trade	\$ 103,638	\$ 98,036
Accounts receivable - grants	8,492	15,659
<b>Total accounts receivable</b>	<b>112,130</b>	<b>113,695</b>
Less: allowance for doubtful accounts	(3,861)	(3,764)
<b>Accounts receivable, net</b>	<b>\$ 108,269</b>	<b>\$ 109,931</b>

**5. DERIVATIVE FINANCIAL INSTRUMENTS:**

The Company actively monitors its exposure to interest rate and foreign currency exchange rate risks and uses derivative financial instruments to manage the impact of certain of these risks. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company designates derivatives as a hedge of a forecasted transaction or of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). The portion of the changes in the fair value of the derivative that is designated as a cash flow hedge that is offset by changes in the expected cash flows related to a recognized asset or liability (the effective portion) is recorded in accumulated other comprehensive income. As the hedged item is realized, the gain or loss included in accumulated other comprehensive income is reported in the consolidated statements of operations on the same line as the hedged item. In addition, the portion of the changes in fair value of derivatives used as cash flow hedges that is not offset by changes in the expected cash flows related to a recognized asset or liability (the ineffective portion) is immediately recognized in earnings on the same line item as the hedged item.

The Company's derivatives are recorded in the consolidated balance sheets at fair value in prepaid expenses and other, other assets, net, accrued expenses or other long-term liabilities. The Company matches the hedge instrument to the underlying hedged item (assets, liabilities, firm commitments or forecasted transactions). At hedge inception and at least quarterly thereafter, the Company assesses whether the derivatives used to hedge transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item.

**Interest Rate Risk Management**

The Company uses interest rate swap agreements to manage its exposure to changes in interest rates of the Company's variable rate debt. These swap agreements are recorded in the consolidated balance sheets at fair value. Changes in the fair value of the swap agreements are recorded in net income or other comprehensive income, based on whether the agreements are designated as part of a hedge transaction and whether the agreements are effective in offsetting the change in the value of the future interest payments attributable to the underlying portion of the Company's variable rate debt. Interest payments accrued each reporting period for these interest rate swaps are recognized in interest expense.

## Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

On October 2, 2008, the Company entered into an interest rate swap agreement to manage its exposure to interest rates on a portion of its outstanding borrowings. The swap has a notional amount of \$120.0 million and requires the Company to pay a fixed rate of 3.88% on the notional amount. This swap expires on September 30, 2013. In return, the Company receives one-month LIBOR on the notional amounts of the swap, which is equivalent to the Company's variable rate obligation on the notional amounts under its credit facilities. The fair value of this interest rate swap agreement was estimated based on Level 2 inputs. The Company's effectiveness testing as of March 31, 2010, did not result in the reclassification of any gain or loss from accumulated other comprehensive income into income.

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table presents the impact of the derivative instrument and its location within the unaudited consolidated balance sheets (dollars in thousands):

	March 31, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivative designated as a hedging instrument:</b>				
Interest rate swap agreement	Other long-term liabilities	\$ 7,815	Other long-term liabilities	\$ 6,624
<b>Total derivative financial instrument</b>		<b>\$ 7,815</b>		<b>\$ 6,624</b>

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The Company applies the following three-level hierarchy of valuation inputs as a framework for measuring fair value:

Level 1 Quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable market data.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

Long-term debt: Since the Company's long-term debt is not quoted, fair value was estimated using a discounted cash flow analysis based on Level 2 valuation inputs, including borrowing rates the Company believes are currently available to it for debt with similar terms and maturities.

Derivative instruments: Derivative instruments are recorded on the balance sheet as either assets or liabilities measured at fair value. As of March 31, 2010, the Company's derivative financial instruments consisted solely of an interest rate swap agreement. The Company estimates the fair value of its interest rate swap agreement based on Level 2 valuation inputs, including fixed interest rates, LIBOR implied forward interest rates and the remaining time to maturity.

The following table presents the Company's financial instrument that is carried at fair value using Level 2 inputs (dollars in thousands):



Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

	March 31, 2010	December 31, 2009
<b>Financial liabilities carried at fair value:</b>		
Interest rate swap agreement	\$ 7,815	\$ 6,624
<b>Total financial liabilities carried at fair value</b>	<b>\$ 7,815</b>	<b>\$ 6,624</b>

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table presents the carrying value and fair value using Level 2 inputs of the Company's financial instruments carried at historical cost (dollars in thousands):

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial liabilities carried at historical cost:</b>				
Series A senior notes	\$ 75,000	\$ 71,633	\$ 75,000	\$ 71,184
Series B senior notes	100,000	89,682	100,000	89,320
Series C senior notes	25,000	22,058	25,000	22,027
United States term loan	210,000	187,204	216,000	196,281
Canadian term loan	26,847	23,933	26,676	21,530
Other debt	6,835	6,173	6,758	6,112
Total	\$ 443,682	\$ 400,683	\$ 449,434	\$ 406,454

**7. INCOME TAXES:**

The Company's effective income tax rate in the three months ended March 31, 2010, was 37.6% compared with 27.0% in the three months ended March 31, 2009. The increase in 2010 was primarily attributable to the expiration of the United States railroad track maintenance credit, known as the Short Line Tax Credit, on December 31, 2009.

