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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**Quarterly report pursuant to Section 13 or 15(d)**

**of the Securities Exchange Act of 1934**

**for the quarter ended September 30, 2005**

**Commission File No. 001-31456**

# GENESEE & WYOMING INC.

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

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of**<br>**incorporation or organization)** | **06-0984624**<br>**(I.R.S. Employer**<br>**Identification No.)** |
| **66 Field Point Road, Greenwich, Connecticut**<br>**(Address of principal executive offices)** | **06830**<br>**(Zip Code)** |

**(203) 629-3722**

**(Telephone 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: x YES ¨ NO

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

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 November 1, 2005:**

| Class | Number of Shares Outstanding |
|---|---|
| **Class A Common Stock** | **24,663,616** |
| **Class B Common Stock** | **2,650,122** |

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GENESEE & WYOMING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| OPERATING REVENUES | $ 105,250 | $ 77,243 | $ 282,073 | $ 223,707 |
| OPERATING EXPENSES: | | | | |
| Transportation | 36,052 | 25,950 | 96,765 | 73,976 |
| Maintenance of ways and structures | 8,687 | 7,516 | 25,137 | 22,002 |
| Maintenance of equipment | 14,991 | 12,060 | 41,771 | 34,789 |
| General and administrative | 17,751 | 13,624 | 49,692 | 40,317 |
| Net (gain) loss on sale and impairment of assets | (3,368) | 81 | (3,367) | (12) |
| Depreciation and amortization | 7,058 | 4,812 | 17,717 | 14,295 |
| Total operating expenses | 81,171 | 64,043 | 227,715 | 185,367 |
| INCOME FROM OPERATIONS | 24,079 | 13,200 | 54,358 | 38,340 |
| Interest expense | (4,919) | (2,352) | (9,875) | (7,070) |
| Other income (expense), net | 82 | (221) | (296) | 203 |
| Income before income taxes and equity earnings | 19,242 | 10,627 | 44,187 | 31,473 |
| Provision for income taxes | 4,747 | 4,284 | 12,304 | 12,267 |
| Income before equity earnings | 14,495 | 6,343 | 31,883 | 19,206 |
| Equity in net income of international affiliates: | | | | |
| Australian Railroad Group | 2,386 | 3,529 | 6,957 | 10,746 |
| South America | 163 | 273 | 468 | 496 |
| Net income | $ 17,044 | $ 10,145 | $ 39,308 | $ 30,448 |
| Preferred stock dividends and cost accretion | | | | 479 |
| Net income available to common stockholders | $ 17,044 | $ 10,145 | $ 39,308 | $ 29,969 |
| Basic earnings per common share | $ 0.69 | $ 0.42 | $ 1.60 | $ 1.24 |
| Weighted average shares - Basic | 24,690 | 24,213 | 24,553 | 24,086 |
| Diluted earnings per common share | $ 0.61 | $ 0.37 | $ 1.42 | $ 1.09 |
| Weighted average shares - Diluted | 27,877 | 27,497 | 27,738 | 27,412 |

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

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**GENESEE & WYOMING INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share amounts)**

**(Unaudited)**

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| ASSETS | | |
| CURRENTS ASSETS: | | |
| Cash and cash equivalents | $ 6,219 | $ 14,451 |
| Accounts receivable, net | 89,023 | 64,537 |
| Materials and supplies | 7,596 | 5,263 |
| Prepaid expenses and other | 7,706 | 7,784 |
| Deferred income tax assets, net | 3,194 | 3,190 |
| Total current assets | 113,738 | 95,225 |
| PROPERTY AND EQUIPMENT, net | 531,169 | 337,024 |
| INVESTMENT IN UNCONSOLIDATED AFFILIATES | 137,630 | 132,528 |
| GOODWILL | 31,442 | 24,682 |
| INTANGIBLE ASSETS, net | 136,388 | 77,778 |
| OTHER ASSETS, net | 12,479 | 10,014 |
| Total assets | $ 962,846 | $ 677,251 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 4,712 | $ 6,356 |
| Accounts payable | 85,454 | 63,794 |
| Accrued expenses | 29,522 | 21,598 |
| Total current liabilities | 119,688 | 91,748 |
| LONG-TERM DEBT, less current portion | 330,285 | 125,881 |
| DEFERRED INCOME TAX LIABILITIES, net | 55,955 | 50,517 |
| DEFERRED ITEMS grants from governmental agencies | 48,271 | 46,229 |
| DEFERRED GAIN sale/leaseback | 3,285 | 3,495 |
| OTHER LONG-TERM LIABILITIES | 14,462 | 14,122 |
| MINORITY INTEREST | 3,484 | 3,559 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY: | | |
| Class A Common Stock, $0.01 par value, one vote per share; 90,000,000 shares authorized; 28,268,698 and 27,930,147 shares issued and 24,720,792 and 24,397,918 shares outstanding (net of 3,547,906 and 3,532,229 shares in treasury) on September 30, 2005 and December 31, 2004, respectively | 283 | 279 |
| Class B Common Stock, $0.01 par value, ten votes per share; 15,000,000 shares authorized; 2,650,122 shares issued and outstanding on September 30, 2005 and December 31, 2004 | 27 | 27 |
| Additional paid-in capital | 166,889 | 161,361 |
| Retained earnings | 207,362 | 168,054 |

