GENESEE & WYOMING INC
Form 10-Q
May 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

o 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.)

20 West Avenue,
Darien, Connecticut 06820
(Address of principal executive offices)(Zip Code)
(203) 202-8900
(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. x YES o NO

Indicate by check mark whether the registrant has submitted electronically and 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). x YES o 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	x	Accelerated Filer	o
Non-Accelerated Filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES x NO

Shares of common stock outstanding as of the close of business on April 30, 2013:

Class	Number of Shares Outstanding
Class A Common Stock	51,525,941
Class B Common Stock	1,720,839

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Forward-Looking Statements

This report and other documents referred to in this report contain forward-looking statements regarding future events and the future performance of Genesee & Wyoming Inc. that are based on current expectations, estimates and projections about our industry, our business and our performance, management's beliefs, and assumptions made by management. Words such as “anticipates,” “intends,” “plans,” “believes,” “should,” “seeks,” “expects,” “estimates,” “trends,” “ 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, including the following risks applicable to all of our operations: risks related to the acquisition and integration of railroads; economic and competitive uncertainties and contingencies and third-party approvals; economic, political and industry conditions (including employee strikes or work stoppages); customer demand and changes in our operations, retention and contract continuation; legislative and regulatory developments, including changes in environmental and other laws and regulations to which we are subject; increased competition in relevant markets; funding needs and financing sources, including our ability to obtain government funding for capital projects; international complexities of operations, currency fluctuations, finance, tax and decentralized management; challenges of managing rapid growth including retention and development of senior leadership; unpredictability of fuel costs; susceptibility to various legal claims and lawsuits; increase in, or volatility associated with expenses associated with estimated claims, self-insured retention amounts and insurance coverage limits; consummation of new business opportunities; exposure to the credit risk of customers or counterparties; severe weather conditions and other natural occurrences, which could result in shutdowns, derailments or other substantial disruption of operations; susceptibility to the risks of doing business in foreign countries; our success integrating the RailAmerica railroads into our operations and our ability to achieve the expected synergies as a result of the merger; and others including, but not limited to, those set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any, and those noted in our 2012 Annual Report on Form 10-K under “Risk Factors.” Therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Forward-looking statements speak only as of the date of this report or as of the date they were made. We undertake no obligation to update the current expectations or forward-looking statements contained in this report.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2013 and DECEMBER 31, 2012 (Unaudited)
(dollars in thousands, except per share amounts)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$29,336	$64,772
Accounts receivable, net	263,529	262,949
Materials and supplies	35,793	32,389
Prepaid expenses and other	35,680	33,586
Deferred income tax assets, net	64,046	71,556
Total current assets	428,384	465,252
PROPERTY AND EQUIPMENT, net	3,399,604	3,396,295
GOODWILL	637,006	634,953
INTANGIBLE ASSETS, net	662,664	670,206
DEFERRED INCOME TAX ASSETS, net	2,676	2,396
OTHER ASSETS, net	62,722	57,013
Total assets	$5,193,056	$5,226,115
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$86,384	$87,569
Accounts payable	215,810	232,121
Accrued expenses	92,613	93,971
Deferred income tax liabilities, net	1,771	3,083
Total current liabilities	396,578	416,744
LONG-TERM DEBT, less current portion	1,705,891	1,770,566
DEFERRED INCOME TAX LIABILITIES, net	823,765	862,734
DEFERRED ITEMS - grants from outside parties	230,038	228,579
OTHER LONG-TERM LIABILITIES	46,427	47,506
COMMITMENTS AND CONTINGENCIES	—	—
SERIES A-1 PREFERRED STOCK	—	399,524
EQUITY:		
Class A common stock, $0.01 par value, one vote per share; 180,000,000 shares authorized at March 31, 2013 and December 31, 2012; 64,129,791 and 57,882,442 shares issued and 51,522,207 and 45,359,083 shares outstanding (net of 12,607,584 and 12,523,359 shares in treasury) on March 31, 2013 and December 31, 2012, respectively	641	579
Class B common stock, $0.01 par value, ten votes per share; 30,000,000 shares authorized at March 31, 2013 and December 31, 2012; 1,720,839 and 1,728,952 shares issued and outstanding on March 31, 2013 and December 31, 2012, respectively	17	17
Additional paid-in capital	1,283,901	866,609
Retained earnings	870,151	789,727
Accumulated other comprehensive income	46,460	47,271
Treasury stock, at cost	(216,503)	(209,266)