The Short Line Tax Credit, which had been in existence from 2005 through 2009, expired on December 31, 2009. The Short Line Tax Credit represented 50% of qualified track spending during each year, subject to a limitation of \$3,500 per track mile owned or leased at the end of the year. Historically, the Company incurred sufficient spending to meet the limitation.

**8. COMMITMENTS AND CONTINGENCIES:**

From time to time the Company is a defendant in certain lawsuits resulting from its operations. Management believes there are adequate provisions in the financial statements for any expected liabilities that may result from disposition of the pending lawsuits. Nevertheless, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable ruling to occur, there is the possibility of a material adverse impact on the Company's results of operations, financial position or liquidity as of and for the period in which the ruling occurs.

**Table of Contents****GENESEE & WYOMING INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. COMPREHENSIVE INCOME:**

Comprehensive income is the total of net income and all other non-owner changes in equity. The following table sets forth the Company's comprehensive income for the three months ended March 31, 2010 and 2009 (dollars in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 15,960	\$ 13,948
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	2,341	(2,571)
Net unrealized (loss)/income on qualifying cash flow hedges, net of tax benefit/(provision) of \$432 and (\$280), respectively	(759)	492
Changes in pension and other postretirement benefits, net of tax provisions of \$136 and \$8, respectively	239	14
Comprehensive income	17,781	11,883
Comprehensive income attributable to noncontrolling interest		(1)
Comprehensive income attributable to Genesee & Wyoming Inc.	\$ 17,781	\$ 11,882

The following table sets forth accumulated other comprehensive income, net of tax, included in the consolidated balance sheets as of March 31, 2010 and December 31, 2009 (dollars in thousands):

	<b>Foreign Currency Translation Adjustment</b>	<b>Defined Benefit Plans</b>	<b>Net Unrealized Losses on Cash Flow Hedges</b>	<b>Accumulated Other Comprehensive Income</b>
Balance, December 31, 2009	\$ 24,028	\$ (322)	\$ (4,223)	\$ 19,483
Current period change	2,341	239	(759)	1,821
Balance, March 31, 2010	\$ 26,369	\$ (83)	\$ (4,982)	\$ 21,304

The change in the foreign currency translation adjustment for the three months ended March 31, 2010, related to the Company's operations with a functional currency in Australian and Canadian dollars and the Euro.

**10. SIGNIFICANT NON-CASH INVESTING ACTIVITIES:**

As of March 31, 2010 and 2009, the Company had outstanding grant receivables from outside parties for capital expenditures of \$8.5 million and \$7.4 million, respectively. As of March 31, 2010 and 2009, the Company also had approximately \$4.0 million and \$4.5 million, respectively, of purchases of property and equipment that were not paid and, accordingly, were accrued in accounts payable in the normal course of business.

**11. RECENTLY ISSUED ACCOUNTING STANDARDS:**

## Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures About Fair Value Measurements*, which requires new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements. This guidance was effective for the Company as of January 1, 2010. The adoption did not have a material impact on the Company's consolidated financial statements.

### *Accounting Standards Not Yet Effective*

Certain provisions of ASU 2010-06 are effective for interim and annual periods beginning after December 15, 2010, and require all purchases, sales, issuances and settlements of financial instruments to be valued using significant unobservable inputs (Level 3) to be presented as separate line items in the reconciliation for fair value measurements. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

---

## **Table of Contents**

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, and with the consolidated financial statements, related notes and other financial information included in our 2009 Annual Report on Form 10-K.

#### **Forward-Looking Statements**

This report and other documents referred to in this report may contain forward-looking statements based on current expectations, estimates and projections about our industry, management's beliefs, and assumptions made by management. Words such as anticipates, intends, plans, believes, seeks, expects, estimates, variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions, including the following risks applicable to all of our operations: risks related to the acquisition and integration of railroads; difficulties associated with customers, competition, connecting carriers, employees and partners; derailments; adverse weather conditions; unpredictability of fuel costs; changes in environmental and other laws and regulations to which we are subject; general economic and business conditions; and additional risks associated with our foreign operations. Therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include, in addition to those set forth in this Item 2 and Part II, Item 1A, if any, those noted in our 2009 Annual Report on Form 10-K under Risk Factors. Forward-looking statements speak only as of the date of this report or as of the date they are made, and we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

#### **Overview**

We own and operate short line and regional freight railroads and provide railcar switching services in the United States, Australia, Canada and the Netherlands. Operations currently include 62 railroads organized in nine regions, with approximately 6,000 miles of owned and leased track and approximately 3,400 additional miles under track access arrangements. In addition, we provide rail service at 16 ports in North America and Europe and perform contract coal loading and railcar switching for industrial customers.

Net income attributable to Genesee & Wyoming Inc. (GWI) in the three months ended March 31, 2010, was \$16.0 million, compared with net income attributable to GWI of \$13.9 million in the three months ended March 31, 2009. Our diluted earnings per share (EPS) attributable to our common stockholders in the three months ended March 31, 2010, were \$0.39 with 41.4 million weighted average shares outstanding, compared with diluted EPS attributable to our common stockholders of \$0.38 with 36.4 million weighted average shares outstanding in the three months ended March 31, 2009.

