GENESEE & WYOMING INC
Form 10-Q
May 09, 2007

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, 2007

¨ **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	**06-0984624**
(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification No.)*
66 Field Point Road,	
Greenwich, Connecticut	**06830**
(Address of principal executive offices)	*(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. x YES ¨ NO

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 x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

Shares of common stock outstanding as of the close of business on May 4, 2007:

Class	Number of Shares Outstanding
Class A Common Stock	36,118,708
Class B Common Stock	3,975,178

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GENESEE & WYOMING INC. AND SUBSIDIARIES

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2007	2006
OPERATING REVENUES	$ 130,827	$ 112,982
OPERATING EXPENSES:		
Transportation	42,362	38,400
Maintenance of ways and structures	11,907	9,926
Maintenance of equipment	19,087	16,432
Diesel fuel sold to third parties	4,942	
General and administrative	22,616	18,947
Net gain on sale and impairment of assets	(50)	(94)
Depreciation and amortization	7,894	7,311
Total operating expenses	108,758	90,922
INCOME FROM OPERATIONS	22,069	22,060
Equity income of unconsolidated international affiliates		2,007
Interest income	3,363	100
Interest expense	(3,823)	(5,008)
Other (expense) income, net	(83)	445
Income before income taxes	21,526	19,604
Provision for income taxes	7,206	5,590
Net income	$ 14,320	$ 14,014
Basic earnings per common share	$ 0.38	$ 0.38
Weighted average shares - Basic	37,270	37,326
Diluted earnings per common share	$ 0.34	$ 0.33
Weighted average shares - Diluted	41,861	42,411

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

GENESEE & WYOMING INC. AND SUBSIDIARIES

AS OF MARCH 31, 2007 AND DECEMBER 31, 2006

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share amounts)

(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
CURRENTS ASSETS:		
Cash and cash equivalents	$ 235,846	$ 240,206
Accounts receivable, net of allowances for doubtful accounts of $3,028 and $2,907, respectively	106,181	117,099
Materials and supplies	11,971	11,302
Prepaid expenses and other	16,030	14,695
Deferred income tax assets, net	7,604	7,617
Total current assets	377,632	390,919
PROPERTY AND EQUIPMENT, net	573,784	573,292
INVESTMENT IN UNCONSOLIDATED AFFILIATES	4,588	4,644
GOODWILL	37,874	37,788
INTANGIBLE ASSETS, net	119,778	120,669
DEFERRED INCOME TAX ASSETS, net	2,387	2,697
OTHER ASSETS, net	10,516	11,055
Total assets	$ 1,126,559	$ 1,141,064
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 15,653	$ 4,372
Accounts payable	97,802	98,186
Accrued expenses	35,057	38,364
Income tax payable Australia	95,073	91,925
Deferred income tax liabilities, net	443	291
Total current liabilities	244,028	233,138
LONG-TERM DEBT, less current portion	229,866	241,313
DEFERRED INCOME TAX LIABILITIES, net	75,212	72,876
DEFERRED ITEMS grants from governmental agencies	58,004	56,588
OTHER LONG-TERM LIABILITIES	17,042	16,962
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Class A Common Stock, $0.01 par value, one vote per share; 90,000,000 shares authorized; 43,578,312 and 43,422,957 shares issued and 36,313,490 and 37,635,235 shares outstanding (net of 7,264,822 and 5,787,722 shares in treasury) on March 31, 2007 and December 31, 2006, respectively	436	434
Class B Common Stock, $0.01 par value, ten votes per share; 15,000,000 shares authorized; 3,975,178 shares issued and outstanding on March 31, 2007 and December 31, 2006	40	40
Additional paid-in capital	190,791	187,460
Retained earnings	366,512	352,192
Accumulated other comprehensive income	6,348	4,411

Less treasury stock, at cost	(61,720)	(24,350)
Total stockholders equity	502,407	520,187
Total liabilities and stockholders equity	$ 1,126,559	$ 1,141,064

