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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 June 30, 2001 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.)

Shares of common stock outstanding as of the close of business on August 8, 2001:

<u>Class</u>	<u>Number of Shares Outstanding</u>
Class A Common Stock	5,738,407
Class B Common Stock	1,268,169

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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GENESEE & WYOMING INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)  
(Unaudited)

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
OPERATING REVENUES	\$44,243	\$52,354	\$87,114	\$107,765
OPERATING EXPENSES:				
Transportation	13,921	17,148	28,068	35,869
Maintenance of ways and structures	5,143	5,663	10,138	11,619
Maintenance of equipment	7,978	10,329	16,101	21,270
General and administrative	8,118	7,952	15,429	16,260
Depreciation and amortization	3,123	3,455	6,348	6,642
Total operating expenses	38,283	44,547	76,084	91,660
INCOME FROM OPERATIONS	5,960	7,807	11,030	16,105
Interest expense	(2,314)	(2,520)	(5,133)	(5,272)
Gain on sale of 50% equity in Australian operations	—	—	3,713	—
Valuation adjustment of U.S. dollar denominated foreign loans	(26)	(2,358)	(69)	(1,486)
Other income, net	223	691	604	1,248
Income before income taxes and equity earnings	3,843	3,620	10,145	10,595
Provision for income taxes	1,376	1,342	3,540	3,905
Income before equity earnings	2,467	2,278	6,605	6,690
Equity in net income of international affiliates:				
Australian Railroad Group	2,480	—	4,743	—
South America	140	—	206	—
Net income	5,087	2,278	11,554	6,690
Impact of preferred stock outstanding	236	—	472	—
Net income available to common shareholders	\$ 4,851	\$ 2,278	\$11,082	\$ 6,690
Basic earnings per common share	\$ 0.70	\$ 0.35	\$ 1.62	\$ 1.03
Weighted average shares	6,905	6,495	6,835	6,494
Diluted earnings per common share	\$ 0.60	\$ 0.34	\$ 1.38	\$ 1.00
Weighted average shares and equivalents	8,432	6,735	8,364	6,686

GENESEE & WYOMING INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share amounts)  
(Unaudited)

	<b>As of June 30, 2001</b>	<b>As of Dec. 31, 2000</b>
<b>ASSETS</b>		
<b>CURRENTS ASSETS:</b>		
Cash and cash equivalents	\$ 10,947	\$ 3,373
Accounts receivable, net	43,037	45,209
Materials and supplies	5,658	5,023
Prepaid expenses and other	8,584	7,249
Deferred income tax assets, net	2,027	2,202
Total current assets	70,253	63,056
PROPERTY AND EQUIPMENT, net	178,956	180,946
INVESTMENT IN UNCONSOLIDATED AFFILIATES	64,916	64,091
SERVICE ASSURANCE AGREEMENT, net	10,941	11,315
OTHER ASSETS, net	22,215	22,604
Total assets	\$347,281	\$342,012
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 4,239	\$ 3,996
Accounts payable	41,892	43,045
Accrued expenses	12,553	10,860
Total current liabilities	58,684	57,901
LONG-TERM DEBT, less current portion	87,915	100,805
DEFERRED INCOME TAX LIABILITIES, net	22,916	22,179
DEFERRED ITEMS—grants from government agencies and third parties	36,392	36,526
DEFERRED GAIN—sale-leaseback	4,996	3,558
OTHER LONG-TERM LIABILITIES	4,684	4,737
MINORITY INTEREST	2,922	2,725
REDEEMABLE CONVERTIBLE PREFERRED STOCK	18,921	18,849
<b>STOCKHOLDERS' EQUITY:</b>		
Class A common stock, \$0.01 par value, one vote per share; 12,000,000 shares authorized; 7,254,700 and 6,913,751 issued (5,731,293 and 5,411,222 outstanding net of 1,523,407 and 1,502,529 in treasury) on June 30, 2001 and December 31, 2000, respectively	73	46
Class B common stock, \$0.01 par value, 10 votes per share; 1,500,000 shares authorized; 1,268,168 and 1,268,171 issued and outstanding on June 30, 2001 and December 31, 2000, respectively	13	8
Additional paid-in capital	54,094	49,711
Retained earnings	71,985	60,903
Accumulated other comprehensive loss	(4,851)	(4,883)
Less treasury stock, at cost	(11,463)	(11,053)
Total stockholders' equity	109,851	94,732
Total liabilities and stockholders' equity	\$347,281	\$342,012

GENESEE & WYOMING INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 11,554	\$ 6,690
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	6,348	6,642
Deferred income taxes	1,068	2,485
Gain on disposition of property and equipment	(28)	(70)
Gain on sale of 50% equity in Australian operations	(3,713)	—
Equity earnings of unconsolidated international affiliates	(4,949)	
Minority interest expense	197	30
Valuation adjustment of U.S. dollar denominated loans	69	1,486
Changes in assets and liabilities -		
Accounts receivable	1,311	938
Materials and supplies	(552)	(486)
Prepaid expenses and other	403	2,160
Accounts payable and accrued expenses	189	(9,070)
Other assets and liabilities, net	(380)	(14)
Net cash provided by operating activities	11,517	10,791
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(6,212)	(16,588)
Cash received from unconsolidated international affiliates	4,329	—
Proceeds from disposition of property, including sale-leaseback	6,893	157
Net cash provided by (used in) investing activities	5,010	(16,431)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term borrowings, including capital leases	(67,945)	(23,585)
Proceeds from issuance of long-term debt	55,500	25,297
Proceeds on government and third party grants	227	5,768
Proceeds from employee stock purchases	3,531	30
Dividend paid on Redeemable Convertible Preferred Stock	(444)	—
Net cash (used in) provided by financing activities	(9,131)	7,510
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	178	(454)
INCREASE IN CASH AND CASH EQUIVALENTS	7,574	1,416
CASH AND CASH EQUIVALENTS, beginning of period	3,373	7,791
CASH AND CASH EQUIVALENTS, end of period	\$ 10,947	\$ 9,207
<b>CASH PAID DURING PERIOD FOR:</b>		
Interest	\$ 4,662	\$ 3,782
Income taxes	639	1,205

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 “GWI” or the “Company” mean Genesee & Wyoming Inc. and, unless the context indicates otherwise, its consolidated subsidiaries. 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 (the SEC). In the opinion of management, the unaudited financial statements for the three-month and six-month periods ended June 30, 2001 and 2000, are presented on a basis consistent with 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 interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2000 included in the Company’s 2000 Form 10-K.

On May 22, 2001, the Company authorized a three-for-two common stock split in the form of a 50% stock dividend distributed on June 15, 2001 to shareholders of record as of May 31, 2001. As a result of the stock split, the accompanying financial statements reflect an increase in the number of outstanding shares of common stock and the transfer of the par value of these additional shares from paid-in capital. All share and per share amounts have been restated to reflect the retroactive effect of the stock split.

2. EXPANSION OF OPERATIONS:

Australia

On December 16, 2000, the Company, through its newly-formed joint venture, Australian Railroad Group Pty. Ltd. (ARG), completed the acquisition of Westrail Freight from the government of Western Australia for approximately \$334.4 million including working capital. ARG is a joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. Westrail Freight is composed of the freight operations of the formerly state-owned railroad of Western Australia.

To complete the acquisition, the Company contributed its formerly wholly-owned subsidiary, Australia Southern Railroad (ASR), to ARG along with the Company’s 2.6% interest in the Asia Pacific Transport Consortium (APTC) — a consortium selected to construct and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. Additionally, the Company contributed \$21.4 million of cash to ARG while Wesfarmers contributed \$64.2 million in cash, including \$8.2 million which represents a long-term non-interest bearing note to match a similar note due to the Company from ASR at the date of the transaction. ARG funded the remaining purchase price with proceeds from a new bank credit facility.