| | | |
|---|---|---|
| Accumulated other comprehensive income | 27,140 | 25,228 |
| Less treasury stock, at cost | (13,016) | (12,648) |
| Less restricted stock, net | (1,269) | (601) |
| Total stockholders equity | 387,416 | 341,700 |
| Total liabilities and stockholders equity | $ 962,846 | $ 677,251 |

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

(in thousands) (Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 39,308 | $ 30,448 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation and amortization | 17,717 | 14,295 |
| Valuation of split dollar life insurance | 32 | (358) |
| Amortization of restricted stock | 341 | 93 |
| Compensation cost of stock options | 910 | |
| Excess tax benefit from share-based payment arrangements | (701) | (1,090) |
| Deferred income taxes | 5,694 | 5,827 |
| Net gain on disposition of property | (3,367) | (12) |
| Equity in net income of international affiliates | (7,425) | (11,242) |
| Minority interest expense | 124 | 142 |
| Changes in assets and liabilities - | | |
| Accounts receivable | (11,115) | (7,774) |
| Materials and supplies | (1,091) | (184) |
| Prepaid expenses and other | 741 | (573) |
| Accounts payable and accrued expenses | 8,220 | 10,727 |
| Other assets and liabilities, net | 1,118 | 80 |
| Net cash provided by operating activities | 50,506 | 40,379 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment, net of proceeds from government grants | (21,951) | (19,751) |
| Additional purchase price for Genesee Rail-One | (6,500) | |
| Purchase of rail properties from Rail Management Corporation, net of $4.9 million cash received | (238,204) | |
| Purchase of Homer City and Savannah Wharf rail properties | | (2,124) |
| Cash received from unconsolidated international affiliates | 655 | 5,757 |
| Proceeds from disposition of property | 4,093 | 315 |
| Net cash used in investing activities | (261,907) | (15,803) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on long-term borrowings | (159,398) | (151,134) |
| Proceeds from issuance of long-term debt | 359,800 | 121,300 |
| Debt issuance costs | (1,629) | |
| Net proceeds from employee stock purchases | 3,820 | 2,795 |
| Treasury Stock purchases | (1,278) | |
| Excess tax benefit from share-based payment arrangements | 701 | 1,090 |
| Dividends paid on Redeemable Convertible Preferred Stock | | (411) |
| Net cash provided by (used in) financing activities | 202,016 | (26,360) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 1,153 | 69 |

| | | |
|---|---|---|
| DECREASE IN CASH AND CASH EQUIVALENTS | (8,232) | (1,715) |
| CASH AND CASH EQUIVALENTS, beginning of period | 14,451 | 11,118 |
| CASH AND CASH EQUIVALENTS, end of period | $ 6,219 | $ 9,403 |

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

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The following table sets forth cash paid for interest and income taxes for the nine-month periods ended September 30, 2005 and 2004 (in thousands):

| | 2005 | 2004 |
|---|---|---|
| CASH PAID DURING PERIOD FOR: | | |
| Interest | $ 8,165 | $ 7,206 |
| Income taxes | $ 5,368 | $ 4,635 |

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. References to we, our, or us mean 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. Additionally, we have a 22.89% indirect ownership interest in our affiliate, Ferroviaria Oriental, S.A. (Oriental), which is located in eastern Bolivia. 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 unaudited consolidated financial statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (the 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) for interim financial statements. In the opinion of management, the unaudited financial statements for the three-month and nine-month periods ended September 30, 2005 and 2004, are presented on a basis consistent with audited financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement. The results of operations for interim periods are not necessarily indicative of results of operations for the full year. The consolidated balance sheet at December 31, 2004 has been derived from our audited financial statements for that date. The interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2004 included in our 2004 Form 10-K. Certain prior period balances have been reclassified to conform to the 2005 presentation.