Total Genesee & Wyoming Inc. stockholders' equity	1,984,667	1,494,937
Noncontrolling interest	5,690	5,525
Total equity	1,990,357	1,500,462
Total liabilities and equity	$5,193,056	$5,226,115

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 and 2012 (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2013	2012
OPERATING REVENUES	$375,208	$207,436
OPERATING EXPENSES:		
Labor and benefits	109,306	65,757
Equipment rents	18,708	9,817
Purchased services	28,996	18,037
Depreciation and amortization	34,223	17,633
Diesel fuel used in operations	39,185	21,998
Diesel fuel sold to third parties	258	4,990
Casualties and insurance	7,951	5,547
Materials	19,329	6,107
Net gain on sale of assets	(1,707)	(1,230)
Other expenses	29,992	17,466
RailAmerica integration costs	12,767	—
Total operating expenses	299,008	166,122
INCOME FROM OPERATIONS	76,200	41,314
Interest income	1,043	867
Interest expense	(20,120)	(8,616)
Other income, net	682	984
Income from continuing operations before income taxes	57,805	34,549
Benefit from/(provision for) income taxes	24,932	(12,305)
Income from continuing operations, net of tax	82,737	22,244
Loss from discontinued operations, net of tax	(9)	(3)
Net income	82,728	22,241
Less: Net income attributable to noncontrolling interest	165	—
Series A-1 Preferred Stock dividend	2,139	—
Net income available to common stockholders	$80,424	$22,241
Basic earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:		
Basic earnings per common share from continuing operations	$1.57	$0.55
Basic loss per common share from discontinued operations	—	—
Basic earnings per common share	$1.57	$0.55
Weighted average shares - basic	51,332	40,360
Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:		
Diluted earnings per common share from continuing operations	$1.46	$0.52
Diluted loss per common share from discontinued operations	—	—
Diluted earnings per common share	$1.46	$0.52
Weighted average shares - diluted	56,496	43,081

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2013 and 2012 (Unaudited)
(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
NET INCOME	$82,728	$22,241
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Foreign currency translation adjustment	(5,346)	6,246
Net unrealized gain on qualifying cash flow hedges, net of tax provision of ($2,251) and ($253), respectively	4,437	446
Changes in pension and other postretirement benefits, net of tax (provision)/benefit of ($56) and $232, respectively	98	(409)
Other comprehensive (loss)/income	(811)	6,283
COMPREHENSIVE INCOME	81,917	28,524
Less: Comprehensive income attributable to noncontrolling interest	165	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO GENESEE & WYOMING INC.	$81,752	$28,524

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 and 2012 (Unaudited)
(dollars in thousands)

	Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$82,728	$22,241
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	9	3
Depreciation and amortization	34,223	17,633
Compensation cost related to equity awards	7,525	2,290
Excess tax benefit from share-based compensation	(4,252)	(1,746)
Deferred income taxes	(33,872)	9,977
Net gain on sale of assets	(1,707)	(1,230)
Insurance proceeds received	9,315	12,521
Changes in assets and liabilities which provided (used) cash, net of effect of acquisitions:		
Accounts receivable, net	(10,274)	(2,526)
Materials and supplies	(3,404)	(1,418)
Prepaid expenses and other	(2,215)	(2,496)
Accounts payable and accrued expenses	(15,383)	(27,491)
Other assets and liabilities, net	747	(9)
Net cash provided by operating activities from continuing operations	63,440	27,749
Net cash used in operating activities from discontinued operations	(9)	(3)
Net cash provided by operating activities	63,431	27,746
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(37,908)	(50,318)
Grant proceeds from outside parties	4,355	8,437
Cash paid for acquisitions, net of cash acquired	—	(837)
Proceeds from disposition of property and equipment	2,011	1,626
Net cash used in investing activities from continuing operations	(31,542)	(41,092)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term borrowings, including capital leases	(139,475)	(56,461)
Proceeds from issuance of long-term debt	73,362	64,716
Debt amendment costs	(1,543)	—
Proceeds from employee stock purchases	5,722	6,210
Treasury stock purchases	(6,995)	(1,757)
Dividends paid on Series A-1 Preferred Stock	(2,139)	—
Excess tax benefit from share-based compensation	4,252	1,746
Net cash (used in)/provided by financing activities from continuing operations	(66,816)	14,454
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(509)	361
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(35,436)	1,469
CASH AND CASH EQUIVALENTS, beginning of period	64,772	27,269
CASH AND CASH EQUIVALENTS, end of period	$29,336	$28,738

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

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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 or Genesee & Wyoming). 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). They 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 (U.S. GAAP). In the opinion of management, the unaudited financial statements for the three months ended March 31, 2013 and 2012 are presented on a basis consistent with the audited financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of the results for the interim periods presented. 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 2012 was derived from the audited financial statements in the Company’s 2012 Annual Report on Form 10-K but does not include all disclosures required by U.S. 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, 2012 included in the Company’s 2012 Annual Report on Form 10-K.