To fund its cash investment in ARG, the Company also completed a private placement of Redeemable Convertible Preferred Stock (the Convertible Preferred) with the 1818 Fund III, L.P. (the Fund) managed by Brown Brothers Harriman & Co. Dividends on the Convertible Preferred are cumulative and payable quarterly in arrears in an amount equal to 4% of the issue price. Each share of the Convertible Preferred is convertible by the Fund at any time into shares of Class A Common Stock of the

Company at a conversion price of \$15.33 per share of Class A Common Stock (if converted, 1,304,348 shares of Common Stock). The Convertible Preferred is callable by the Company after four years from date of issuance, December 12, 2000, and is mandatorily redeemable in eight years from date of issuance. At June 30, 2001, no shares of Convertible Preferred have been converted into shares of Class A common Stock. Issuance costs are being amortized as additional dividends over the Convertible Preferred's eight year life.

In the fourth quarter of 2000, the Company recognized a \$10.1 million gain upon the issuance of ASR stock to Wesfarmers upon the formation of ARG as a result of such issuance being at a per share price in excess of the Company's book value per share investment in ASR. Additionally, due to the deconsolidation of ASR, the Company recognized a \$6.5 million deferred tax expense resulting from the financial reporting versus tax basis difference in the Company's equity investment in ARG. The Company accounts for its 50% ownership in ARG under the equity method of accounting and therefore deconsolidated ASR from its consolidated financial statements as of December 17, 2000.

On April 20, 2001, APTC completed the arrangement of debt and equity capital to finance a project to build, own and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. As previously arranged, upon APTC reaching financial closure, Wesfarmers contributed an additional \$7.4 million into ARG and accordingly, the Company recorded an additional first quarter gain of \$3.7 million related to the December, 2000 issuance of ARG stock to Wesfarmers. The \$3.7 million purchase price adjustment was recorded as a one-time gain for the Company in the quarter ended March 31, 2001. A related deferred income tax expense of \$1.1 million was also recorded. In the second quarter of 2001, ARG paid the \$7.4 million to its two shareholders, in equal amounts of \$3.7 million each, as partial payment of each shareholder's non-interest bearing note.

#### South America

On November 5, 2000, the Company acquired an indirect 21.87% equity interest in Empresa Ferroviaria Oriental, S.A. (Oriental) increasing its stake in Oriental to 22.55%. Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. The Company's new ownership interest is largely through a 90% owned holding company in Bolivia which also received \$740,000 from the minority partner for investment into Oriental. The Company's portion of the Oriental investment is composed of \$6.7 million in cash, the assumption (via an unconsolidated subsidiary) of non-recourse debt of \$10.8 million at an interest rate of 7.67%, and a non-interest bearing contingent payment of \$450,000 due in 2003 if certain financial results are achieved. The cash used by the Company to fund such investment was obtained from its existing revolving credit facility. Additionally, the Company received the right to collect dividends from the Oriental related to its full year 2000 earnings. Such dividends of \$617,000 were received in March 2001. The Company accounts for its indirect interest in the Oriental under the equity method of accounting.

#### Mexico

On December 7, 2000, in conjunction with the refinancing of Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM) (see Note 3.) and its parent company, GW Servicios, S.A. de C.V. (Servicios), the International Finance Corporation (IFC) invested \$1.9 million of equity for a 12.7% indirect interest in FCCM, through Servicios. The Company contributed an additional \$13.1 million and maintains an 87.3% indirect ownership in FCCM. The Company funded \$10.7 million of its new investment with borrowings under its amended credit facility, with the remaining investment funded by the conversion of intercompany advances into permanent capital. Along with its equity investment, IFC received a put option



exercisable in 2005 to sell its equity stake back to the Company. The put price will be based on a multiple of earnings before interest, taxes, depreciation and amortization. The Company increases its minority interest expense in the event that the value of the put option exceeds the otherwise minority interest liability.

### 3. VALUATION ADJUSTMENT OF U.S. DOLLAR DENOMINATED FOREIGN LOANS:

Amounts previously outstanding under the Company's credit agreement which were borrowed by FCCM represented U.S. dollar denominated foreign debt of the Company's Mexican subsidiary. As the Mexican peso moved against the U.S. dollar, the revaluation of this outstanding debt to its Mexican peso equivalent resulted in non-cash gains and losses as reflected in the accompanying consolidated statements of income. On June 16, 2000, pursuant to a corporate and financial restructuring of the Company's Mexican subsidiaries, the income statement impact of the U.S. dollar denominated foreign debt revaluation was significantly reduced.

### 4. EQUITY INVESTMENT IN ARG:

ARG is a joint venture which is 50%-owned by the Company and is accounted for under the equity method of accounting. The related equity earnings in this investment are shown within the Equity in Net Income of International Affiliates in the accompanying consolidated statements of income. The following are unaudited U.S. GAAP balance sheets of ARG as of June 30, 2001 and December 31, 2000, and the related consolidated statements of income for the three month and six month periods and cash flows for the six month period ended June 30, 2001 (in thousands of U.S. dollars). Relevant Australian dollar to U.S. dollar exchange rates are:

As of December 31, 2000	\$0.56
As of June 30, 2001	\$0.51
Average for the three months ended June 30, 2001	\$0.51
Average for the six months ended June 30, 2001	\$0.52

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Australian Railroad Group Pty. Ltd.  
Consolidated Balance Sheets  
(Unaudited)

	June 30, 2001	December 31, 2000
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,641	\$ 9,071
Accounts receivable, net	20,044	33,401
Materials and supplies	9,402	11,306
Total current assets	33,087	53,778
PROPERTY AND EQUIPMENT, net	336,705	341,306
DEFERRED INCOME TAX ASSETS, net	6,229	11,827
OTHER ASSETS, net	6,876	8,424
Total assets	<b>\$382,897</b>	<b>\$415,335</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Interest bearing liability	\$ 2,628	—
Current debt	—	\$ 16,342
Accounts payable	19,244	14,872
Accrued expenses	4,871	3,506
Total current liabilities	26,743	34,720
LONG-TERM BANK DEBT	242,421	265,408
OTHER LONG-TERM LIABILITIES	1,495	2,524
TOTAL STOCKHOLDERS' EQUITY AND ADVANCES	112,238	112,683
Total liabilities and stockholders' equity	<b>\$382,897</b>	<b>\$415,335</b>

Australian Railroad Group Pty. Ltd.  
Consolidated Statements of Income  
(Unaudited)

	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
Operating revenues	\$45,164	\$ 89,031
Operating expenses	32,445	64,022
Income from operations	12,719	25,009
Interest expense	(5,446)	(11,067)
Other income, net	136	265
Income before income taxes	7,409	14,207
Provision for income taxes	2,449	4,722
Net income	<b>\$ 4,960</b>	<b>\$ 9,485</b>

Australian Railroad Group Pty. Ltd.  
Consolidated Statement of Cash Flows  
(Unaudited)

	<u>Six Months Ended June 30, 2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 9,485
Adjustments to reconcile net income to net cash provided by operating activities-	
Depreciation and amortization	6,478
Other provisions	240
Deferred income taxes	4,722
Gain on disposition of property	(72)
Changes in assets and liabilities	<u>20,512</u>
Net cash provided by operating activities	<u>41,365</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of property and equipment	(30,558)
Proceeds from disposition of property and equipment	<u>30</u>
Net cash used in investing activities	<u>(30,528)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Principal payments on short-term borrowings	(15,269)
Proceeds from issuance of shares	7,622
Repayment of long-term debt due to shareholders	<u>(7,622)</u>
Net cash used in financing activities	<u>(15,269)</u>
<b>EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>	<u>(998)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(5,430)</u>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>9,071</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$ 3,641</u>

**5. CONTINGENCIES:**

Legal claims and counterclaims between the Company and Commonwealth Edison Company (ComEd) regarding alleged overcharges by the Company for services rendered to ComEd and ComEd's failure to assign the Company's service assurance agreement to the purchaser of the Powerton plant remain unresolved. The Company is pursuing its rights vigorously. Revenue for haulage to the Powerton Plant accounted for 3.1% of the consolidated revenues of the Company and its subsidiaries in 2000. Failure to satisfactorily resolve this litigation could have a material adverse effect on the Company.