2. EXPANSION OF OPERATIONS:

On June 1, 2005, we acquired from Rail Management Corporation (RMC) substantially all of its rail operations (collectively, Rail Partners) for $238.2 million in cash (net of $4.9 million cash received), the assumption of $1.4 million of non-interest bearing debt and $1.3 million in acquisition costs. The purchase price was allocated to current assets ($19.5 million, including $4.9 million in cash received), property and equipment ($185.2 million), intangible assets ($60.4 million), and goodwill ($0.2 million) less current liabilities ($20.8 million) and debt assumed ($1.4 million). The intangible assets consist of customer contracts and relationships with a weighted average amortization period of 27 years. Goodwill of $0.2 million is expected to be deductible for tax purposes. For U.S. tax purposes, we will treat the Rail Partners acquisition as a purchase of assets. We funded the purchase price through a combination of borrowings under our $225.0 million senior revolving credit facility and from a private placement of $125.0 million 10-Year Senior Floating Rate Notes. The acquired rail properties are operated by our Jacksonville-based Rail Link Region and commenced operations on June 1, 2005.

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

In July 2005, our Homer City Branch began operations upon completion of track rehabilitation, a portion of which was funded through government grants. The Homer City Branch rail line, which was acquired in January of 2004, is operated by our New York-Pennsylvania Region and is contiguous to that Region s existing railroad operation.

The table below sets forth a roll-forward of the activity affecting the restructuring reserves established in acquisitions including the number of employees and actual cash payments:

Schedule of Acquisition Restructuring Activity

| | Quarter Ended Sept. 30, 2005 |
|---|---|
| Number of Employees: | |
| Number of employees as of the beginning of the period to be terminated | 16 |
| Additions to planned terminations during the period | |
| Actual number of employees terminated during the period | 11 |
| Ending number of employees as of the end of the period to be terminated | 5 |
| Restructuring Reserves: | |
| Liabilities established in purchase accounting for acquisitions | $ 715,000 |
| Cash payments during the period | (481,000) |
| Balance at end of period | $ 234,000 |

*Pro Forma Financial Results (unaudited)*

The following table summarizes our unaudited pro forma operating results for the three-month and nine-month periods ended September 30, 2005 and 2004, as if Rail Partners had been acquired as of January 1, 2004 (in thousands, except per share amounts):

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|

| | 2005 | 2004 | 2005 | 2004 |
|---|---|---|---|---|
| Operating revenues | $ 105,250 | $ 90,549 | $ 307,823 | $ 265,111 |
| Net income | $ 17,044 | $ 11,836 | $ 38,851 | $ 35,024 |
| Basic earnings per share | $ 0.69 | $ 0.49 | $ 1.58 | $ 1.45 |
| Diluted earnings per share | $ 0.61 | $ 0.43 | $ 1.40 | $ 1.26 |

The unaudited pro forma operating results include the acquisition of Rail Partners adjusted, net of tax, for depreciation and amortization expense resulting from the step-up of the Rail Partners property and intangible assets based on appraised values, capitalization of certain track repairs which were historically expensed,

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and the inclusion of incremental interest expense related to borrowings used to fund the acquisition. The Rail Partners operating results reflected in these pro forma operating results include certain senior management and administrative deferred compensation and other expenses that we do not believe will continue as ongoing expenses but do not qualify for elimination under the treatment and presentation of pro forma financials.