Our effective income tax rate in the three months ended March 31, 2010, was 37.6%, compared with 27.0% in the three months ended March 31, 2009. The increase was primarily due to the expiration of the United States railroad track maintenance credit, known as the Short Line Tax Credit, on December 31, 2009.

Freight revenues increased \$0.4 million, or 0.4%, to \$89.6 million in the three months ended March 31, 2010, compared with \$89.2 million in the three months ended March 31, 2009. Freight revenues increased \$4.3 million due to the appreciation of the Australian and Canadian dollars relative to the United States dollar. Excluding the impact from foreign currency appreciation, freight revenues decreased by \$3.9 million or 4.4%.

Our traffic in the three months ended March 31, 2010, was 202,368 carloads, a decrease of 12,071 carloads, or 5.6%, compared with the three months ended March 31, 2009. Of particular importance in reviewing our traffic in the three months ended March 31, 2010, was the timing of our carloads, which increased significantly in the month of March. In March 2010, our traffic increased 5.0% compared with March 2009 and 17.8% compared with February 2010. Average freight revenues per carload increased 6.5% to \$443 in the three months ended March 31, 2010, compared with \$416 in the three months ended March 31, 2009. The appreciation of the Australian and Canadian dollars increased average revenues per carload by 4.9% and higher fuel surcharges increased average revenues per carload by 0.1%. Excluding these factors, average revenues per carload increased 1.4%.

## **Table of Contents**

Non-freight revenues increased \$6.7 million, or 13.6%, to \$56.0 million in the three months ended March 31, 2010, compared with \$49.3 million in the three months ended March 31, 2009. The increase in non-freight revenues included a \$4.1 million increase due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar. Excluding the impact from foreign currency appreciation, non-freight revenues increased \$2.6 million, or 5.3%.

Operating income in the three months ended March 31, 2010, increased \$4.0 million, or 15.3%, to \$30.1 million, compared with \$26.1 million in the three months ended March 31, 2009, primarily due to higher revenues and a lower operating ratio. Our operating ratio was 79.3% in the three months ended March 31, 2010, compared with 81.1% in the three months ended March 31, 2009.

During the three months ended March 31, 2010, we generated \$33.6 million in cash from operating activities from continuing operations. We purchased \$14.3 million of property and equipment, received \$0.3 million in cash from outside parties for capital spending completed in 2010 and \$9.8 million in cash from outside parties for capital spending completed in prior years. We also received \$0.8 million in proceeds from the disposition of property and equipment and \$0.2 million in proceeds from the sale of our investment in South America.

## **Changes in Operations**

### ***Canada***

*Huron Central Railway Inc.*: In the second quarter of 2009, we recorded charges of \$5.4 million after-tax associated with our subsidiary, Huron Central Railway Inc. (HCRY), reflecting a non-cash write-down of non-current assets of \$6.7 million as well as restructuring and related charges of \$2.3 million, partially offset by tax benefits totaling \$3.6 million. However, as HCRY has agreed to operate the line through August 14, 2010, we do not expect to make any significant cash payments related to these restructuring and related charges until the third quarter of 2010. We did not incur any additional significant restructuring charges related to HCRY in the first quarter of 2010.

### ***Discontinued Operations***

In August of 2009, we completed the sale of 100% of the share capital of Ferrocarriles Chiapas-Mayab, S.A. de C.V. to Viablis, S.A. de C.V. As of March 31, 2010, there were net assets of \$0.3 million remaining on our balance sheet related to discontinued operations in Mexico. The results of operations and cash flows of our remaining subsidiary, GW Servicios S.A., which were classified as discontinued operations, were not material for the three months ended March 31, 2010 and 2009. We do not expect any material future adverse financial impact from our remaining Mexican subsidiary.

### ***Results of Continuing Operations***

When comparing our results of continuing operations from one reporting period to another, consider that we have historically experienced fluctuations in revenues and expenses due to economic conditions, changes in foreign currency exchange rates, acquisitions, competitive forces, one-time freight moves, customer plant expansions and shut-downs, sales of property and equipment, derailments and weather related conditions such as hurricanes, droughts, heavy snowfall, freezing and flooding. In periods when these events occur, results of operations are not easily comparable from one period to another. Finally, certain of our railroads transport commodities that are sensitive to general economic conditions, including steel products, paper products and lumber and forest products. However, we also transport other commodities that are relatively less affected by economic conditions and are more closely affected by other factors, such as inventory levels maintained at a customer power plant (coal), winter weather (salt) and seasonal rainfall (South Australian grain). As a result of these and other factors, our operating results in any reporting period may not be directly comparable to our operating results in other reporting periods.

**Table of Contents****Three Months Ended March 31, 2010 Compared with Three Months Ended March 31, 2009****Operating Revenues***Overview*

Operating revenues were \$145.6 million in the three months ended March 31, 2010, compared with \$138.5 million in the three months ended March 31, 2009, an increase of \$7.1 million, or 5.1%. The increase in operating revenues included increases of \$6.7 million in non-freight revenues and \$0.4 million in freight revenues. The appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar resulted in an \$8.4 million increase in operating revenues.