2. CHANGES IN OPERATIONS:

United States

RailAmerica, Inc.: On October 1, 2012, the Company acquired 100% of RailAmerica, Inc.'s (RailAmerica) outstanding shares for cash at a price of $27.50 per share and, in connection with such acquisition, the Company repaid RailAmerica's term loan and revolving credit facility. The calculation of the total consideration for the RailAmerica acquisition is presented below (dollars in thousands, except per share amount):

RailAmerica outstanding common stock as of October 1, 2012	49,934
Cash purchase price per share	$27.50
Equity purchase price	$1,373,184
Payment of RailAmerica's outstanding term loan and revolving credit facility	659,198
Cash consideration	2,032,382
Impact of pre-acquisition share-based awards	9,400
Total consideration	$2,041,782

The Company financed the $1.4 billion cash purchase price for RailAmerica's common stock, the refinancing of $1.2 billion of the Company's and RailAmerica's outstanding debt prior to the acquisition, as well as transaction and financing related expenses with approximately $1.9 billion of debt from a new five-year Senior Secured Syndicated Facility Agreement (the New Credit Agreement), $475.5 million of gross proceeds from the Company's public offerings of Class A common stock and Tangible Equity Units (TEUs) and $350.0 million through a private issuance of mandatorily convertible Series A-1 Preferred Stock to affiliates of Carlyle Partners V, L.P. (collectively, Carlyle) (see Note 3, Earnings Per Common Share).

The shares of RailAmerica were held in an independent voting trust while the United States Surface Transportation Board (STB) considered the Company's control application, which application was approved with an effective date of December 28, 2012. Accordingly, the Company accounted for the earnings of RailAmerica using the equity method of accounting while the shares were held in the voting trust and the Company's preliminary allocation of the purchase price to the acquired assets and assumed liabilities were included in the Company's consolidated balance sheet since December 28, 2012. The final allocation of fair values to RailAmerica's assets and liabilities is subject primarily to completion of an assessment of the acquisition-date fair values of acquired non-current assets, deferred taxes and other tax matters, and contingent liabilities. The results from RailAmerica's operations are included in the Company’s consolidated statement of operations for the three months ended March 31, 2013 and are included in the Company's

North American & European Operations segment.

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Headquartered in Jacksonville, Florida with approximately 2,000 employees, RailAmerica owned and operated 45 short line freight railroads in North America with approximately 7,100 miles of track in 28 U.S. states and three Canadian provinces as of the October 1, 2012 acquisition date.

Columbus & Chattahoochee Railroad, Inc.: In April 2012, the Company's newly formed subsidiary, the Columbus & Chattahoochee Railroad, Inc. (CCH), signed an agreement with Norfolk Southern Railway Company (NS) to lease and operate a 26-mile segment of NS track that runs from Girard, Alabama to Mahrt, Alabama. Operations commenced on July 1, 2012. The CCH interchanges with NS in Columbus, Georgia where the Company's Georgia Southwestern Railroad also has operations. The results from CCH’s operations have been included in the Company’s consolidated statement of operations effective July 1, 2012 and are included in the Company’s North American & European Operations segment.

Australia

Arrium Limited: In July 2012, the Company's subsidiary, Genesee & Wyoming Australia Pty Ltd (GWA), announced that it had expanded two existing rail haulage contracts with Arrium Limited (formerly OneSteel) to transport an additional 2.7 million tons per year of export iron ore in South Australia. To support the increased shipments under the two contracts, in 2012 GWA invested A$52.1 million (or $54.1 million at the exchange rate on December 31, 2012) to purchase narrow gauge locomotives and rail cars, as well as to construct a standard gauge rolling-stock maintenance facility. During the three months ended March 31, 2013, GWA spent A$11.5 million (or $12.0 million at the exchange rate on March 31, 2013) and expects to invest an additional A$9.6 million (or $10.0 million at the exchange rate on March 31, 2013) over the remainder of 2013 to support the increased shipments.