The pro forma financial information does not purport to be indicative of the results that actually would have been obtained had all the transactions been completed as of the assumed dates and for the periods presented and is 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) (in thousands, except per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Sept. 30, 2004 |
| Numerators: | | | | |
| Net income | $ 17,044 | $ 10,145 | $ 39,308 | $ 30,448 |
| Mandatory Redeemable Convertible Preferred Stock (Preferred Stock) dividends and accretion | | | | 479 |
| Net income allocated to participating preferred stockholders | | | | 2,536 |
| Net income available to Class A Common stockholders - Basic | 17,044 | 10,145 | 39,308 | 27,433 |
| Net income allocated to participating preferred stockholders | | | | 2,536 |
| Net income available to Class A Common stockholders Basic and Diluted | $ 17,044 | $ 10,145 | $ 39,308 | $ 29,969 |
| Denominators: | | | | |
| Weighted average Class A Common Shares outstanding - Basic | 24,690 | 24,213 | 24,553 | 22,048 |
| Weighted average Preferred Stock converted to Class A common stock (converted in the second quarter of 2004) | | | | 2,038 |
| Weighted average Class B Common Shares outstanding | 2,650 | 2,650 | 2,650 | 2,682 |
| Dilutive effect of employee stock options and restricted stock | 537 | 634 | 535 | 644 |
| Weighted average shares - Dilutive | 27,877 | 27,497 | 27,738 | 27,412 |
| Income per common share: | | | | |
| Basic | $ 0.69 | $ 0.42 | $ 1.60 | $ 1.24 |
| Diluted | $ 0.61 | $ 0.37 | $ 1.42 | $ 1.09 |

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*Stock-based Compensation Plans*

The Compensation and Stock Option Committee of our Board of Directors (Compensation Committee) has discretion to determine grantees, grant dates, amounts of grants, vesting and expiration dates for grants to our employees through our 2004 Omnibus Incentive Plan (the Plan). The Plan includes stock options, restricted stock and restricted stock units which for employees vest over three years and for directors, who are eligible for restricted stock or restricted stock units only, vest over their respective terms as directors.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123(R), Share-Based Payments (SFAS 123R). This statement requires companies recognize compensation expense equal to the fair value of share-based payments. SFAS 123R eliminates the use of the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), under which no compensation cost is recognized except for restricted stock.

We elected to adopt SFAS 123R in the third quarter of 2005 using the Modified Prospective Application. Prior to adoption of SFAS 123R, we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our consolidated statements of cash flows. In accordance with SFAS 123R, for the period beginning with the third quarter of 2005, we revised our statement of cash flows presentation to report the excess tax benefits from the exercise of stock options as a cash outflow from operating activities and a cash inflow from financing activities.

The fair value concepts were not changed significantly in SFAS 123R; however, in adopting the standard, companies must choose among alternative valuation models and amortization assumptions. After assessing alternative valuation models and amortization assumptions, we will continue using the Black-Scholes valuation model and straight-line amortization of compensation expense over the requisite service period of the grant. In addition, SFAS 123R requires that we estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Accordingly, we have estimated forfeiture percentages for the unvested portion of previously granted awards that remain outstanding at the date of adoption. We have previously disclosed forfeitures as they occurred in our expense calculation for pro forma footnote disclosure.

As of the adoption date, no new grants have been awarded and the impact of amortizing existing stock options in the third quarter represents compensation cost of $900,000 pre-tax, or $700,000 after-tax, which reduced earnings by $.03 per share for the three months and nine months ended September 30, 2005. The total compensation cost related to non-vested awards not yet recognized of $6.7 million is expected to be recognized through June 30, 2008.

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Stock-based compensation for the three months ended September 30, 2004 and the nine months ended September 30, 2005 and 2004 (note the pro forma expense for basic and diluted earnings per share 2005 is for the six months ended September 30, 2005) was determined using the intrinsic value method. The following table provides supplemental information for the periods indicated as if stock-based compensation had been compiled under SFAS 123 (in thousands, except EPS):

| | Three Months Ended September 30, | Nine Months Ended September 30, | |
|---|---|---|---|
| | 2004 | 2005 | 2004 |
| Net Income: As reported | $ 10,145 | $ 39,308 | $ 30,448 |
| Deduct: Total stock-based employee compensation expense determined under SFAS 123 had compensation cost been recognized, net of related tax effects | 377 | 1,385 | 1,230 |
| Pro Forma | $ 9,768 | $ 37,923 | $ 29,218 |
| Basic EPS: | | | |
| As reported | $ 0.42 | $ 1.60 | $ 1.24 |
| Pro Forma | 0.40 | 1.54 | 1.21 |
| Diluted EPS: | | | |
| As reported | $ 0.37 | $ 1.42 | $ 1.09 |
| Pro Forma | 0.36 | 1.37 | 1.07 |