The following table breaks down our operating revenues into freight and non-freight revenues for the three months ended March 31, 2010 and 2009 (dollars in thousands):

	2010	2009	2010-2009 Variance Information	
			Amount	%
Freight revenues	\$ 89,566	\$ 89,166	\$ 400	0.4%
Non-freight revenues	56,013	49,292	6,721	13.6%
<b>Total operating revenues</b>	<b>\$ 145,579</b>	<b>\$ 138,458</b>	<b>\$ 7,121</b>	<b>5.1%</b>

*Freight Revenues*

The following table compares freight revenues, carloads and average freight revenues per carload for the three months ended March 31, 2010 and 2009 (dollars in thousands, except average freight revenues per carload):

Commodity Group	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	2010		2009		2010		2009		2010	2009
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total		
Coal, Coke & Ores	\$ 19,123	21.3%	\$ 21,117	23.7%	52,154	25.8%	57,946	27.0%	\$ 367	\$ 364
Farm & Food Products	12,507	14.0%	10,803	12.1%	24,895	12.3%	26,392	12.3%	502	409
Pulp & Paper	12,230	13.6%	13,400	15.0%	20,306	10.0%	24,086	11.2%	602	556
Metals	9,702	10.8%	9,467	10.6%	19,295	9.5%	19,338	9.0%	503	490
Minerals and Stone	9,401	10.5%	8,507	9.5%	30,786	15.2%	31,250	14.6%	305	272
Chemicals-Plastics	8,752	9.8%	8,358	9.4%	12,631	6.2%	12,808	6.0%	693	653
Lumber & Forest Products	6,520	7.3%	6,616	7.4%	14,658	7.3%	14,715	6.9%	445	450
Petroleum Products	5,374	6.0%	5,689	6.4%	7,451	3.7%	7,887	3.7%	721	721
Autos & Auto Parts	1,766	2.0%	1,104	1.2%	2,679	1.3%	1,708	0.8%	659	646
Other	4,191	4.7%	4,105	4.7%	17,513	8.7%	18,309	8.5%	239	224
<b>Total freight revenues</b>	<b>\$ 89,566</b>	<b>100.0%</b>	<b>\$ 89,166</b>	<b>100.0%</b>	<b>202,368</b>	<b>100.0%</b>	<b>214,439</b>	<b>100.0%</b>	<b>443</b>	<b>416</b>

Total carloads decreased by 12,071 carloads, or 5.6%, in the three months ended March 31, 2010, compared with the same period in 2009.

The overall average freight revenues per carload increased 6.5% to \$443 in the three months ended March 31, 2010, compared with the same period in 2009. The appreciation of the Australian and Canadian dollars relative to the United States dollar increased average revenues per carload by 4.9%. In addition, higher fuel surcharges increased average freight revenues per carload by 0.1%. Excluding these factors, average revenues per carload increased 1.4%.





**Table of Contents**

The following table sets forth freight revenues by commodity group for the three months ended March 31, 2010 and 2009 (dollars in thousands):

Commodity Group	2010	2009	2010-2009 Variance Information	
			Increase (Decrease) Amount	%
Coal, Coke & Ores	\$ 19,123	\$ 21,117	\$ (1,994)	(9.4%)
Farm & Food Products	12,507	10,803	1,704	15.8%
Pulp & Paper	12,230	13,400	(1,170)	(8.7%)
Metals	9,702	9,467	235	2.5%
Minerals and Stone	9,401	8,507	894	10.5%
Chemicals-Plastics	8,752	8,358	394	4.7%
Lumber & Forest Products	6,520	6,616	(96)	(1.5%)
Petroleum Products	5,374	5,689	(315)	(5.5%)
Autos & Auto Parts	1,766	1,104	662	60.0%
Other	4,191	4,105	86	2.1%
<b>Total freight revenues</b>	<b>\$ 89,566</b>	<b>\$ 89,166</b>	<b>\$ 400</b>	<b>0.4%</b>

The following information discusses the significant changes in freight revenues by commodity group. The increase in average freight revenues per carload in a commodity group for the three months ended March 31, 2010, was primarily related to the appreciation of the Australian and Canadian dollars relative to the United States dollar, higher fuel surcharges and the impact of higher fuel prices on rates that are indirectly indexed to fuel prices (e.g., RCAF-indexed contracts).

Coal, coke and ores revenues decreased \$2.0 million, or 9.4%. The decrease consisted of \$2.1 million due to a 5,792, or 10.0%, carload decrease, partially offset by \$0.1 million due to a 0.6% increase in average revenues per carload. The carload decrease was primarily due to stock piling of inventory at certain customer locations during the first quarter of 2009 and high customer coal inventory levels in the first quarter of 2010.

Farm and food products revenues increased \$1.7 million, or 15.8%. The increase consisted of \$2.5 million due to a 22.7% increase in average revenues per carload, partially offset by \$0.8 million due to a 1,497, or 5.7%, carload decrease. The increase in average revenues per carload included an increase of \$2.0 million due to the appreciation of the Australian and Canadian dollars relative to the United States dollar. The carload decrease was primarily due to lower winter wheat shipments to Eastern Canada and a delay to this season's grain shipments in Australia.