Alice Springs and Cook: In May 2012, GWA entered into an agreement with Asciano Services Pty Ltd (AIO), a subsidiary of Asciano Pty Ltd, whereby GWA agreed to purchase an intermodal and freight terminal in Alice Springs, Northern Territory from AIO and GWA agreed to sell AIO certain assets in the township of Cook, South Australia that included its third-party fuel-sales business. GWA completed the purchase of the Alice Springs intermodal and freight terminal in June 2012 for A$9.0 million (or $9.2 million at the exchange rate on June 30, 2012) plus A$0.5 million (or $0.6 million at the exchange rate on June 30, 2012) tax liability for stamp duty (an Australian asset transfer tax). Previously, GWA had leased the facility from AIO. The sale of the assets in Cook closed in September 2012. The Company received A$4.0 million (or $4.1 million at the exchange rate on September 30, 2012) in pre-tax cash proceeds from the sale and recognized an after-tax book gain of A$1.3 million (or $1.3 million at the exchange rate on September 30, 2012), or approximately $0.03 per share.

Canada

Tata Steel Minerals Canada Ltd.: On August 2, 2012, the Company announced that its newly formed subsidiary, KeRail Inc. (KeRail), entered into a long-term agreement with Tata Steel Minerals Canada Ltd. (TSMC), for KeRail to provide rail transportation services to the direct shipping iron ore mine TSMC is developing near Schefferville, Quebec in the Labrador Trough (the Mine). In addition, KeRail plans to construct an approximately 21-kilometer rail line (Rail Line) that will connect the Mine to the Tshiuetin Rail Transportation (TSH) interchange point in Schefferville. Operated as part of the Company's Canada Region, KeRail is expected to haul unit trains of iron ore from its rail connection with the Mine, which will then travel over three privately owned railways to the Port of Sept-Îles for export primarily to Tata Steel's European operations. The agreement and construction are contingent on certain conditions being met, including the receipt of necessary governmental permits and approvals. Once the track construction has commenced, the Rail Line is expected to be completed three to six months thereafter.

Results from Continuing Operations

When comparing the Company's results from continuing operations from one reporting period to another, it is important to consider that the Company has historically experienced fluctuations in revenues and expenses due to changing economic conditions, acquisitions, competitive forces, changes in foreign currency exchange rates, one-time freight moves, fuel price fluctuations, customer plant expansions and shut-downs, sales of property and equipment, derailments and weather-related conditions, such as hurricanes, cyclones, tornadoes, droughts, heavy snowfall, unseasonably warm or cool weather, 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 have commodity shipments that are sensitive to general economic conditions, such as steel products, paper products and lumber and forest products, as well as product specific economic conditions, such as the availability of lower priced alternative sources of power generation (coal). Other shipments are relatively less affected by economic conditions and are more closely affected by other factors, such as inventory levels maintained at customer plants (coal), winter weather (salt and coal) and seasonal rainfall (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.

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Pro Forma Financial Results

The following table summarizes the Company's unaudited pro forma operating results for the three months ended March 31, 2012, as if the acquisition of RailAmerica had been consummated as of January 1, 2011. The following pro forma financial results do not include the impact of any potential operating efficiencies, savings from expected synergies, costs to integrate the operations or costs necessary to achieve savings from expected synergies or the impact of derivative instruments that the Company has entered into or may enter into to mitigate interest rate or currency exchange rate risk (dollars in thousands, except per share amounts):

	Three Months Ended March 31, 2012
Operating revenues	$346,975
Net loss attributable to Genesee & Wyoming Inc.	$(18,854)
Less: Series A-1 Preferred Stock dividend	4,375
Net loss available to common stockholders	$(23,229)
Loss per common share attributable to Genesee & Wyoming Inc. common stockholders:	
Basic loss per common share from continuing operations	$(0.49)
Diluted loss per share from continuing operations	$(0.49)

The unaudited pro forma operating results include the acquisition of RailAmerica adjusted, net of tax, for depreciation and amortization expense resulting from the property and equipment and amortizable intangible assets based on the assignment of preliminary fair values, the inclusion of interest expense related to borrowings used to fund the acquisition, the amortization of debt issuance costs related to amendments to the Company's prior credit agreement and the elimination of RailAmerica's interest expense related to debt not assumed in the acquisition. The unaudited pro forma financial results for the three months ended March 31, 2012 were based upon the Company's and RailAmerica's historical consolidated statements of operations for the three months ended March 31, 2012. The pro forma results included approximately $55 million (net of tax) of costs incurred by RailAmerica associated with the redemption of senior secured notes in January 2012.