The following is a summary of stock option activity for the nine months ended September 30, 2005:

| | September 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding options at beginning of year | 1,591,167 | $ 14.31 | 1,788,582 | $ 10.51 |
| Granted | 388,128 | 24.93 | 336,499 | 23.45 |
| Exercised | (272,182) | 8.65 | (342,878) | 5.86 |
| Expired | (13,800) | 10.93 | (320) | 14.18 |
| Forfeited | (16,896) | 14.99 | (62,018) | 13.57 |
| Outstanding at the nine months ended | 1,676,417 | 17.71 | 1,719,865 | 13.86 |
| Exercisable at the nine months ended | 740,707 | 13.49 | 713,127 | 9.68 |
| Weighted average fair value of options granted | | 7.92 | | 7.90 |

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The following table summarizes information about stock options outstanding at September 30, 2005:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number of Options | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| \$3.17 \$6.34 | 40,500 | 1.8 Years | \$ 4.69 | 40,500 | \$ 4.69 |
| 6.34 9.52 | 152,193 | .6 years | 7.12 | 152,193 | 7.12 |
| 9.52 12.69 | 38,250 | .9 years | 9.85 | 38,250 | 9.85 |
| 12.69 15.86 | 720,796 | 2.3 years | 14.59 | 403,546 | 14.51 |
| 15.86 19.03 | 6,693 | 2.8 years | 16.43 | | |
| 22.20 25.38 | 713,968 | 4.1 years | 24.23 | 106,218 | 23.45 |
| 25.38 28.55 | 4,017 | 4.6 years | 27.39 | | |
| 3.17 28.55 | 1,676,417 | 3.0 Years | 17.71 | 740,707 | 13.49 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2005 | 2004 |
|---|---|---|
| Risk-free interest rate | 3.67% | 3.15% |
| Expected dividend yield | 0.00% | 0.00% |
| Expected lives in years | 3.00 | 3.00 |
| Expected volatility | 41.04% | 44.99% |

In 2005, we awarded 12,976 restricted stock shares valued at \$289,000 to our directors. In addition, we awarded 32,353 restricted stock shares and 8,671 restricted stock units valued at \$806,000 and \$216,000, respectively, to employees. In 2004, the Company awarded 14,000 restricted stock shares and 2,000 restricted stock units valued at \$313,600 and \$44,800, respectively, to the Company s directors. In addition, the Company awarded 20,497 restricted stock shares and 7,725 restricted stock units valued at \$477,600 and \$179,993, respectively, to employees. Amortization expense for the restricted stock shares was \$359,000 for the nine months ended September 30, 2005.

At September 30, 2005, there were 988,635 Class A shares available for future issuance under the Plan. These shares are available for the grant of stock options, restricted stock, stock appreciation rights, restricted stock units, and any other form of award established by the Compensation Committee which is consistent with the Plan s purpose.

We have reserved 843,750 shares of Class A common stock that we may sell to our full-time employees under our Employee Stock Purchase Plan (ESPP) at 90% of the stock s market price at date of purchase. At September 30, 2005, 54,547 shares had been purchased under this plan. In accordance with SFAS 123R, we recorded compensation expense for the 10% purchase discount of \$5,000 since the adoption date.

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4. EQUITY INVESTMENTS

Australian Railroad Group

The following are U.S. GAAP condensed balance sheets of ARG as of September 30, 2005 and December 31, 2004, and the related condensed consolidated statements of income and cash flows for the three-month and nine-month periods ended September 30, 2005 and 2004 (in thousands of U.S. dollars). For the dates and periods indicated below, one Australian dollar could be exchanged into the following amounts of U.S. dollars:

| | |
|---|---|
| As of September 30, 2005 | $ 0.76 |
| As of December 31, 2004 | $ 0.78 |
| Average for the three months ended September 30, 2005 | $ 0.76 |
| Average for the three months ended September 30, 2004 | $ 0.71 |
| Average for the nine months ended September 30, 2005 | $ 0.77 |
| Average for the nine months ended September 30, 2004 | $ 0.73 |

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Australian Railroad Group Pty. Ltd.