Pulp and paper revenues decreased \$1.2 million, or 8.7%. The decrease consisted of \$2.3 million due to a 3,780, or 15.7%, carload decrease, partially offset by \$1.1 million due to an 8.3% increase in average revenues per carload. The carload decrease was primarily due to production declines at multiple customer locations as a result of the recession. The increase in average revenues per carload included an increase of \$0.6 million from the appreciation of the Canadian dollar relative to the United States dollar.

Minerals and stone revenues increased \$0.9 million, or 10.5%. The increase consisted of \$1.0 million due to a 12.2% increase in average revenues per carload, which included an increase of \$0.9 million due to the appreciation of the Australian and Canadian dollars relative to the United States dollar, partially offset by a decrease of \$0.1 million due to a 464, or 1.5%, carload decline.

Auto and auto parts revenues increased \$0.7 million, or 60.0%. The increase consisted primarily of \$0.7 million due to a 971, or 56.9%, increase in carloads. The carload increase was primarily due to an increase in production from the United States auto industry.

Freight revenues from all remaining commodities increased by \$0.3 million.

**Table of Contents***Non-Freight Revenues*

Non-freight revenues were \$56.0 million in the three months ended March 31, 2010, compared with \$49.3 million in the three months ended March 31, 2009, an increase of \$6.7 million, or 13.6%. The increase in non-freight revenues included a \$3.9 million increase in other operating income, a \$2.3 million increase in railcar switching and a \$1.1 million increase in car hire and rental income, partially offset by a decrease in demurrage and storage of \$0.8 million. The appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar resulted in a \$4.1 million increase in non-freight revenue.

The following table compares non-freight revenues for the three months ended March 31, 2010 and 2009 (dollars in thousands):

	2010		2009		2010-2009 Variance Information Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
Railcar switching	\$ 25,177	45.0%	\$ 22,854	46.4%	\$ 2,323	10.2%
Car hire and rental income	6,104	10.9%	4,977	10.1%	1,127	22.6%
Fuel sales to third parties	4,116	7.3%	3,571	7.2%	545	15.3%
Demurrage and storage	6,236	11.1%	7,051	14.3%	(815)	(11.6%)
Car repair services	1,716	3.1%	2,040	4.1%	(324)	(15.9%)
Other operating income	12,664	22.6%	8,799	17.9%	3,865	43.9%
<b>Total non-freight revenues</b>	<b>\$ 56,013</b>	<b>100.0%</b>	<b>\$ 49,292</b>	<b>100.0%</b>	<b>\$ 6,721</b>	<b>13.6%</b>

The following information discusses the significant changes in non-freight revenues.

Railcar switching revenues increased \$2.3 million, or 10.2%. The increase included a \$1.6 million increase due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar, a \$0.9 million increase in port switching revenues due to increases in export grain traffic and intermodal container traffic at our United States ports, partially offset by a \$0.2 million decline in industrial switching revenues.

Car hire and rental income increased \$1.1 million, or 22.6%. The increase included a \$0.7 million increase due to the appreciation of the Australian and Canadian dollars relative to the United States dollar and \$0.4 million primarily due to an increase in demand for equipment rentals in Australia.

Fuel sales to third parties increased \$0.5 million, or 15.3%, primarily due to a \$1.7 million increase resulting from a 48.2% increase in price per gallon, partially offset by a \$1.2 million decrease resulting from a 22.2% decrease in gallons sold.

All other non-freight revenues increased \$2.7 million, or 15.2%. The increase included a \$1.7 million increase due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar and a \$1.0 million increase primarily related to the temporary service contract at HCRY and increases in our Australian crewing services.

**Operating Expenses***Overview*

Operating expenses were \$115.5 million in the three months ended March 31, 2010, compared with \$112.4 million in the three months ended March 31, 2009, an increase of \$3.1 million, or 2.8%. The appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar resulted in a \$6.5 million increase in operating expenses.

*Operating Ratios*

## Edgar Filing: GENESEE & WYOMING INC - Form 10-Q

Our operating ratio, defined as total operating expenses divided by total operating revenues, decreased to 79.3% in the three months ended March 31, 2010, from 81.1% in the three months ended March 31, 2009.

**Table of Contents**

The following table sets forth a comparison of our operating expenses for the three months ended March 31, 2010 and 2009 (dollars in thousands):

	2010		2009	
	Amount	% of Operating Revenues	Amount	% of Operating Revenues
Labor and benefits	\$ 50,188	34.4%	\$ 49,998	36.1%
Equipment rents	7,649	5.2%	7,890	5.7%
Purchased services	10,397	7.1%	9,311	6.7%
Depreciation and amortization	12,448	8.6%	11,506	8.3%
Diesel fuel used in operations	11,037	7.6%	8,993	6.5%
Diesel fuel sold to third parties	3,793	2.6%	3,389	2.4%
Casualties and insurance	3,904	2.7%	3,584	2.6%
Materials	5,477	3.8%	5,603	4.1%
Net gain on sale of assets	(449)	(0.3%)	(239)	(0.2%)
Other expenses	11,029	7.6%	12,323	8.9%
<b>Total operating expenses</b>	<b>\$ 115,473</b>	<b>79.3%</b>	<b>\$ 112,358</b>	<b>81.1%</b>

Labor and benefits expense was \$50.2 million in the three months ended March 31, 2010, compared with \$50.0 million in the three months ended March 31, 2009, an increase of \$0.2 million, or 0.4%. The increase consisted primarily of \$3.0 million due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar, which was almost entirely offset by savings from cost cutting measures such as furloughed employees and decreased overtime.