**6. LOCOMOTIVE SALE-LEASEBACK:**

On March 30, 2001, the Company completed the sale of 27 locomotives to a financial institution for a net sale price of \$6.5 million. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into agreements with the financial institution to lease the 27 locomotives for a period of up to 8 years including automatic renewals. The sale-leaseback transaction resulted in a deferred gain of \$1.8 million, which will be amortized over the term of the lease as a non-cash offset to equipment rent expense.

## 7. COMPREHENSIVE INCOME:

Comprehensive income is the total of net income and all other non-owner changes in equity. The following table sets forth the Company's comprehensive income for the three and six month periods ended June 30, 2001 and 2000 (in thousands):

### Statement of Comprehensive Income (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net income	\$ 5,087	\$ 2,278	\$11,554	\$ 6,690
Other comprehensive income (loss):				
Foreign currency translation adjustments	4,928	(1,093)	552	(2,796)
Transition adjustment related to change in accounting for derivative instruments and hedging activities	—	—	(255)	—
Net change in unrealized losses on qualifying cash flow hedges	(15)	—	(265)	—
Comprehensive income	\$10,000	\$ 1,185	\$11,586	\$ 3,894

The following table sets forth the components of accumulated other comprehensive loss, net of tax, included in the consolidated balance sheets as of June 30, 2001, and December 31, 2000 (in thousands):

	June 30, 2001	December 31, 2000
Net foreign currency translation adjustments	\$(4,331)	\$(4,883)
Net unrealized losses on qualifying cash flow hedges	(520)	—
Accumulated other comprehensive loss	\$(4,851)	\$(4,883)

## 8. BUSINESS SEGMENT INFORMATION:

The Company historically operated in three business segments in two geographic areas: North American Railroad Operations, which includes operating short line and regional railroads, and buying, selling, leasing and managing railroad transportation equipment within the United States, Canada and Mexico; Australian Railroad Operations, which included operating a regional railroad and providing hook and pull (haulage) services to other railroads within Australia; and Industrial Switching, which includes providing freight car switching and related services to industrial companies with extensive railroad facilities within their complexes in the United States. On December 17, 2000, concurrent with the acquisition of Westrail Freight through ARG, the Company deconsolidated ASR (i.e. Australian Railroad Operations) from its consolidated financial statements and began reporting for its 50% ownership interest in ARG under the equity method of accounting.

Corporate overhead expenses, including acquisition expense, and equity earnings of unconsolidated affiliates in Australia and South America are primarily reported in North American Railroad Operations.

The accounting policies of the reportable segments are the same as those of the consolidated Company. The Company evaluates the performance of its operating

segments based on operating income. Intersegment sales and transfers are not significant. Summarized financial information for each business segment as of and for the three-month and six-month periods ended June 30, 2001 and 2000 is shown in the following tables:

Business Segments  
(amounts in thousands)  
Three Months Ended June 30,

	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
<b>2001</b>				
Operating revenues	\$ 41,320	—	\$2,923	\$ 44,243
Income from operations	5,787	—	173	5,960
Identifiable assets	339,175	—	8,106	347,281

	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
<b>2000</b>				
Operating revenues	\$ 39,751	\$10,055	\$2,548	\$ 52,354
Income from operations	6,245	1,382	180	7,807
Identifiable assets	257,127	39,456	8,158	304,741

Six Months Ended June 30,

	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
<b>2001</b>				
Operating revenues	\$ 81,299	—	\$5,815	\$ 87,114
Income from operations	10,733	—	297	11,030
Identifiable assets	339,175	—	8,106	347,281

	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
<b>2000</b>				
Operating revenues	\$ 81,991	\$20,685	\$5,089	\$107,765
Income from operations	13,689	2,266	150	16,105
Identifiable assets	257,127	39,456	8,158	304,741

9. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company actively monitors its exposure to foreign currency exchange rate and interest 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 exchange rate or interest rate fluctuations alone, nor does it use instruments where there are not underlying exposures. The Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. Complex instruments involving leverage or multipliers are not used. Management believes that its use of derivative instruments to manage risk is in the Company's best interest.

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. In accordance with the provisions of SFAS No. 133, the Company recorded a transition adjustment upon adoption of the standard to recognize its derivative instruments at then fair value of a liability of \$388,000. The effect of this transition adjustment was not material to both reported earnings and accumulated other comprehensive income.

#### *Foreign Currency Exchange Rate Risk*

During 2000, the Company entered into various exchange rate options that established exchange rates for converting Mexican Pesos to U.S. Dollars. The options expire at various times through March 15, 2002, and give the Company the right to sell Mexican Pesos for U.S. Dollars at exchange rates ranging from 10.61 Mexican Pesos to the U.S. Dollar to 11.85 Mexican Pesos to the U.S. Dollar. As part of one of these options, the Company gave to a third party the right to sell to the Company U.S. Dollars for Mexican Pesos at an exchange rate of 9.85 Mexican Pesos to the U.S. Dollar. The notional amount under these options is \$2.8 million. At June 30, 2001, the fair value of these currency options is a liability of \$86,790.

#### *Interest Rate Risk*

During 2001, 2000 and 1999, the Company entered into various interest rate swaps fixing its base interest rate by exchanging its variable LIBOR interest rates on long-term debt for a fixed interest rate. The swaps expire at various dates through September 2006 and the fixed base rates range from 5.46% to 6.87%. At June 30, 2001, the notional amount under these agreements is \$58.6 million. At June 30, 2001, the fair value of these interest rate swaps is a net liability of \$702,664.

#### 10. RECENTLY ISSUED ACCOUNTING STANDARDS:

On June 30, 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (Statement No. 141). Under Statement No. 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method of accounting. Use of the pooling-of-interests method will be prohibited. Additionally, Statement No. 141 requires that certain intangible assets that can be identified and named be recognized as assets apart from goodwill. Statement No. 141 is effective for all business combinations initiated after June 30, 2001.

On June 30, 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142). Under Statement No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. In accordance with this statement, the Company will adopt Statement 142 as of January 1, 2002 for existing goodwill and intangible assets and upon entering into any new business combinations subsequent to June 30, 2001. As of June 30, 2001, goodwill, net of accumulated amortization, is \$8.1 million and amortization expense for the six months ended June 30, 2001 is \$256,000. The Company has not yet determined the impact that Statement 142 will have on the Company's financial condition or results of operations.

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

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, and with the consolidated financial statements, related notes and other financial information included in the Company's 2000 Form 10-K.

### General

The Company is a holding company whose subsidiaries and unconsolidated affiliates own and/or operate short line and regional freight railroads and provide related rail services in North America, South America and Australia. The Company, through its U.S. industrial switching subsidiary, also provides freight car switching and related services to industrial companies located in the United States with extensive railroad facilities within their complexes. The Company generates revenues primarily from the movement of freight over track owned or operated by its railroads. The Company also generates non-freight revenues primarily by providing freight car switching and related rail services such as railcar leasing, railcar repair and storage to the aforementioned industrial companies, to shippers along its lines, and to the Class I railroads that connect with its North American lines.

The Company's operating expenses include wages and benefits, equipment rents (including car hire), purchased services, depreciation and amortization, diesel fuel, casualties and insurance, materials and other expenses. Car hire is a charge paid by a railroad to the owners of railcars used by that railroad in moving freight. Other expenses generally include property and other non-income taxes, professional services, communication and data processing costs and general overhead expenses.