Condensed Consolidated Balance Sheets

(in thousands of U.S. dollars)

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 18,578 | $ 21,217 |
| Accounts receivable, net | 61,333 | 49,085 |
| Materials and supplies | 12,405 | 11,580 |
| Prepaid expenses and other | 4,135 | 3,055 |
| Total current assets | 96,451 | 84,937 |
| PROPERTY AND EQUIPMENT, net | 550,556 | 541,470 |
| DEFERRED INCOME TAX ASSETS, net | 72,264 | 77,325 |
| OTHER ASSETS, net | 8,140 | 8,522 |
| Total assets | $ 727,411 | $ 712,254 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 24,064 | $ 19,832 |
| Accrued expenses | 27,365 | 31,989 |
| Current income tax liabilities | 286 | 364 |
| Total current liabilities | 51,715 | 52,185 |
| LONG-TERM BANK DEBT | 381,350 | 383,425 |
| DEFERRED INCOME TAX LIABILITIES, net | 24,885 | 21,207 |
| OTHER LONG-TERM LIABILITIES | 10,050 | 2,177 |
| FAIR VALUE OF INTEREST RATE SWAPS | 5,362 | 9,788 |
| Total non-current liabilities | 421,647 | 416,597 |
| REDEEMABLE PREFERRED STOCK OF STOCKHOLDERS | 16,469 | 16,897 |
| TOTAL STOCKHOLDERS EQUITY | 237,580 | 226,575 |
| Total liabilities and stockholders equity | $ 727,411 | $ 712,254 |

Australian Railroad Group Pty. Ltd.

Condensed Consolidated Statements of Income

(in thousands of U.S. dollars)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Sept. 30, 2004 |
| Operating revenues | $ 87,318 | $ 83,695 | $ 257,739 | $ 247,765 |
| Operating expenses | 73,227 | 66,959 | 216,256 | 196,929 |
| Income from operations | 14,091 | 16,736 | 41,483 | 50,836 |
| Interest expense | (7,426) | (6,865) | (22,122) | (21,068) |
| Other income, net | 176 | 221 | 583 | 962 |
| Income before income taxes | 6,841 | 10,092 | 19,944 | 30,730 |
| Provision for income taxes | 2,072 | 3,030 | 6,031 | 9,236 |
| Net income | $ 4,769 | $ 7,062 | $ 13,913 | $ 21,494 |

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Australian Railroad Group Pty. Ltd.

Condensed Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

| | Nine Months Ended | |
|---|---|---|
| | **Sept. 30, 2005** | **Sept. 30, 2004** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 13,913 | $ 21,494 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation and amortization | 23,912 | 19,845 |
| Deferred income taxes | 7,366 | 8,894 |
| Net (gain) loss on sale and impairment of assets | (297) | 376 |
| Changes in assets and liabilities | (8,131) | 3,345 |
| Net cash provided by operating activities | 36,763 | 53,954 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (48,525) | (39,059) |
| Proceeds from disposition of property and equipment | 1,980 | 1,296 |
| Net cash used in investing activities | (46,545) | (37,763) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on subordinated notes to stockholders | | (10,710) |
| Proceeds from borrowings | 7,680 | |
| Net cash provided by (used in) financing activities | 7,680 | (10,710) |
| EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS | (537) | (1,339) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (2,639) | 4,142 |
| CASH AND CASH EQUIVALENTS, beginning of period | 21,217 | 26,618 |
| CASH AND CASH EQUIVALENTS, end of period | $ 18,578 | $ 30,760 |

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South America

The following condensed results of operations for Oriental for the three-month and nine-month periods ended September 30, 2005 and 2004 have a U.S. dollar functional currency and are based on accounting principles generally accepted in the United States (in thousands). We have a 22.89% indirect ownership interest in Oriental which is located in eastern Bolivia.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Operating revenues | $ 7,710 | $ 8,554 | $ 23,005 | $ 23,045 |
| Net income | 1,591 | 2,040 | 4,818 | 4,777 |

Condensed balance sheet information for Oriental as of September 30, 2005 and December 31, 2004:

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Current assets | $ 12,243 | $ 15,702 |
| Non-current assets | 59,045 | 58,365 |
| Total assets | $ 71,288 | $ 74,067 |
| Current liabilities | $ 6,180 | $ 7,306 |
| Non-current liabilities | 6,559 | 6,042 |
| Long-term debt | 604 | 892 |
| Shareholders equity | 57,945 | 59,827 |
| Total liabilities ands hareholders equity | $ 71,288 | $ 74,067 |

The above data does not include non-recourse debt of $12.0 million held at an intermediate unconsolidated affiliate or any of the general and administrative, interest or income tax costs at various intermediate unconsolidated affiliates. Our share of the various costs from the intermediate unconsolidated affiliates is $44,000 and $235,000 for the three months and $116,000 and $691,000 for the nine months ended September 30, 2005 and 2004, respectively.