Equipment rents expense was \$7.6 million in the three months ended March 31, 2010, compared with \$7.9 million in the three months ended March 31, 2009, a decrease of \$0.2 million, or 3.1%. The decrease was primarily due to the expiration of leases, partially offset by an increase of \$0.5 million due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar.

Purchased services expense was \$10.4 million in the three months ended March 31, 2010, compared with \$9.3 million in the three months ended March 31, 2009, an increase of \$1.1 million, or 11.7%. The increase consisted primarily of \$1.5 million due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar, partially offset by cost cutting measures implemented at each of our regions.

Depreciation and amortization expense was \$12.4 million in the three months ended March 31, 2010, compared with \$11.5 million in the three months ended March 31, 2009, an increase of \$0.9 million, or 8.2%. The increase included \$0.6 million due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar.

Diesel fuel expense was \$11.0 million in the three months ended March 31, 2010, compared with \$9.0 million in the three months ended March 31, 2009, an increase of \$2.0 million, or 22.7%. The increase consisted of \$3.4 million resulting from a 37.7% increase in fuel cost per gallon, partially offset by a decline of \$1.4 million from a 10.9% decrease in diesel fuel consumption.

Diesel fuel sold to third parties was \$3.8 million in the three months ended March 31, 2010, compared with \$3.4 million in the three months ended March 31, 2009, an increase of \$0.4 million, or 11.9%. The increase consisted of \$1.5 million resulting from a 43.9% increase in diesel fuel cost per gallon, partially offset by a decline of \$1.1 million from a 22.2% decrease in diesel fuel gallons sold.

Casualties and insurance expense was \$3.9 million in the three months ended March 31, 2010, compared with \$3.6 million in the three months ended March 31, 2009, an increase of \$0.3 million, or 8.9%. The increase included \$0.1 million due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar.

---

**Table of Contents**

The remaining expenses combined were \$16.1 million in the three months ended March 31, 2010, compared with \$17.7 million in the three months ended March 31, 2009, a decrease of \$1.6 million, or 9.2%. The decrease consisted primarily of a \$1.4 million decrease in non-labor general and administrative costs, a \$0.4 million decrease in property rents and a \$0.4 million decrease in materials used in equipment maintenance, partially offset by an increase of \$0.7 million due to the appreciation of the Australian and Canadian dollars and the Euro relative to the United States dollar.

***Other Income (Expense) Items******Interest Income***

Interest income was \$0.4 million in the three months ended March 31, 2010, compared with \$0.2 million in the three months ended March 31, 2009.

***Interest Expense***

Interest expense was \$5.4 million in the three months ended March 31, 2010, compared with \$7.2 million in the three months ended March 31, 2009, a decrease of \$1.8 million, or 25.3%, resulting from lower outstanding debt primarily as a result of the repayment of our outstanding revolving credit facility in June of 2009.

***Provision for Income Taxes***

Our effective income tax rate in the three months ended March 31, 2010, was 37.6% compared with 27.0% in the three months ended March 31, 2009. The increase in 2010 was primarily attributable to the expiration of the Short Line Tax Credit on December 31, 2009.

The Short Line Tax Credit, which had been in existence from 2005 through 2009, expired on December 31, 2009. The Short Line Tax Credit represented 50% of qualified track spending during each year, subject to a limitation of \$3,500 per track mile owned or leased at the end of the year. Historically, we incurred sufficient spending to meet the limitation.

***Income and Earnings Per Share from Continuing Operations***

Income from continuing operations attributable to our common stockholders in the three months ended March 31, 2010, was \$16.0 million, compared with income from continuing operations attributable to our common stockholders of \$14.0 million in the three months ended March 31, 2009. Our diluted EPS from continuing operations attributable to our common stockholders in the three months ended March 31, 2010, were \$0.39 with 41.4 million weighted average shares outstanding, compared with diluted EPS from continuing operations attributable to our common stockholders of \$0.38 with 36.4 million weighted average shares outstanding in the three months ended March 31, 2009. Basic EPS from continuing operations attributable to our common stockholders were \$0.41 with 38.6 million weighted average shares outstanding in the three months ended March 31, 2010, compared with basic EPS from continuing operations attributable to our common stockholders of \$0.42 with 33.5 million weighted average shares outstanding in the three months ended March 31, 2009. The increase in outstanding weighted average shares for the three months ended March 31, 2010, includes 4,600,000 weighted average shares issued in conjunction with the public offering of our Class A common stock on June 15, 2009.