When comparing the Company's results of operations from one reporting period to another, the following factors should be taken into consideration. The Company has historically experienced fluctuations in revenues and expenses such as one-time freight moves, customer plant expansions and shut-downs, railcar sales, accidents and derailments. In periods when these events occur, results of operations are not easily comparable to other periods. Also, much of the Company's growth to date has resulted from acquisitions, joint ventures, and investments in unconsolidated affiliates. Most recently, the Company, through a 50% owned joint venture, completed an acquisition in Western Australia in December 2000, and through an indirect investment in an unconsolidated affiliate, began operating a railroad in Bolivia in November 2000. Because of variations in the structure, timing and size of these acquisitions and differences in economics among the Company's railroads resulting from differences in the rates and other material terms established through negotiation, the Company's results of operations in any reporting period may not be directly comparable to its results of operations in other reporting periods.

### Australia

On December 16, 2000, the Company, through its newly-formed joint venture, Australian Railroad Group Pty. Ltd. (ARG), completed the acquisition of Westrail Freight from the government of Western Australia for approximately \$334.4 million including working capital. ARG is a joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. Westrail Freight is composed of the freight operations of the formerly state-owned railroad of Western Australia.

To complete the acquisition, the Company contributed its formerly wholly-owned subsidiary, Australia Southern Railroad (ASR), to ARG along with the Company's 2.6%

interest in the Asia Pacific Transport Consortium (APTC) — a consortium selected to construct and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. Additionally, the Company contributed \$21.4 million of cash to ARG while Wesfarmers contributed \$64.2 million in cash, including \$8.2 million which represents a long-term non-interest bearing note to match a similar note due to the Company from ASR at the date of the transaction. ARG funded the remaining purchase price with proceeds from a new bank credit facility.

To fund its cash investment in ARG, the Company also completed a private placement of Redeemable Convertible Preferred Stock (the Convertible Preferred) with the 1818 Fund III, L.P. (the Fund) managed by Brown Brothers Harriman & Co. Dividends on the Convertible Preferred are cumulative and payable quarterly in arrears in an amount equal to 4% of the issue price. Each share of the Convertible Preferred is convertible by the Fund at any time into shares of Class A Common Stock of the Company at a conversion price of \$15.33 per share of Class A Common Stock (if converted, 1,304,348 shares of Common Stock). The Convertible Preferred is callable by the Company after four years from date of issuance, December 12, 2000, and is mandatorily redeemable in eight years from date of issuance.

In the fourth quarter of 2000, the Company recognized a \$10.1 million gain upon the issuance of ASR stock to Wesfarmers upon the formation of ARG as a result of such issuance being at a per share price in excess of the Company's book value per share investment in ASR. Additionally, due to the deconsolidation of ASR, the Company recognized a \$6.5 million deferred tax expense resulting from the financial reporting versus tax basis difference in the Company's equity investment in ARG. The Company accounts for its 50% ownership in ARG under the equity method of accounting and therefore deconsolidated ASR from its consolidated financial statements as of December 17, 2000.

On April 20, 2001, APTC completed the arrangement of debt and equity capital to finance a project to build, own and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. As previously arranged, upon APTC reaching financial closure, Wesfarmers contributed an additional \$7.4 million into ARG and accordingly, the Company recorded an additional first quarter gain of \$3.7 million related to the December, 2000 issuance of ARG stock to Wesfarmers. The \$3.7 million purchase price adjustment was recorded as a one-time gain for the Company in the quarter ended March 31, 2001. A related deferred income tax expense of \$1.1 million was also recorded during the quarter ended March 31, 2001. In the second quarter of 2001, ARG paid the \$7.4 million to its two shareholders, in equal amounts of \$3.7 million each, as partial payment of each shareholder's non-interest bearing note.

#### South America

On November 5, 2000, the Company acquired an indirect 21.87% equity interest in Empresa Ferroviaria Oriental, S.A. (Oriental) increasing its stake in Oriental to 22.55%. Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. The Company's new ownership interest is largely through a 90% owned holding company subsidiary in Bolivia which also received \$740,000 from the minority partner for investment into Oriental. The Company's portion of the Oriental investment is composed of \$6.7 million in cash, the assumption (via an unconsolidated subsidiary) of non-recourse debt of \$10.8 million at an interest rate of 7.67%, and a non-interest bearing contingent payment of \$450,000 due in 2003 if certain financial results are achieved. The cash used by the Company to fund such investment was obtained from its existing revolving credit facility. Additionally, the Company received the right to collect dividends from the Oriental related to its full year 2000 earnings. Such dividends of \$617,000 were received in March 2001. The Company accounts for its indirect interest in the Oriental under the equity method of accounting.



## Mexico

On December 7, 2000, in conjunction with the refinancing of FCCM and its parent company, GW Servicios, S.A. de C.V. (Servicios), the International Finance Corporation (IFC) invested \$1.9 million of equity for a 12.7% indirect interest in FCCM, through its parent company Servicios. The Company contributed an additional \$13.1 million and maintains an 87.3% indirect ownership in FCCM. The Company funded \$10.7 million of its new investment with borrowings under its amended credit facility, with the remaining investment funded by the conversion of intercompany advances into permanent capital. Along with its equity investment, IFC received a put option exercisable in 2005 to sell its equity stake back to the Company. The put price will be based on a multiple of earnings before interest, taxes, depreciation and amortization. The Company increases its minority interest expense in the event that the value of the put option exceeds the otherwise minority interest liability.

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## Results of Operations

### Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

#### Consolidated Operating Revenues

Operating revenues were \$44.2 million in the quarter ended June 30, 2001 compared to \$52.4 million in the quarter ended June 30, 2000, a net decrease of \$8.1 million or 15.5%. The net decrease was attributable to a \$10.1 million decrease due to the deconsolidation of Australian railroad operations; offset by a \$1.6 million increase in North American railroad revenues and a \$375,000 increase in industrial switching revenues.

The following two sections provide information on railroad revenues in North America and industrial switching revenues in the United States.

#### North American Railroad Operating Revenues

North American railroad operating revenues were \$41.3 million in the quarter ended June 30, 2001 compared to \$39.8 million in the quarter ended June 30, 2000, an increase of \$1.6 million or 3.9%. The increase was attributable to a \$1.8 million increase in freight revenues; offset by a \$277,000 decrease in non-freight revenues.

The following table compares North American freight revenues, carloads and average freight revenues per carload for the quarters ended June 30, 2001 and 2000:

North American Freight Revenues and Carloads Comparison by Commodity Group  
Quarters Ended June 30, 2001 and 2000  
(dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	2001	% of Total	2000	% of Total	2001	% of Total	2000	% of Total	2001	2000
Coal, Coke & Ores	\$ 7,783	23.1%	\$ 6,144	19.3%	33,265	34.4%	26,512	29.1%	\$234	\$232
Minerals & Stone	5,294	15.7%	4,954	15.6%	11,318	11.7%	10,955	12.0%	468	452
Pulp & Paper	4,843	14.4%	4,999	15.7%	12,603	13.0%	12,939	14.2%	384	386
Petroleum Products	4,799	14.3%	4,708	14.8%	7,615	7.9%	7,983	8.8%	630	590
Metals	2,547	7.6%	2,749	8.6%	9,281	9.6%	10,041	11.0%	274	274
Lumber & Forest Products	2,294	6.8%	2,194	6.9%	6,634	6.9%	7,208	7.9%	346	304
Chemicals & Plastics	2,187	6.5%	2,373	7.5%	4,262	4.4%	4,545	5.0%	513	522
Farm & Food Products	2,146	6.4%	1,641	5.2%	5,477	5.7%	4,491	4.9%	392	365
Autos & Auto Parts	322	1.0%	852	2.7%	508	0.5%	1,554	1.8%	634	548
Other	1,447	4.2%	1,201	3.7%	5,822	5.9%	4,776	5.3%	249	251
<b>Total</b>	<b>\$33,662</b>	<b>100.0%</b>	<b>\$31,815</b>	<b>100.0%</b>	<b>96,785</b>	<b>100.0%</b>	<b>91,004</b>	<b>100.0%</b>	<b>348</b>	<b>350</b>

Total North American carloads were 96,785 in the quarter ended June 30, 2001 compared to 91,004 in the quarter ended June 30, 2000, an increase of 5,781 or 6.4%. The average revenue per carload decreased to \$348 in the quarter ended June 30, 2001, compared to \$350 per carload in the quarter ended June 30, 2000, a decrease of 0.6%.