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3. EARNINGS PER COMMON SHARE:

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2013 and 2012 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2013	2012
Numerators:		
Amounts attributable to Genesee & Wyoming Inc. common stockholders:		
Income from continuing operations, net of tax	$82,572	$22,244
Loss from discontinued operations, net of tax	(9)	(3)
Less: Series A-1 Preferred Stock dividend	2,139	—
Net income available to common stockholders	$80,424	$22,241
Denominators:		
Weighted average Class A common shares outstanding - Basic	51,332	40,360
Weighted average Class B common shares outstanding	1,726	2,165
Dilutive effect of employee stock grants	513	556
Dilutive effect of Series A-1 Preferred Stock	2,925	—
Weighted average shares - Diluted	56,496	43,081
Earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:		
Basic:		
Earnings per common share from continuing operations	$1.57	$0.55
Loss per common share from discontinued operations	—	—
Earnings per common share	$1.57	$0.55
Diluted:		
Earnings per common share from continuing operations	$1.46	$0.52
Loss per common share from discontinued operations	—	—
Earnings per common share	$1.46	$0.52

The following total number of Class A common stock issuable under the assumed exercise 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 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Anti-dilutive shares	102	200

The increase in the Company's weighted average basic shares outstanding for the three months ended March 31, 2013 compared with the three months ended March 31, 2012 included 3,791,004 shares as a result of the Company's public offering of Class A common stock and 2,841,650 shares issuable upon settlement of the prepaid stock purchase contract component of the TEUs based on the market price of the Company's Class A common stock at March 31, 2013. In addition, the increase included 3,058,607 weighted average shares from the February 13, 2013 conversion of Series A-1 Preferred Stock into the Company's Class A common stock.

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Offerings

On September 19, 2012, the Company completed a public offering of 3,791,004 shares of Class A common stock at $64.75 per share, which included 525,000 shares issued as a result of the underwriters' exercise of their over-allotment option. In addition, the Company also completed a public offering of 2,300,000 TEUs, which included 300,000 TEUs issued as a result of the underwriters' exercise of their over-allotment option, on September 19, 2012 with a stated amount of $100 per unit.

The Company's basic and diluted earnings per share calculations reflect the weighted average shares issuable upon settlement of the prepaid stock purchase contract component of the TEUs. For purposes of determining the number of shares included in the calculation, the Company used the market price of its Class A common stock at the period end date.

Series A-1 Preferred Stock, Converted into Common Stock on February 13, 2013

On October 1, 2012, the Company completed the issuance of 350,000 shares of Series A-1 Preferred Stock at an issuance price of $1,000.00 per share for $349.4 million, net of issuance costs, to Carlyle pursuant to an Investment Agreement entered into by the Company and Carlyle in conjunction with the Company's announcement on July 23, 2012 of its plan to acquire RailAmerica in order to partially fund the acquisition. On February 13, 2013, the Company converted all of the outstanding Series A-1 Preferred Stock into 5,984,232 shares of the Company's Class A common stock.

Dividends on the Series A-1 Preferred Stock were cumulative and payable quarterly in arrears in an amount equal to 5.00% per annum of the issuance price per share. Each share of the Series A-1 Preferred Stock was convertible at any time, at the option of the holder, into approximately 17.1 shares of Class A common stock, subject to customary conversion adjustments. The Series A-1 Preferred Stock were also convertible into the relevant number of shares of Class A common stock on the second anniversary of the date of issuance, subject to the satisfaction of certain conditions. The Company also had the ability to convert some or all of the Series A-1 Preferred Stock prior to the second anniversary of the date of issue of the Series A-1 Preferred Stock if the closing price of the Company's Class A common stock on the New York Stock Exchange exceeded 130% of the conversion price (or $76.03) for 30 consecutive trading days, subject to the satisfaction of certain conditions. The conversion price of the Series A-1 Preferred Stock was set at approximately $58.49, which was a 4.5% premium to the Company's stock price on the trading day prior to the announcement of the RailAmerica acquisition. As of February 12, 2013, the closing price of the Company's Class A common stock had exceeded $76.03 for 30 consecutive trading days. As a result, on February 13, 2013, the Company converted the Series A-1 Preferred Stock as described above. On the conversion date, the Company also paid to Carlyle cash in lieu of fractional shares and all accrued and unpaid dividends on the Series A-1 Preferred Stock totaling $2.1 million. Following the conversion, the Company will not incur the quarterly dividend of approximately $4.4 million that would otherwise have been due on the Series A-1 Preferred Stock.