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

GENESEE & WYOMING INC. AND SUBSIDIARIES

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 14,320	$ 14,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,894	7,311
Amortization of restricted stock and units	329	143
Compensation cost related to stock options	877	877
Excess tax benefit from share-based compensation	(420)	(2,341)
Deferred income taxes	2,752	4,547
Net gain on sale and impairment of assets	(50)	(94)
Equity income of unconsolidated international affiliates, net of tax		(1,415)
Changes in assets and liabilities which provided (used) cash, net of effect of acquisitions:		
Accounts receivable, net	7,781	1,216
Materials and supplies	(613)	22
Prepaid expenses and other	(1,288)	(520)
Accounts payable and accrued expenses	(3,316)	4,004
Income tax payable - Australia	930	
Other assets and liabilities, net	957	(308)
Net cash provided by operating activities	30,153	27,456
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net of government grants	(2,886)	(6,592)
Insurance proceeds for the replacement of assets	1,422	
Valuation adjustment of split dollar life insurance	37	12
Proceeds from disposition of property and equipment	79	306
Net cash used in investing activities	(1,348)	(6,274)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term borrowings, including capital leases	(458)	(77,208)
Proceeds from issuance of long-term debt		53,500
Net proceeds from employee stock purchases	1,552	2,365
Treasury stock purchases	(37,370)	
Excess tax benefit from share-based compensation	420	2,341
Net cash used in financing activities	(35,856)	(19,002)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,691	(543)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,360)	1,637
CASH AND CASH EQUIVALENTS, beginning of period	240,206	18,669

CASH AND CASH EQUIVALENTS, end of period	$ 235,846	$ 20,306

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

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 financial statements, are in U.S. 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 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, 2007 and 2006, are presented on a basis consistent with the audited financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. 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 2006 was derived from the audited financial statements in the Company s 2006 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, 2006, included in the Company s 2006 Form 10-K. Certain prior period balances have been reclassified to conform to the 2007 presentation, including equity income of unconsolidated international affiliates.

2. CHANGES IN OPERATIONS:

Australia

Effective June 1, 2006, the Company and its 50% partner, Wesfarmers Limited (Wesfarmers), completed the sale of the Western Australia operations and certain other assets of Australian Railroad Group Pty Ltd (ARG) to Queensland Rail and Babcock & Brown Limited (ARG Sale). Simultaneous with the ARG Sale, the Company purchased Wesfarmers 50% ownership of the remaining ARG operations, which are principally located in South Australia, for $15.1 million (GWA Purchase) (collectively, Australian Transactions). This business, which is based in Adelaide, South Australia, was renamed Genesee & Wyoming Australia Pty Ltd (GWA), and is a 100% owned subsidiary. The GWA Purchase was accounted for under the purchase method of accounting. However, because the Company previously held a 50% share of these assets through the Company s ownership interest in ARG, it applied a step-method to the allocation of value among the assets and liabilities of GWA. Because the $15.1 million purchase price for Wesfarmers 50% share was lower than 50% of the book value ARG had historically recorded on these assets, the Company recorded a non-cash loss of $16.2 million ($11.3 million, net of tax), representing the Company s 50% share of the impairment loss recorded by ARG, which was included in equity income of international affiliates in the consolidated statement of operations during the second quarter of 2006. GWA commenced operations on June 1, 2006. Accordingly, the Company has included 100% of the value of GWA s net assets ($30.1 million) in its consolidated balance sheet since June 1, 2006. The Company expects to complete its allocation of the value of GWA among respective assets and liabilities during the second quarter of 2007.

South America

During 2006, due to heightened political and economic unrest and uncertainties in Bolivia, the Company determined that its 22.89% indirect investment in Ferroviaria Oriental S.A. (Oriental), had suffered an other-than-temporary decline in value. Based on the Company s assessment of fair value, the Company s $8.9 million investment was written down by $5.9 million with a corresponding charge to earnings in the second quarter of 2006.

As of June 1, 2006, the Company discontinued equity accounting for the remaining $3.0 million investment in Oriental. Since then, the Company has accounted for this investment under the cost method. Historically, Oriental s results of operations have not had a material impact on the Company s results of operations. The Company will continue to monitor the political situation in Bolivia.

Mexico

In October 2005, the Company s Mexican railroad operation, Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM) was struck by Hurricane Stan with the most severe impact concentrated in the State of Chiapas between the town of Tonalá and the Guatemalan border. Approximately seventy bridges were damaged or destroyed and various segments of track were washed out. Thereafter, FCCM worked with the Secretaria de Comunicaciones y Transporte (SCT) and other Mexican government agencies to develop a reconstruction plan for the damaged portion of the railroad. In July 2006, FCCM received a letter from the SCT indicating that the SCT intended to fund 75% of the $20.0 million expected cost to rebuild the damaged rail line subject to certain conditions.