North American non-freight railroad revenues were \$7.7 million in the quarter ended June 30, 2001 compared to \$7.9 million in the quarter ended June 30, 2000, a decrease of \$277,000 or 3.5%. The following table compares North America non-freight revenues for the quarters ended June 30, 2001 and 2000:

North American Railroad  
Non-Freight Operating Revenue Comparison  
Quarters Ended June 30, 2001 and 2000  
(dollars in thousands)

	2001		2000	
	\$	% of Non-Freight Revenue	\$	% of Non-Freight Revenue
Railroad switching	\$2,027	26.5%	\$2,733	34.5%
Car hire and rental income	1,418	18.5%	2,087	26.3%
Car repair services	821	10.7%	810	10.2%
Other operating income	3,392	44.3%	2,305	29.0%
Total non-freight revenues	<u>\$7,658</u>	<u>100.0%</u>	<u>\$7,935</u>	<u>100.0%</u>

#### Industrial Switching Revenues

Revenues from U.S. industrial switching activities were \$2.9 million in the quarter ended June 30, 2001 compared to \$2.5 million in the quarter ended June 30, 2000, an increase of \$375,000 or 14.7% due primarily to new switching contracts.

#### Consolidated Operating Expenses

Operating expenses for all operations combined were \$38.3 million in the quarter ended June 30, 2001, compared to \$44.5 million in the quarter ended June 30, 2000, a decrease of \$6.2 million or 14.1%. The net decrease was attributable to a \$8.7 million decrease due to the deconsolidation of Australian railroad operations; offset by a \$2.0 million increase in North American railroad operating expenses and a \$382,000 increase in industrial switching operating expenses.

The following two sections provide information on railroad expenses in North America and industrial switching expenses in the United States.

#### North American Railroad Operating Expenses

The following table sets forth a comparison of the Company's North American railroad operating expenses in the quarters ended June 30, 2001 and 2000:

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North American Railroad  
Operating Expense Comparison  
Quarters Ended June 30, 2001 and 2000  
(dollars in thousands)

	2001		2000	
	\$	% of Operating Revenue	\$	% of Operating Revenue
Labor and benefits	\$14,524	35.2%	\$13,970	35.1%
Equipment rents	5,162	12.5%	4,726	11.9%
Purchased services	2,829	6.8%	2,924	7.4%
Depreciation and amortization	2,967	7.2%	2,711	6.8%
Diesel fuel	2,906	7.0%	2,839	7.1%
Casualties and insurance	1,889	4.6%	1,370	3.4%
Materials	2,901	7.0%	2,590	6.5%
Other expenses	2,355	5.7%	2,375	6.1%
Total operating expenses	<u>\$35,533</u>	<u>86.0%</u>	<u>\$33,505</u>	<u>84.3%</u>

U.S. Industrial Switching Operating Expenses

The following table sets forth a comparison of the Company's U.S. industrial switching operating expenses in the quarters ended June 30, 2001 and 2000:

U.S. Industrial Switching  
Operating Expense Comparison  
Quarters Ended June 30, 2001 and 2000  
(dollars in thousands)

	2001		2000	
	\$	% of Operating Revenue	\$	% of Operating Revenue
Labor and benefits	\$1,847	63.2%	\$1,511	59.3%
Equipment rents	75	2.6%	45	1.8%
Purchased services	88	3.0%	53	2.1%
Depreciation and amortization	156	5.3%	160	6.3%
Diesel fuel	112	3.8%	122	4.8%
Casualties and insurance	95	3.3%	128	5.0%
Materials	194	6.6%	147	5.8%
Other expenses	183	6.3%	202	7.8%
Total operating expenses	<u>\$2,750</u>	<u>94.1%</u>	<u>\$2,368</u>	<u>92.9%</u>

Labor and benefits expense was \$1.8 million in the quarter ended June 30, 2001 compared to \$1.5 million in the quarter ended June 30, 2000, an increase of \$336,000 or 22.2%, due primarily to costs associated with new switching contracts.

## Operating Ratios

The Company's combined operating ratio increased to 86.5% in the quarter ended June 30, 2001 from 85.1% in the quarter ended June 30, 2000. The operating ratio for North American railroad operations increased to 86.0% in the quarter ended June 30, 2001 from 84.3% in the quarter ended June 30, 2000. The operating ratio for U.S. industrial switching operations increased to 94.1% in the quarter ended June 30, 2001 from 92.9% in the quarter ended June 30, 2000. The operating ratio for Australian railroad operations was 86.3% in the quarter ended June 30, 2000.

## Interest Expense

Interest expense was \$2.3 million in the quarter ended June 30, 2001 compared to \$2.5 million in the quarter ended June 30, 2000, a decrease of \$206,000 or 8.2% due primarily to a decrease in outstanding debt.

## Valuation Adjustment of U.S. Dollar Denominated Foreign Loans

Amounts previously outstanding under the Company's credit agreement which were borrowed by FCCM represented U.S. dollar denominated foreign debt of the Company's Mexican subsidiary. As the Mexican peso moved against the U.S. dollar, the revaluation of this outstanding debt to its Mexican peso equivalent resulted in non-cash gains and losses. On June 16, 2000, pursuant to a corporate and financial restructuring of the Company's Mexican subsidiaries, the income statement impact of the U.S. dollar denominated foreign loans was significantly reduced. For the quarters ended June 30, 2001 and 2000, the Company recorded approximately \$26,000 and \$2.4 million of non-cash expense, respectively, related to valuation adjustments on these loans.

## Other Income, Net

Other income, net in the quarter ended June 30, 2001, was \$223,000 compared to \$691,000 in the quarter ended June 30, 2000, a decrease of \$468,000. Other income, net consists primarily of interest income and the decrease was primarily related to the decrease of an interest bearing special deposit in Mexico.

## Income Taxes

The Company's effective income tax rate in the quarter ended June 30, 2001 was 35.8% which compared to 37.1% in the quarter ended June 30, 2000 due primarily to a lower effective income tax rate for the Company's operations in Mexico in the 2001 period.

## Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the quarter ended June 30, 2001, were \$2.6 million while there were no equity earnings of unconsolidated international affiliates in the quarter ended June 30, 2000. The equity earnings in the quarter ended June 30, 2001, consist of \$2.5 million from Australian Railroad Group and \$140,000 from South American affiliates.

## Net Income and Earnings Per Share

The Company's net income in the quarter ended June 30, 2001 was \$5.1 million compared to net income in the quarter ended June 30, 2000 of \$2.3 million, an increase of \$2.8 million. The increase in net income is the net result of an increase in equity in net income of unconsolidated international affiliates of \$2.6 million and an increase in net income from North American railroad operations of \$929,000; offset by a decrease in net income from operations in Australia of

\$716,000 due to the deconsolidation of ASR, and a decrease in the net income of industrial switching operations of \$24,000.