As noted previously, we hold our equity interest in Oriental through a number of intermediate holding companies, and we account for our interest in Oriental under the equity method of accounting. We indirectly hold a 12.52% equity interest in Oriental through an interest in Genesee & Wyoming Chile (GWC), and we hold our remaining 10.37% equity interest in Oriental through other companies.

GWC is an obligor of non-recourse debt of $12.0 million, which has an adjustable interest rate dependent on operating results of Oriental. This non-recourse debt is secured by a lien over GWC s 12.52% indirect equity interest in Oriental. This debt became due and payable on November 2, 2003. Due to the political and economic unrest and uncertainties in Bolivia, it has become difficult for GWC to refinance this debt and we have chosen not to repay the non-recourse obligation. GWC entered into discussions with its creditors on plans to restructure the debt, and as a result of those discussions, GWC obtained a written waiver of principal repayment from the creditors which expired on January 31, 2004. However, negotiations with the creditors continue, and currently, none of GWC s creditors have commenced court proceedings to (i) collect on the debt, or (ii) exercise their rights pursuant to the lien.

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If we were to lose our 12.52% equity stake in Oriental due to creditors exercising their lien on GWC s indirect equity interest in Oriental, we would write-off our investment in Oriental held through GWC, which on September 30, 2005 amounted to $400,000. A default, acceleration or effort to foreclose on the lien under the non-recourse debt will have no impact on our remaining 10.37% equity interest in Oriental because that equity interest is held indirectly through holding companies outside of GWC s ownership in Oriental. As a result of the uncertainty surrounding the $12.0 million debt, we discontinued equity accounting in the fourth quarter of 2004 for our 12.52% equity interest in Oriental held through our interest in GWC.

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

5. COMMITMENTS AND CONTINGENCIES:

Legal Proceedings As previously disclosed, we had been involved in litigation with Messrs. Chambers and Wheeler, who had filed a complaint against Genesee & Wyoming Inc. in the Delaware Chancery Court in a matter related to our purchase of certain of our Canadian operations. Additional information regarding this lawsuit is described on page 18 of our annual report on Form 10-K for the year ended December 31, 2004. On August 11, 2005, the court issued an opinion finding that the options had vested, and as a result, the plaintiffs motion for summary judgment should be granted and our motion for summary judgment should be denied. On September 14, 2005, the court issued an order relating to its prior opinion, requiring us to pay the plaintiffs $6.5 million in the aggregate rather than have the 270,000 options vest. In conjunction with the issuance of the court s order, we and the plaintiffs agreed to waive any right to appeal the court s order, and on September 15, 2005 we paid this amount. This payment was accounted for as contingent purchase price and increased goodwill on certain of our Canadian operations. The payment had no effect on our share count or immediate effect on our earnings.

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

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6. COMPREHENSIVE INCOME:

Comprehensive income is the total of net income and all other non-owner changes in equity. The following table sets forth our comprehensive income, net of tax, for the three-month and nine-month periods ended September 30, 2005 and 2004 (in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Net income | $ 17,044 | $ 10,145 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 1,709 | 6,879 |
| Net unrealized gains (losses) on qualifying cash flow hedges, net of tax expense (benefit) of $89 and ($86), respectively | 267 | (129) |
| Net unrealized gains (losses) on qualifying cash flow hedges of Australian Railroad Group, net of tax expense (benefit) of $295 and ($267), respectively | 689 | (624) |
| Comprehensive income | $ 19,709 | $ 16,271 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Net income | $ 39,308 | $ 30,448 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 98 | (2,298) |
| Net unrealized gains on qualifying cash flow hedges, net of tax expense of $131 and $392, respectively | 338 | 588 |
| Net unrealized gains on qualifying cash flow hedges of Australian Railroad Group, net of tax expense (benefit) of $633 and ($11), respectively | 1,477 | (26) |
| Comprehensive income | $ 41,221 | $ 28,712 |

The following table sets forth the components of accumulated other comprehensive income, net of tax, included in the consolidated balance sheets as of September 30, 2005, and December 31, 2004 (in thousands):