For basic earnings per share, the Company deducted the cumulative dividends on the Series A-1 Preferred Stock in calculating net income available to common stockholders (i.e., the numerator in the calculation of basic earnings per share) divided by the weighted-average number of common shares outstanding during each period. For diluted earnings per share, the Company used the if-converted method when calculating diluted earnings per share prescribed under U.S. GAAP.

4. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of the following as of March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013	December 31, 2012
Accounts receivable - trade	$230,161	$214,163
Accounts receivable - grants	20,898	25,036
Accounts receivable - insurance claims	15,158	26,443
Total accounts receivable	266,217	265,642
Less: Allowance for doubtful accounts	(2,688)	(2,693)
Accounts receivable, net	$263,529	$262,949

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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 does not trade or use instruments with the objective of earning financial gains on the interest rate or exchange rate fluctuations alone, nor does the Company use derivative instruments where it does not have underlying exposures. Complex instruments involving leverage or multipliers are not used. The Company manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. Management believes its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. The Company's instruments 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 may designate derivatives as a hedge of a forecasted transaction or a hedge 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 used 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 other comprehensive income/(loss). 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 item as the hedged item. The portion of the changes in the 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 matches the hedge instrument to the underlying hedged item (assets, liabilities, firm commitments or forecasted transactions). At inception of the hedge 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. When it is determined that a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting, and any gains or losses on the derivative instrument thereafter are recognized in earnings during the periods it no longer qualifies as a hedge.

From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges for accounting purposes. For example, to mitigate currency exposures related to intercompany debt, cross-currency swap contracts may be entered into for periods consistent with the underlying debt. The Company believes such instruments are closely correlated with the underlying exposure, thus reducing the associated risk. The gains or losses from the changes in the fair value of derivative instruments not accounted for as hedges are recognized in current period earnings within other income, net.

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/(loss), 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. The Company formally documents its hedge relationships, including identifying the hedge instruments and hedged items, as well as its risk management objectives and strategies for entering into the hedge transaction.

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The following table summarizes the terms of the Company's outstanding interest rate swap agreements entered into to manage the Company's exposure to changes in interest rates on its variable rate debt (dollars in thousands):

Effective Date	Expiration Date	Notional Amount Date	Amount	Pay Fixed Rate	Receive Variable Rate
10/6/2008	9/30/2013	10/6/2008	$120,000	3.88%	1-month LIBOR
10/4/2012	9/30/2013	10/4/2012	$1,450,000	0.25%	1-month LIBOR
		12/31/2012	$1,350,000	0.25%	1-month LIBOR
		3/28/2013	$1,300,000	0.25%	1-month LIBOR
		6/28/2013	$1,250,000	0.25%	1-month LIBOR
9/30/2013	9/29/2014	9/30/2013	$1,350,000	0.35%	1-month LIBOR
		12/31/2013	$1,300,000	0.35%	1-month LIBOR
		3/31/2014	$1,250,000	0.35%	1-month LIBOR
		6/30/2014	$1,200,000	0.35%	1-month LIBOR
9/30/2014	9/29/2015	9/30/2014	$1,150,000	0.54%	1-month LIBOR
		12/31/2014	$1,100,000	0.54%	1-month LIBOR
		3/31/2015	$1,050,000	0.54%	1-month LIBOR
		6/30/2015	$1,000,000	0.54%	1-month LIBOR
9/30/2015	9/30/2016	9/30/2015	$350,000	0.93%	1-month LIBOR
9/30/2016	9/30/2026	9/30/2026	$100,000	2.79%	3-month LIBOR
9/30/2016	9/30/2026	9/30/2026	$100,000	2.79%	3-month LIBOR
9/30/2016	9/30/2026	9/30/2026	$100,000	2.80%	3-month LIBOR

The fair value of the Company's interest rate swap agreements were estimated based on Level 2 inputs. The Company's effectiveness testing during the three months ended March 31, 2013 resulted in no amount of gain or loss reclassified from accumulated other comprehensive income/(loss) into earnings due to ineffectiveness. During the three months ended March 31, 2013, $0.7 million of existing net losses were realized and recorded as interest expense in the consolidated statement of operations. Based on the Company's fair value assumptions as of March 31, 2013, it expects to realize $1.7 million of existing net losses that are reported in accumulated other comprehensive income into earnings within the next 12 months. See Note 9, Accumulated Other Comprehensive Income, for additional information regarding the Company's cash flow hedges.