***Liquidity and Capital Resources***

During the three months ended March 31, 2010, we generated \$33.6 million of cash from continuing operations, compared with \$25.5 million of cash from continuing operations during the three months ended March 31, 2009. For the three months ended March 31, 2010 and 2009, changes in working capital decreased net cash flow from operating activities by \$0.1 million and \$3.5 million, respectively.

During the three months ended March 31, 2010 and 2009, our cash flows used in investing activities from continuing operations were \$3.3 million and \$19.1 million, respectively. For the three months ended March 31, 2010, primary drivers of cash used in investing activities were \$14.3 million of cash used for capital expenditures, partially offset by \$9.8 million in cash received from grants from outside parties for capital spending completed in prior years and \$0.8 million in cash proceeds from the disposition of property and equipment. For the three months ended March 31, 2009, primary drivers of cash used in investing activities were \$20.7 million of cash used for capital expenditures and \$5.8 million of cash paid for acquisitions, partially offset by \$3.7 million in cash received from grants from outside parties for capital spending completed prior to 2009 and \$3.6 million in cash proceeds from the disposition of property and equipment.



## **Table of Contents**

During the three months ended March 31, 2010, our cash flows used in financing activities from continuing operations were \$3.5 million, compared with cash used in financing activities from continuing operations of \$7.0 million during the three months ended March 31, 2009. For the three months ended March 31, 2010, primary drivers of cash used in financing activities were a net decrease of \$6.8 million in outstanding debt, partially offset by net cash inflows of \$3.1 million from exercises of stock-based awards. For the three months ended March 31, 2009, primary drivers of cash used in financing activities from continuing operations were a net decrease in outstanding debt of \$7.7 million, partially offset by net cash inflows of \$0.7 million from exercises of stock-based awards.

At March 31, 2010, we had long-term debt, including current portion, totaling \$443.7 million, which comprised 38.4% of our total capitalization, and \$299.9 million of unused borrowing capacity. At December 31, 2009, we had long-term debt, including current portion, totaling \$449.4 million, which comprised 39.5% of our total capitalization.

We believe that our cash on hand and cash flow from operations will enable us to meet our liquidity and capital expenditure requirements relating to ongoing operations for at least the duration of the credit facilities. We intend to use our cash on hand and unused borrowing capacity for general corporate purposes, including strategic investments and acquisitions.

### ***Credit Facilities***

As of March 31, 2010, our \$300.0 million revolving credit facility, which matures in 2013, consisted of letter of credit guarantees of \$0.1 million and \$299.9 million of unused borrowing capacity. Our credit facilities require us to comply with certain financial covenants. As of March 31, 2010, we were in compliance with these covenants. Subject to maintaining compliance with these covenants, the \$299.9 million unused borrowing capacity is available for general corporate purposes, including acquisitions. See Note 7, Long-term Debt, of our Annual Report on Form 10-K for the year ended December 31, 2009, for additional information regarding our credit facilities.

### ***2010 Budgeted Capital Expenditures***

We have budgeted \$57 million for capital expenditures in 2010, which consists of property and equipment improvements on our existing business of \$56 million and new business development projects of \$1 million. In addition, we expect to receive approximately \$35 million of grants from outside parties to fund additional property and equipment expenditures in 2010. Including these grant-funded projects, we have budgeted a total of \$92 million for capital expenditures related to our existing business in 2010. During the three months ended March 31, 2010, we approved \$9 million of additional capital expenditures, primarily associated with a new service contract to haul iron ore in Canada. These additional capital expenditures (New Projects) represent capital expenditures approved subsequent to our annual budgeting process.

For the three months ended March 31, 2010, we have incurred \$8.1 million in aggregate capital expenditures, of which we have paid \$4.1 million in cash and accrued \$4.0 million in accounts payable as of March 31, 2010. We expect to receive \$1.6 million in grants from outside parties related to this year-to-date activity, of which we have received \$0.3 million and recorded \$1.3 million in outstanding grant receivables from outside parties as of March 31, 2010.

Cash paid for purchases of property and equipment of \$14.3 million for the three months ended March 31, 2010, included \$4.1 million for 2010 capital projects and \$10.3 million related to capital expenditures accrued in 2009. Grant proceeds of \$10.1 million received in the three months ended March 31, 2010, included \$0.3 million related to 2010 capital projects and \$9.8 million from grants related to our capital expenditures from prior years.

**Table of Contents**

Accordingly, capital expenditures for the three months ended March 31, 2010, as compared with our 2010 full year capital expenditure estimate can be summarized as follows (in thousands):

	Full Year 2010 Estimate	Three Months Ended March 31, 2010
Total capital expenditures	\$ 92,000	\$ 7,422
New projects	9,000	646
Grant proceeds from outside parties	(35,000)	(1,635)
Net capital expenditures	\$ 66,000	\$ 6,433

**Impact of Foreign Currencies on Operating Revenues**

When comparing the effects of average foreign currency exchange rates on revenues during the three months ended March 31, 2010, versus the three months ended March 31, 2009, foreign currency translation had a positive impact on our consolidated revenues due to the strengthening of the Australian and Canadian dollars and the Euro relative to the United States dollar in the three months ended March 31, 2010. Since the world's major crude oil and refined product market is traded in United States dollars, we believe there was little, if any, impact of foreign currency translation on our fuel sales to third parties in Australia.