Basic and Diluted Earnings Per Share in the quarter ended June 30, 2001 were \$0.70 and \$0.60 respectively, on weighted average shares of 6.9 million and 8.4 million respectively, compared to \$0.35 and \$0.34 respectively, on weighted average shares of 6.5 million and 6.7 million respectively, in the quarter ended June 30, 2000. The weighted average shares outstanding for quarters ended June 30, 2001 and 2000 are adjusted for the impact of the June 15, 2001 stock split (see Note 1. to consolidated financial statements). The increase in weighted average shares outstanding for Diluted Earnings Per Share of 1.7 million is primarily attributable to the dilutive impact of the common stock equivalents (1,304,348 shares) associated with the issuance of the Redeemable Convertible Preferred Stock in December 2000.

#### Supplemental Information — Australian Railroad Group

ARG is a joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. The Company accounts for its 50% ownership in ARG under the equity method of accounting. In the quarter ended June 30, 2001, the Company recorded \$2.5 million of equity earnings in the Equity in Net Income of International Affiliates — Australian Railroad Group caption in the accompanying consolidated statements of income. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the quarter ended June 30, 2001.

Australian Railroad Group Freight Revenues and Carloads by Commodity Group  
Quarter Ended June 30, 2001  
(U.S. dollars in thousands, except average per carload)

	Freight Revenues	Carloads	Average Freight Revenues Per Carload
Grain	\$12,445	41,827	\$298
Other Ores and Minerals	10,219	25,612	399
Iron Ore	4,822	39,857	121
Alumina	4,392	37,035	119
Hook and Pull (Haulage)	2,367	10,370	228
Bauxite	2,131	30,515	70
Gypsum	445	8,494	52
Other	3,802	15,459	246
Total	<u>\$40,623</u>	<u>209,169</u>	194

#### Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

##### Consolidated Operating Revenues

Operating revenues were \$87.1 million in the six months ended June 30, 2001 compared to \$107.8 million in the six months ended June 30, 2000, a net decrease of \$20.7 million or 19.2%. The net decrease was attributable to a \$20.7 million decrease due to the deconsolidation of Australian railroad operations and a \$691,000 decrease in North American railroad revenues; offset by a \$726,000 increase in industrial switching revenues.

The following two sections provide information on railroad revenues in North America and industrial switching revenues in the United States.

#### North American Railroad Operating Revenues

North American railroad operating revenues were \$81.3 million in the six months ended June 30, 2001 compared to \$82.0 million in the six months ended June 30, 2000, a net decrease of \$692,000 or 0.8%. The net decrease was attributable to a \$568,000 increase in freight revenues and a \$1.3 million decrease in non-freight revenues.

The following table compares North American freight revenues, carloads and average freight revenues per carload for the six months ended June 30, 2001 and 2000:

North American Freight Revenues and Carloads Comparison by Commodity Group  
Six Months Ended June 30, 2001 and 2000  
(dollars in thousands, except average per carload)

Commodity Group	Freight Revenues				Carloads			Average Freight Revenues Per Carload		
	2001	% of Total	2000	% of Total	2001	% of Total	2000	% of Total	2001	2000
Coal, Coke & Ores	\$14,752	22.4%	\$13,383	20.5%	64,575	33.7%	59,102	30.9%	\$228	\$226
Pulp & Paper	9,733	14.8%	9,864	15.1%	25,635	13.4%	25,704	13.4%	380	384
Minerals & Stone	9,635	14.6%	8,802	13.5%	20,920	10.9%	19,916	10.4%	461	442
Petroleum Products	9,522	14.5%	9,726	14.9%	15,276	8.0%	16,338	8.5%	623	595
Farm & Food Products	5,328	8.1%	5,108	7.8%	15,169	7.9%	14,419	7.5%	351	354
Metals	5,218	7.9%	5,273	8.1%	18,694	9.8%	19,081	10.0%	279	276
Chemicals & Plastics	4,442	6.7%	4,634	7.1%	8,621	4.5%	8,957	4.7%	515	517
Lumber & Forest Products	4,176	6.3%	4,398	6.7%	12,166	6.4%	14,324	7.5%	343	307
Autos & Auto Parts	667	1.0%	1,609	2.5%	1,104	0.6%	2,934	1.5%	604	548
Other	2,417	3.7%	2,525	3.8%	9,371	4.8%	10,462	5.6%	258	241
<b>Total</b>	<b>\$65,890</b>	<b>100.0%</b>	<b>\$65,322</b>	<b>100.0%</b>	<b>191,531</b>	<b>100%</b>	<b>191,237</b>	<b>100%</b>	<b>344</b>	<b>342</b>

Total North American carloads were 191,531 in the six months ended June 30, 2001 compared to 191,237 in the six months ended June 30, 2000, an increase of 294 carloads. The average revenue per carload increased to \$344 in the six months ended June 30, 2001, compared to \$342 per carload in the six months ended June 30, 2000, an increase of 0.6%.

North American non-freight railroad revenues were \$15.4 million in the six months ended June 30, 2001 compared to \$16.7 million in the six months June 30, 2000, a decrease of \$1.3 million or 7.6%. The following table compares North America non-freight revenues for the six months ended June 30, 2001 and 2000:

North American Railroad  
Non-Freight Operating Revenue Comparison  
Six Months Ended June 30, 2001 and 2000  
(dollars in thousands)

	2001		2000	
	\$	% of Non-Freight Revenue	\$	% of Non-Freight Revenue
Railroad switching	\$ 4,282	27.8%	\$ 5,550	33.3%
Car hire and rental income	3,035	19.7%	4,040	24.2%
Car repair services	1,654	10.7%	1,672	10.0%
Other operating income	6,438	41.8%	5,406	32.5%
Total non-freight revenues	<u>\$15,409</u>	<u>100.0%</u>	<u>\$16,668</u>	<u>100.0%</u>

#### Industrial Switching Revenues

Revenues from U.S. industrial switching activities were \$5.8 million in the six months ended June 30, 2001 compared to \$5.1 million in the six months ended June 30, 2000, an increase of \$726,000 or 14.3% due primarily to new switching contracts.

#### Consolidated Operating Expenses

Operating expenses for all operations combined were \$76.1 million in the six months ended June 30, 2001, compared to \$91.7 million in the six months ended June 30, 2000, a decrease of \$15.6 million or 17.0%. The net decrease was attributable to a \$18.3 million decrease due to the deconsolidation of Australian railroad operations; offset by a \$2.3 million increase in North American railroad operating expenses and a \$578,000 increase in industrial switching operating expenses.

The following two sections provide information on railroad expenses in North America and industrial switching expenses in the United States.

#### North America Railroad Operating Expenses

The following table sets forth a comparison of the Company's North American railroad operating expenses in the six months ended June 30, 2001 and 2000:

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North American Railroad  
Operating Expense Comparison  
Six Months Ended June 30, 2001 and 2000  
(dollars in thousands)

	2001		2000	
	\$	% of Operating Revenue	\$	% of Operating Revenue
Labor and benefits	\$28,416	35.0%	\$27,923	34.1%
Equipment rents	10,189	12.5%	9,874	12.0%
Purchased services	5,429	6.7%	5,667	6.9%
Depreciation and amortization	6,037	7.4%	5,133	6.3%
Diesel fuel	6,438	7.9%	6,226	7.6%
Casualties and insurance	3,294	4.1%	3,158	3.9%
Materials	5,649	6.9%	5,496	6.7%
Other expenses	5,115	6.3%	4,825	5.8%
Total operating expenses	\$70,567	86.8%	\$68,302	83.3%

U. S. Industrial Switching Operating Expenses

The following table sets forth a comparison of the Company's U.S. industrial switching operating expenses in the six months ended June 30, 2001 and 2000:

U.S. Industrial Switching  
Operating Expense Comparison  
Six Months Ended June 30, 2001 and 2000  
(dollars in thousands)

	2001		2000	
	\$	% of Operating Revenue	\$	% of Operating Revenue
Labor and benefits	\$3,654	62.8%	\$3,053	60.0%
Equipment rents	143	2.5%	91	1.8%
Purchased services	180	3.1%	148	2.9%
Depreciation and amortization	311	5.3%	320	6.3%
Diesel fuel	256	4.4%	282	5.5%
Casualties and insurance	171	2.9%	253	5.0%
Materials	377	6.5%	325	6.4%
Other expenses	425	7.4%	467	9.2%
Total operating expenses	\$5,517	94.9%	\$4,939	97.1%

Operating Ratios

The Company's combined operating ratio increased to 87.3% in the six months ended June 30, 2001 from 85.1% in the six months ended June 30, 2000. The operating ratio for North American railroad operations increased to 86.8% in the six months ended June 30, 2001 from 83.3% in the six months ended June 30, 2000. The operating ratio for U.S. industrial switching operations decreased to 94.9% in the six months ended

June 30, 2001 from 97.1% in the six months ended June 30, 2000. The operating ratio for Australian railroad operations was 89.0% in the six months ended June 30, 2000.