Foreign Currency Exchange Rate Risk

As of March 31, 2013, $194.8 million of third-party debt, related to the Company’s foreign operations, was denominated in the currencies in which its subsidiaries operate, including the Australian dollar, Canadian dollar and Euro. The debt service obligations associated with this foreign currency debt are generally funded directly from those operations. As a result, foreign currency risk related to this portion of the Company's debt service payments is limited. However, in the event the foreign currency debt service is not paid from the Company's foreign operations, the Company may face exchange rate risk if the Australian or Canadian dollar or Euro were to appreciate relative to the United States dollar and require higher United States dollar equivalent cash.

The Company is also exposed to foreign currency exchange rate risk related to its foreign operations, including non-functional currency intercompany debt, typically from the Company's United States operations to its foreign subsidiaries, and any timing difference between announcement and closing of an acquisition of a foreign business to the extent such acquisition is funded with United States dollars. To mitigate currency exposures related to non-functional currency denominated intercompany debt, cross-currency swap contracts may be entered into for periods consistent with the underlying debt. In determining the fair value of the derivative contract, the significant inputs to valuation models are quoted market prices of similar instruments in active markets. To mitigate currency exposures of non-United States dollar denominated acquisitions, the Company may enter into foreign exchange forward contracts. Although cross-currency swap and foreign exchange forward derivative contracts used to mitigate exposures on foreign currency intercompany debt do not qualify for hedge accounting, the Company believes that such instruments are closely correlated with the underlying exposure, thus reducing the associated risk. The gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges are recognized in current period earnings within other income, net.

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On December 1, 2010, the Company completed the acquisition of the assets of FreightLink Pty Ltd, Asia Pacific Transport Pty Ltd and related corporate entities (together, FreightLink) for A$331.9 million (or $320.0 million at the exchange rate on December 1, 2010). The Company financed the acquisition through a combination of cash on hand and borrowings under its credit agreement then in effect. A portion of the funds were transferred from the United States to Australia through an intercompany loan with a notional amount of A$105 million (or $100.6 million at the exchange rate on December 1, 2010). To mitigate the foreign currency exchange rate risk related to this non-functional currency intercompany loan, the Company entered into an Australian dollar/United States dollar floating to floating cross-currency swap agreement (the Swap), effective as of December 1, 2010, which effectively converted the A$105 million intercompany loan receivable in the United States into a $100.6 million loan receivable. The Swap required the Company to pay Australian dollar BBSW plus 3.125% based on a notional amount of A$105.0 million and allowed the Company to receive United States LIBOR plus 2.48% based on a notional amount of $100.6 million on a quarterly basis. BBSW is the wholesale interbank reference rate within Australia, which the Company believes is generally considered the Australian equivalent to LIBOR. The Swap expired on December 1, 2012 and was settled for $9.1 million.

On November 29, 2012, simultaneous with the expiration of the Swap, the Company entered into a new 2-year Australian dollar/United States dollar floating to floating cross-currency swap agreement (the New Swap), effective December 3, 2012. This agreement expires on December 1, 2014. The New Swap effectively converts the A$105 million intercompany loan receivable in the United States into a $109.6 million loan receivable. The New Swap requires the Company to pay Australian dollar BBSW plus 3.25% based on a notional amount of A$105 million and allows the Company to receive United States LIBOR plus 2.82% based on a notional amount of $109.6 million on a quarterly basis. As a result of the quarterly net settlement payments, the Company realized a net expense of $0.8 million within interest (expense)/income for the three months ended March 31, 2013.