The following table sets forth the estimated impact of foreign currency translation on reported operating revenues for the three months ended March 31, 2010 (dollars in thousands):

	As Reported	Currency Translation Impact	Revenues Excluding Currency Impact
<b>Operating revenues:</b>			
United States	\$ 103,152	\$	\$ 103,152
Australia	28,343	5,945	22,398
Canada	12,224	2,338	9,886
Netherlands	1,860	135	1,725
Total operating revenues	\$ 145,579	\$ 8,418	\$ 137,161

**Off-Balance Sheet Arrangements**

An off-balance sheet arrangement includes any contractual obligation, agreement or transaction involving an unconsolidated entity under which we 1) have made guarantees, 2) have a retained or contingent interest in transferred assets, or a similar arrangement, that serves as credit, liquidity or market risk support to that entity for such assets, 3) have an obligation under certain derivative instruments or 4) have any obligation arising out of a material variable interest in such an entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing or hedging services with us. Our off-balance sheet arrangements as of December 31, 2009, consisted of operating lease obligations. There were no material changes in our off-balance sheet arrangements in the three months ended March 31, 2010.

**Recently Issued Accounting Standards**

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures About Fair Value Measurements*, which requires new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements. This guidance was effective for us as of January 1, 2010. The adoption did not have a material impact on our consolidated financial statements.





## **Table of Contents**

### ***Accounting Standards Not Yet Effective***

Certain provisions of ASU 2010-06 are effective for interim and annual periods beginning after December 15, 2010, and require all purchases, sales, issuances and settlements of financial instruments to be valued using significant unobservable inputs (Level 3) to be presented as separate line items in the reconciliation for fair value measurements. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

On October 2, 2008, we entered into an interest rate swap agreement to manage our exposure to interest rates on a portion of our outstanding borrowings. The swap has a notional amount of \$120.0 million and requires us to pay 3.88% on the notional amount and allows us to receive one-month LIBOR. This swap expires on September 30, 2013. The fair value of the interest rate swap agreement was estimated based on Level 2 valuation inputs. The fair value of the swap represented a liability of \$7.8 million at March 31, 2010 and \$6.6 million at December 31, 2009. During the three months ended March 31, 2010, there were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2009 Annual Report on Form 10-K.

### **ITEM 4. CONTROLS AND PROCEDURES.**

*Disclosure Controls and Procedures* We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2010. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2010, the disclosure controls and procedures are effective to accomplish their objectives at a reasonable assurance level.

*Internal Control Over Financial Reporting* During the three months ended March 31, 2010, there were no changes in our internal control over financial reporting (as the term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

From time to time we are a defendant in certain lawsuits resulting from our operations. Management believes there are adequate provisions in the financial statements for any expected liabilities that may result from disposition of the pending lawsuits. Nevertheless, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable ruling to occur, there is the possibility of a material adverse impact on our results of operations, financial position or liquidity as of and for the period in which the ruling occurs.

**ITEM 1A. RISK FACTORS.**

For a discussion of our potential risks or uncertainties, please see Risk Factors in Part I, Item 1A of the Company's 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company's 2009 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

There were no unregistered sales of equity securities for the period covered by this Quarterly Report on Form 10-Q.

**Issuer Purchases of Equity Securities**

	(a) Total Number of Shares (or Units) Purchased (1)	(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 of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
<b>2010</b>				
January 1 to January 31		\$		
February 1 to February 28	5,990	\$ 31.85		
March 1 to March 31	8,948	\$ 33.53		
Total	14,938	\$ 32.86		

- (1) The 14,938 shares acquired in the three months ended March 31, 2010, represent common stock acquired by us from our employees who surrendered shares in lieu of cash either to fund their exercise of stock options or to pay taxes on equity awards in conjunction with our Amended and Restated 2004 Omnibus Plan.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

NONE

**ITEM 4. (REMOVED AND RESERVED).****ITEM 5. OTHER INFORMATION.**

NONE

**ITEM 6. EXHIBITS.**

For a list of exhibits, see INDEX TO EXHIBITS following the signature page to this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENESEE & WYOMING INC.

Date: May 5, 2010

By: /s/ TIMOTHY J. GALLAGHER  
Name: **Timothy J. Gallagher**  
Title: **Chief Financial Officer**

Date: May 5, 2010

By: /s/ CHRISTOPHER F. LIUCCI  
Name: **Christopher F. Liucci**  
Title: **Chief Accounting Officer and Global Controller**

**Table of Contents**

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description of Exhibits</b>
3.1	Articles of Incorporation  Restated Certificate of Incorporation is incorporated herein by reference to Exhibit I to the Registrant's Definitive Information Statement on Schedule 14C filed on February 23, 2004 (SEC File No. 001-31456)
3.2	By-Laws  Amended By-laws, effective as of August 19, 2004, is incorporated herein by reference to Exhibit 2.1 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2004 (SEC File No. 001-31456)
*31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
*31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
*32.1	Section 1350 Certification

\* Exhibit filed with this Report.