Shortly thereafter, FCCM began negotiating a formal agreement with the SCT and undertook project design work. However, actions taken by the Mexican National Water Commission (CNA) and other Mexican government agencies in the storm-damaged area significantly increased the cost of the rail line reconstruction project and made the timetable to completion uncertain. As of September 30, 2006, the government had not committed adequate resources to fund the project and the Company did not intend to fund the additional costs. Accordingly, the Company recorded a non-cash charge of $33.1 million pre-tax ($34.1 million after-tax) in the third quarter of 2006, reflecting the write-down of non-current assets and related effects of FCCM. FCCM s remaining $17.5 million of assets as of March 31, 2007, consisted of $6.6 million of non-current assets, primarily locomotives and freight cars, and $10.9 million of current assets, primarily receivables and inventory.

The Company is engaged in a number of actions seeking resolution of the situation in Mexico. While the Company has made progress in its negotiations with the Mexican government, definitive agreements regarding the reconstruction of the rail line in Chiapas have not yet been reached. The Company s inability to finalize agreements to its satisfaction could result in its exit from Mexico.

The Company expects to continue to incur operating losses from the Mexican business and may record additional charges going forward, which could exceed the value of the remaining assets in Mexico.

As previously disclosed, on March 20, 2007, the Company s Mexican subsidiary, GW Servicios S.A. (Servicios) was unable to fund its U.S. dollar denominated principal and interest payment of $1.9 million due under its loan agreements. Failure to make this payment constituted an event of default under Servicios loan agreements. As a result, the lenders to the Mexican operations may now accelerate the outstanding debt and commence actions to (i) collect on the entire outstanding balance under the loan agreements ($14.0 million, which includes accrued interest), or (ii) exercise their rights to the collateral pledged under the loan agreements, including FCCM s rolling stock and the Company s shares in FCCM. If the lenders accelerate the outstanding debt, they may demand immediate payment of $7.0 from the Company pursuant to a guarantee. Neither this payment default, nor any action that might be taken by the lenders to collect under the loan agreements, would result in a default under the Company s other outstanding debt obligations. In November 2006, under the guarantee arrangement, the Company made Servicios principal and interest payment of $1.9 million on their behalf that had been due in September 2006.

As a result of the changing economic circumstances of the Company s Mexican operations as compared to its other businesses, the Company has presented its Mexican business as a separate segment in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131) beginning July 1, 2006. See Note 8 for additional information regarding the Company s segments.

United States

Chattahoochee Bay Railroad, Inc.: On August 25, 2006, the Company s newly formed subsidiary, the Chattahoochee Bay Railroad, Inc. (CHAT), acquired the assets of the Chattahoochee & Gulf Railroad Co., Inc. and the H&S Railroad Company, Inc. for $6.1 million in cash. The purchase price was allocated between property and equipment ($5.1 million) and intangible assets ($1.0 million). The rail assets acquired by CHAT are contiguous and connect the Company s Bay Line Railroad to the Company s Chattahoochee Industrial Railroad.

Portsmouth Terminal: On August 25, 2006, the Company exercised an option to purchase 12.5 miles of previously leased rail line from Norfolk Southern Corp. (NS) for $3.6 million. The 12.5 mile rail line runs through Portsmouth, Chesapeake, and Suffolk, VA. The Company s subsidiary, the Commonwealth Railway (CWRY), will own and continue to operate the line upon receipt of customary regulatory approvals. The Company has commenced a $14.0 million improvement project (including $6.0 million in government grants) to meet the projected capacity needs of a customer s new container terminal in Portsmouth, which is expected to be completed in July 2007.

Results of Operations

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

Certain of the Company s railroads have commodity shipments which are sensitive to general economic conditions in the countries in which it operates, including paper products in Canada, lumber and forest products in the United States, and cement in Mexico. However, shipments of other commodities are less affected by economic conditions and are more closely affected by other factors, such as inventory levels maintained at a customer power plant (coal) and winter weather (salt).

Pro Forma Financial Results

The following table summarizes the Company s unaudited pro forma operating results for the three months ended March 31, 2006, as if the Australian Transactions had occurred as of January 1, 2006 (dollars in thousands, except per share amounts):

		Three Months Ended March 31, 2006
Operating revenues	$	130,495
Net income	$	14,910
Basic earnings per share	$	0.40
Diluted earnings per share	$	0.35

The unaudited pro forma operating results include the Australian Transactions adjusted, net of tax, for certain closing costs incurred from the ARG Sale, and interest expense savings from the pay down of the debt from proceeds received from the ARG Sale.

The pro forma financial information does not purport to be indicative of the results that actually would have been obtained had the Australian Transactions been completed as of the assumed date and for the period presented and are not intended to be a projection of future results or trends.

3. EARNINGS PER SHARE

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

	Three Months Ended March 31,