The Company's derivative instruments are subject to master netting arrangements between the Company and the respective counterparty. The Company presents its derivative instruments on a gross basis. As of March 31, 2013 and December 31, 2012, the differences between the gross values and net values under such master netting arrangements were not significant. The following table summarizes the fair value of the Company's derivative instruments recorded in the consolidated balance sheets as of March 31, 2013 and December 31, 2012 (dollars in thousands):

		Fair Value	
	Balance Sheet Location	March 31, 2013	December 31, 2012
Asset Derivatives:			
Derivatives designated as hedges:			
Interest rate swap agreements	Other assets, net	$10,274	$4,227
Derivatives not designated as hedges:			
Cross-currency swap agreement	Prepaid expenses and other	$—	$255
Liability Derivatives:			
Derivatives designated as hedges:			
Interest rate swap agreements	Accrued expenses	$2,521	$3,777
Interest rate swap agreements	Other long-term liabilities	789	882
Total liability derivatives designated as hedges		$3,310	$4,659
Derivatives not designated as hedges:			
Cross-currency swap agreement	Accrued expenses	$16	$—
Cross-currency swap agreement	Other long-term liabilities	149	143
Total liability derivatives not designated as hedges		$165	$143

The following table shows the effect of the Company's derivative instruments designated as cash flow hedges for the three months ended March 31, 2013 and 2012 in other comprehensive income (OCI) (dollars in thousands):

Total Cash Flow Hedge
OCI Activity, Net of Tax

	Three Months Ended March 31,	
Derivatives Designated as Cash Flow Hedges:	2013	2012
Effective portion of changes in fair value recognized in OCI:		
Interest rate swap agreements	$4,437	$446

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The following table shows the effect of the Company’s derivative instrument not designated as hedges for the three months ended March 31, 2013 and 2012 in the consolidated statements of operations (dollars in thousands):

Derivative Instruments Not Designated as Hedges:	Location of Amount Recognized in Earnings	Amount Recognized in Earnings Three Months Ended March 31, 2013	2012
Cross-currency swap agreement	Interest expense, net	$(814)	$(1,318)
Cross-currency swap agreement	Other income, net	(4)	173
		$(818)	$(1,145)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

- Financial Instruments Carried at Fair Value: Derivative instruments are recorded on the balance sheet as either assets or liabilities measured at fair value. As of March 31, 2013, the Company's derivative financial instruments consisted of interest rate swap agreements and cross-currency swap agreements. The Company estimated the fair value of its interest rate swap agreements based on Level 2 valuation inputs, including fixed interest rates, LIBOR implied forward interest rates and the remaining time to maturity. The Company estimated the fair value of its cross-currency swap agreements based on Level 2 valuation inputs, including LIBOR implied forward interest rates, AUD BBSW implied forward interest rates and the remaining time to maturity.
- Financial Instruments Carried at Historical Cost: Since the Company's long-term debt is not actively traded, 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 loans with similar terms and maturities.

The following table presents the Company's financial instruments that are carried at fair value using Level 2 inputs at March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013	December 31, 2012
Financial instruments carried at fair value using Level 2 inputs:		
Interest rate swap agreements	$10,274	$4,227
Cross-currency swap agreement	—	255
Total financial assets carried at fair value	$10,274	$4,482
Interest rate swap agreements	3,310	4,659
Cross-currency swap agreement	165	143
Total financial liabilities carried at fair value	$3,475	$4,802

The following table presents the carrying value and fair value using Level 2 inputs of the Company’s financial instruments carried at historical cost at March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities carried at historical cost:				
Revolving credit facility	$14,653	$14,769	$25,153	$25,222
United States term loan	1,539,700	1,550,939	1,576,100	1,562,385
Canadian term loan	—	—	14,446	14,353
Australian term loan	188,461	191,668	190,100	191,057
Amortizing notes component of TEUs	29,590	28,822	32,435	31,484
Other debt	19,871	20,026	19,901	19,759
Total	$1,792,275	$1,806,224	$1,858,135	$1,844,260

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Credit Facilities

During the three months ended March 31, 2013, the Company prepaid in full its Canadian term loan, which resulted in the write-off of unamortized deferred financing costs of $0.5 million.

On March 28, 2013, the Company entered into Amendment No. 1 (the Amendment Agreement) to its New Credit Agreement dated as of October 1, 2012, which provides for a 0.25% reduction in the applicable margins for the Company's existing term loans and loans under its revolving credit facility.

7. INCOME TAXES:

Included in the Company's net income for the three months ended March 31, 2013 was a $41.0 million benefit associated with the retroactive extension of the United States Short Line Tax Credit for fiscal year 2012, which was signed into law on January 2, 2013. The Company's provision for income tax was $16.0 million and $12.3 million for the three months ended March 31, 2013 and 2012, respectively, which represented 27.7% and 35.6%, respectively, of income from continuing operations other than the retroactive benefit recorded in the