#### Interest Expense

Interest expense in the six months ended June 30, 2001 was \$5.1 compared to \$5.3 million in the six months ended June 30, 2000, a decrease of \$139,000 or 2.6% due primarily to a decrease in outstanding debt.

#### Gain on 50% Sale of APTC to Australian Railroad Group

On April 20, 2001, APTC completed the arrangement of debt and equity capital to finance a project to build, own and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. As previously arranged, upon APTC reaching financial closure, Wesfarmers contributed an additional \$7.4 million into ARG and accordingly, the Company recorded an additional first quarter gain of \$3.7 million related to the December, 2000 issuance of ARG stock to Wesfarmers. The \$3.7 million purchase price adjustment was recorded as a one-time gain for the Company in the quarter ended March 31, 2001. A related deferred income tax expense of \$1.1 million was also recorded. In the second quarter of 2001, ARG paid the \$7.4 million to its two shareholders, in equal amounts of \$3.7 million each, as partial payment of each shareholder's non-interest bearing note.

#### Valuation Adjustment of U.S. Dollar Denominated Foreign Loans

Amounts previously outstanding under the Company's credit agreement which were borrowed by FCCM represented U.S. dollar denominated foreign debt of the Company's Mexican subsidiary. As the Mexican peso moved against the U.S. dollar, the revaluation of this outstanding debt to its Mexican peso equivalent resulted in non-cash gains and losses. On June 16, 2000, pursuant to a corporate and financial restructuring of the Company's Mexican subsidiaries, the income statement impact of the U.S. dollar denominated foreign loans was significantly reduced. For the six months ended June 30, 2001 and 2000, the Company recorded approximately \$69,000 and \$1.5 million of non-cash expense, respectively, related to valuation adjustments on these loans.

#### Other Income, Net

Other income, net in the six months ended June 30, 2001, was \$604,000 compared to \$1.2 million in the six months ended June 30, 2000, a decrease of \$644,000. Other income, net consists primarily of interest income and the decrease was primarily related to the decrease of an interest bearing special deposit in Mexico.

#### Income Taxes

The Company's effective income tax rate in the six months ended June 30, 2001 was 34.9% which compared to 36.9% in the six months ended June 30, 2000. The decrease is partially attributable to a lower Australian income tax rate (30%) recorded on the \$3.7 million one-time gain on the sale of 50% of its interest in APTC, and partially attributable to a lower income tax rate recorded on the Company's operations in Mexico.

#### Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the six months ended June 30, 2001, were \$4.9 million while there were no equity earnings of unconsolidated international affiliates in the six months ended June 30, 2000. The equity earnings in the six months ended June 30, 2001, consist of \$4.7 million from Australian Railroad Group and \$206,000 from South America affiliates.

## Net Income and Earnings Per Share

The Company's net income in the six months ended June 30, 2001 was \$11.6 million compared to net income in the six months ended June 30, 2000 of \$6.7 million, an increase of \$4.9 million. The increase in net income is the net result of an increase in equity in net income of unconsolidated international affiliates of \$4.9 million, an increase in net income from North American railroad operations of \$910,000 (including a \$2.6 million after-tax gain on the APTC sale), and an increase in net income of industrial switching operations of \$66,000; offset by a decrease in net income from operations in Australia of \$1.1 million due to the deconsolidation of ASR.

Basic and Diluted Earnings Per Share in the six months ended June 30, 2001 were \$1.62 and \$1.38 respectively, on weighted average shares of 6.8 million and 8.4 million respectively, compared to \$1.03 and \$1.00 respectively, on weighted average shares of 6.5 million and 6.7 million respectively, in the six months ended June 30, 2000. The weighted average shares outstanding for six months ended June 30, 2001 and 2000 are adjusted for the impact of the June 15, 2001 stock split (see Note 7. to consolidated financial statements). The increase in weighted average shares outstanding for Diluted Earnings Per Share of 1.7 million is primarily attributable to the dilutive impact of the common stock equivalents (1,304,348 shares) associated with the issuance of the Redeemable Convertible Preferred Stock in December 2000.

## Supplemental Information — Australian Railroad Group

ARG is a joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. The Company accounts for its 50% ownership in ARG under the equity method of accounting. In the six months ended June 30, 2001, the Company recorded \$4.7 million of equity earnings in the Equity in Net Income of International Affiliates — Australian Railroad Group caption in the accompanying consolidated statements of income. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the six months ended June 30, 2001.

Australian Railroad Group Freight Revenues and Carloads by Commodity Group  
Six Months Ended June 30, 2001  
(U.S. dollars in thousands, except average per carload)

	<b>Freight Revenues</b>	<b>Carloads</b>	<b>Average Freight Revenues Per Carload</b>
Grain	\$24,820	82,498	\$301
Other Ores and Minerals	16,894	49,424	342
Iron Ore	8,969	75,728	118
Alumina	8,816	72,342	122
Hook and Pull (Haulage)	4,448	19,325	230
Bauxite	4,328	61,488	70
Gypsum	983	18,322	54
Other	11,144	31,130	358
Total	<u>\$80,402</u>	<u>410,257</u>	196

## Liquidity and Capital Resources

During the six months ended June 30, 2001 the Company generated cash from operations of \$11.5 million, invested \$6.2 million in capital assets (including \$227,000 in state grant funds received for track rehabilitation and construction), received \$6.9 million in proceeds from the disposition of property including \$6.5 million from a sale-leaseback of locomotives, received \$617,000 in dividends from an unconsolidated South American affiliate, received a \$3.7 million purchase price adjustment from an unconsolidated Australian affiliate, and received \$3.5 million in proceeds from employee stock purchases. The proceeds from employee stock purchases relate primarily to the exercise of employee stock options that carried an expiration date of June 15, 2001. The Company also paid \$444,000 of dividends on the Company's Redeemable Convertible Preferred Stock, and had a net decrease in debt of \$12.4 million during this same period.

During the six months ended June 30, 2000 the Company generated cash from operations of \$10.8 million, invested \$16.6 million in capital assets (including \$5.8 million in state grant funds received for track rehabilitation and construction), had a net increase in debt of \$1.7 million, and received \$157,000 in proceeds from the disposition of property.

The Company has budgeted approximately \$18.0 million in capital expenditures in 2001, of which \$15.0 million is for track rehabilitation. Of the \$18.0 million in capital expenditures, \$1.7 million is expected to be funded by rehabilitation grants from state and federal agencies to several of the Company's railroads, and \$1.6 million will be funded by the remaining Special Track Project deposit which was part of the purchase allocation of the Company's subsidiary in Mexico. Approximately \$7.8 million of the budgeted capital expenditures of \$18.0 million were completed as of June 30, 2001. Of this \$7.8 million in capital expenditures, \$6.0 million was funded by cash from operations, \$227,000 was funded by governmental grants, and \$1.6 million was funded by the Special Track Project deposit in Mexico.