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Net accumulated foreign currency translation adjustments | $ 30,040 | $ 29,942 |
| Net unrealized losses on qualifying cash flow hedges | (420) | (757) |

| | | |
|---|---|---|
| Net unrealized losses on qualifying cash flow hedges of Australian Railroad Group | (1,949) | (3,426) |
| Net unrealized minimum pension liability adjustment, net of tax | (531) | (531) |
| Accumulated other comprehensive income as reported | $ 27,140 | $ 25,228 |

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7. GEOGRAPHIC AREA INFORMATION:

The table below sets forth our geographic area revenues for our consolidated operations for the three-month and nine-month periods ended September 30, 2005 and 2004, and geographic area long-lived assets as of September 30, 2005 and December 31, 2004 (in thousands):

Geographic Area Data

| | Three Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| Operating Revenues: | | | | |
| United States | $ 82,824 | 78.7% | $ 57,514 | 74.5% |
| Canada | 12,319 | 11.7% | 11,269 | 14.6% |
| Mexico | 10,107 | 9.6% | 8,460 | 10.9% |
| Total operating revenues | $ 105,250 | 100.0% | $ 77,243 | 100.0% |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| Operating Revenues: | | | | |
| United States | $ 216,341 | 76.7% | $ 166,335 | 74.4% |
| Canada | 37,920 | 13.4% | 33,633 | 15.0% |
| Mexico | 27,812 | 9.9% | 23,739 | 10.6% |
| Total operating revenues | $ 282,073 | 100.0% | $ 223,707 | 100.0% |

| | As of September 30, 2005 | | As of December 31, 2004 | |
|---|---|---|---|---|
| Long-lived assets: | | | | |
| United States | $ 734,402 | 86.5% | $ 479,251 | 82.3% |
| Canada | 70,758 | 8.3% | 62,162 | 10.7% |
| Mexico | 43,947 | 5.2% | 40,613 | 7.0% |
| Total long-lived assets | $ 849,107 | 100.0% | $ 582,026 | 100.0% |

8. DERIVATIVE FINANCIAL INSTRUMENTS:

We actively monitor our exposure to interest rate and foreign currency exchange rate risks and use derivative financial instruments to manage the impact of certain of these risks. We use derivatives only for purposes of managing risk associated with underlying exposures. We do not trade or use instruments with the objective of earning financial gains on the interest rate or exchange rate fluctuations alone. Complex instruments involving leverage or multipliers are not used. We manage our hedging position and monitor the credit ratings of counterparties and do not anticipate losses due to counterparty nonperformance. Management believes that our use of derivative instruments to manage risk is in our best interest. However, our use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility.

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Accounting for Derivative Financial Instruments

Interest Rate Risk

We use interest rate swap agreements to manage our exposure to changes in interest rates for our floating rate debt. Interest rate swap agreements are accounted for as cash flow hedges. Interest rate differentials to be received or paid on the swaps are recognized in the consolidated statements of income as a reduction or increase in interest expense, respectively. In accordance with the derivative accounting requirements, the change in the fair value of the derivative instrument is recorded in the consolidated balance sheets as a component of current assets or liabilities, and the effective portion of the change in the value of the derivative instrument is recorded in other comprehensive income. The ineffective portion of the change in the fair value of the derivative instrument is recorded in earnings and reported in the consolidated statements of income in interest expense.

During 2004, 2003 and 2002, we entered into various interest rate swaps fixing our base interest rate by exchanging our variable LIBOR interest rates on long-term debt for a fixed interest rate. Several interest rate swaps were terminated in November 2004 in conjunction with the debt refinancing. The remaining swaps expire at various dates through September 2007, and the fixed base rates range from 4.5% to 5.46%. At September 30, 2005 and December 31, 2004, the notional amount under these agreements was $29.1 million and $32.8 million, respectively, and the fair value of these interest rate swaps was negative $621,000 and negative $1.1 million, respectively.

Foreign Currency Exchange Rate Risk

We purchase options to manage foreign currency exchange rate risk related to certain projected cash flows related to foreign operations. Foreign currency exchange rate options are accounted for as cash flow hedges. In accordance with the derivative accounting requirements, the change in the fair value of the derivative instrument is recorded in the consolidated balance sheets as a component of current assets, and the effective portion of the change in the value of the derivative instrument is recorded in other comprehensive income. The ineffective portion of the change in the fair value of the derivative instrument, along with the gain or loss on the hedged item, is recorded in earnings and reported in the consolidated statements of income in interest expense.