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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

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

or

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

For the transition period from ______________ to ______________

Commission File No. 0-20847

Genesee & Wyoming Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	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
(Telephone No.)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.01 par value	NYSE

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

Class A Common Stock, $0.01 par value

(Title of Class)

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Genesee & Wyoming Inc.

FORM 10-K

For The Fiscal Year Ended December 31, 2005

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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

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

PART I

Item 1. Business

OVERVIEW

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

RECENT DEVELOPMENTS AUSTRALIA TRANSACTIONS

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

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

GROWTH STRATEGY

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

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

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

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

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

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

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

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

OPERATING STRATEGY

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

- *Focused Regional Marketing.* We build each regional rail system on a base of large industrial customers, grow that business through marketing efforts, and pursue additional revenues by attracting new customers and providing ancillary rail services. These ancillary rail services include railcar switching, repair, storage, cleaning, weighing and blocking, and bulk transfer, which enable shippers and Class I carriers to move freight more easily and cost-effectively.

- *Lower Operating Costs.* We focus on lowering operating costs and have historically been able to operate acquired rail lines more efficiently than the companies and governments from whom we acquired these properties. We typically achieve efficiencies by lowering administrative overhead, consolidating equipment and track maintenance contracts, reducing transportation costs and selling surplus assets.

- *Efficient Use of Capital.* We invest in track and rolling stock to ensure that we operate safe railroads that meet the demands of our customers. At the same time, we seek to maximize our return on invested capital by focusing on cost effective capital programs. For example, we rebuild older locomotives rather than purchase new locomotives, and invest in track at levels appropriate for traffic type and density. In addition, in some instances, we are able to obtain state and/or federal grants to rehabilitate track because of the importance of certain of our customers and railroads to the regional economies where the tracks are located. Typically, we seek government funds to support investments that would not be economically viable for us to make on a stand-alone basis.

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

FINANCIAL STRATEGY

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

INDUSTRY

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

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

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

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

(2) Includes groups of non-contiguous smaller railroads

Source: Association of American Railroads, Railroad Facts, 2005 Edition.

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

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

NORTH AMERICAN OPERATIONS

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

North American Customers

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

North American Commodities

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

North American Freight Revenues and Carloads Comparison by Commodity Group

Years Ended December 31, 2005 and 2004

(dollars in thousands, except average per carload)

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

Commodity Group Description

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

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

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

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

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

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

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

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

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

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

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

North American Non-Freight Revenues

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

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

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

North American Non-Freight Revenues Comparison

Years Ended December 31, 2005 and 2004

(dollars in thousands)

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

North American Revenues By Geographic Area

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

North American Revenues Comparison by Geographic Area

Years Ended December 31, 2005 and 2004

(dollars in thousands)

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