At June 30, 2001 the Company had long-term debt, including current portion, totaling \$92.2 million, which comprised 41.7% of its total capitalization including the Convertible Preferred. At December 31, 2000 the Company had long-term debt, including current portion, totaling \$104.8 million, which comprised 48.0% of its total capitalization including the Convertible Preferred.

The Company has historically relied primarily on cash generated from operations to fund working capital and capital expenditures relating to ongoing operations, while relying on borrowed funds to finance acquisitions and equipment needs (primarily rolling stock) related to acquisitions. The Company believes that its cash flow from operations together with amounts available under its credit facilities will enable the Company to meet its liquidity and capital expenditure requirements relating to ongoing operations for at least the duration of its credit facilities.

## Forward-Looking Statements

This Report and the documents incorporated herein by reference may contain forward-looking statements based on current expectations, estimates and projections about the Company's industry, management's beliefs, and assumptions made by management. Words such as "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are no guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, actual results may differ materially from those expressed or forecast in any such forward-looking statements. Such risks and uncertainties include, in addition to those set forth in this Item 2, those noted in the documents incorporated by reference. The Company undertakes no

obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company actively monitors its exposure to foreign currency exchange rate and interest 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 exchange rate or interest rate fluctuations alone, nor does it use instruments where there are not underlying exposures. The Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. Complex instruments involving leverage or multipliers are not used. Management believes that its use of derivative instruments to manage risk is in the Company's best interest.

The Company has estimated its market risk exposures using sensitivity analyses. Market risk exposure has been defined as the change in the Company's cash flow for individual derivative instruments assuming hypothetical adverse changes in market rates or exchange rates. The results of the sensitivity analyses as of June 30, 2001, did not differ materially from the amounts determined as of December 31, 2000. Actual changes in market prices or rates may differ from hypothetical changes presented in sensitivity analyses.

The Company is exposed to the impact of foreign currency exchange rate risk at its foreign operations in Canada, Mexico, Australia and Bolivia. In particular, the Company is exposed to the non-cash impact of its equity earnings in ARG which uses the Australian dollar as its functional currency.

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PART II. OTHER INFORMATION

- ITEM 1. LEGAL PROCEEDINGS — NONE
- ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS — NONE
- ITEM 3. DEFAULTS UPON SENIOR SECURITIES — NONE
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 22, 2001, the Stockholders of the Company voted on the following proposals at the Annual Meeting (numbers of shares do not reflect the effect of a subsequent stock dividend):

**Proposal 1:** To elect three directors to serve for a three-year term expiring in 2004:

	<u>For</u>	<u>Authority Withheld</u>
C. Sean Day	12,873,242	16,354
Louis S. Fuller	12,871,284	18,312
Philip J. Ringo	12,873,878	15,718

The other directors, whose terms of office continued after the meeting, are Mortimer B. Fuller, III, James M. Fuller, T. Michael Long, Robert M. Melzer, John M. Randolph and Hon. M. Douglas Young, P.C.

**Proposal 2:** To approve and ratify an amendment to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors which increases the total number of shares available for option grants thereunder from 50,000 to 90,000:

For	12,626,951
Against	259,897
Abstain	2,748

**Proposal 3:** To approve and ratify the selection of Arthur Andersen LLP as the Company's independent auditors for the year ending December 31, 2001:

For	11,927,935
Against	959,692
Abstain	1,969

ITEM 5. OTHER INFORMATION — NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS — SEE INDEX TO EXHIBITS

(B) REPORTS ON FORM 8-K:

Report on Form 8-K dated May 1, 2001 reporting on Item 5. Other Events was filed during the period covered by this report.

## INDEX TO EXHIBITS

- (2) Plan of acquisition, reorganization, arrangement, liquidation or succession
- Not applicable.
- (3) (i) Articles of Incorporation
- The Form of Restated Certificate of Incorporation referenced under (4)(a) hereof is incorporated herein by reference.
- (ii) By-laws
- The By-laws referenced under (4)(b) hereof are incorporated herein by reference.
- (4) Instruments defining the rights of security holders, including indentures
- (a) Restated Certificate of Incorporation (Exhibit 3.1)6
- (b) Certificate of Designation of 4.0% Senior Redeemable Convertible Preferred Stock, Series A (Exhibit 3.2)6
- (c) By-laws (Exhibit 3.3)1
- (d) Specimen stock certificate representing shares of Class A Common Stock (Exhibit 4.1)3
- (e) Form of Class B Stockholders' Agreement dated as of May 20, 1996, among the Registrant, its executive officers and its Class B stockholders (Exhibit 4.2)2
- (f) Promissory Note dated October 7, 1991 of Buffalo & Pittsburgh Railroad, Inc. in favor of CSX Transportation, Inc. (Exhibit 4.6)1
- (g) First Amendment to Promissory Note dated as of June 19, 1999 between Buffalo & Pittsburgh Railroad, Inc. and CSX Transportation, Inc. (Exhibit 4.1)4
- (h) Third Amended and Restated Revolving Credit and Term Loan Agreement dated as of August 17, 1999 among the Registrant, certain subsidiaries, BankBoston, N.A. and the banks named therein (Exhibit 4.1)5
- (i) Stock Purchase Agreement by and between Genesee & Wyoming Inc. and The 1818 Fund III, L.P. dated October 19, 2000 (Exhibit 10.1)6
- (j) Registration Rights Agreement between Genesee & Wyoming Inc. and The 1818 Fund III, L.P. dated December 12, 2000 (Exhibit 10.2)6
- (k) Letter Agreement between Genesee & Wyoming Inc., The 1818 Fund III, L.P. and Mortimer B. Fuller, III dated December 12, 2000 (Exhibit 10.3)6

- (10) Material Contracts
- \* (10.1) Amendment No. 3 to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors
- \* (10.2) Amendment No. 4 to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors
- \* (11.1) Statement re computation of per share earnings
- (15) Letter re unaudited interim financial information  
Not applicable.
- (18) Letter re change in accounting principles  
Not applicable.
- (19) Report furnished to security holders  
Not applicable.
- (22) Published report regarding matters submitted to vote of security holders  
Not applicable.
- (23) Consents of experts and counsel  
Not applicable.
- (24) Power of attorney  
Not applicable.
- (99) Additional Exhibits  
Not applicable.

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\*Exhibit filed with this Report.

1 Exhibit previously filed as part of, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972). The exhibit number contained in parenthesis refers to the exhibit number in such Registration Statement.

2 Exhibit previously filed as part of, and incorporated herein by reference to, Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972). The exhibit number contained in parenthesis refers to the exhibit number in such Amendment.

3 Exhibit previously filed as part of, and incorporated herein by reference to, Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972). The exhibit number contained in parenthesis refers to the exhibit number in such Amendment.



4 Exhibit previously filed as part of, and incorporated herein by reference to, the Registrant's Report on Form 10-K for the fiscal year ended December 31, 1998. The exhibit number contained in parenthesis refers to the exhibit number in such Report.

5 Exhibit previously filed as part of, and incorporated herein by reference to, the Registrant's Report on Form 10-Q for the quarter ended September 30, 1999. The exhibit number contained in parenthesis refers to the exhibit number in such Report.

6 Exhibit previously filed as part of, and incorporated herein by reference to, the Registrant's Report on Form 8-K dated December 7, 2000. The exhibit number contained in parenthesis refers to the exhibit number in such Report.

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SIGNATURES

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

GENESEE & WYOMING INC.

Date: August 13, 2001

By: /s/John C. Hellmann

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Name: John C. Hellmann  
Title: Chief Financial Officer

Date: August 13, 2001

By: /s/Alan R. Harris

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Name: Alan R. Harris  
Title: Senior Vice President and  
Chief Accounting Officer

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