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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, 2001 Commission File No. 0-20847

GENESEE & WYOMING INC.

(Exact name of registrant as specified in its charter)

Delaware	06-0984624
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

66 Field Point Road, Greenwich, Connecticut	06830
(Address of principal executive offices)	(Zip Code)

(203) 629-3722
(Telephone No.)

Shares of common stock outstanding as of the close of business on October 31, 2001:

Class	Number of Shares Outstanding
Class A Common Stock	5,746,786
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.

[X] YES [ ] NO

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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,	
	2001	2000	2001	2000
OPERATING REVENUES	$42,050	$50,095	$129,164	$157,860
OPERATING EXPENSES:				
Transportation	14,582	16,277	42,649	52,146
Maintenance of ways and structures	4,798	5,293	14,936	16,912
Maintenance of equipment	7,365	9,627	23,466	30,897
General and administrative	6,987	8,374	22,418	24,635
Depreciation and amortization	3,210	3,843	9,446	10,485
Total operating expenses	36,942	43,414	112,915	135,075
INCOME FROM OPERATIONS	5,108	6,681	16,249	22,785
Interest expense	(2,404)	(2,712)	(7,537)	(7,985)
Gain on sale of 50% equity in Australian operations	—	—	3,713	—
Valuation adjustment of U.S. dollar denominated foreign loans	(39)	27	(108)	(1,459)
Other income, net	175	1,322	779	2,572
Income before income taxes and equity earnings	2,840	5,318	13,096	15,913
Provision for income taxes	1,198	2,126	4,738	6,031
Income before equity earnings	1,642	3,192	8,358	9,882
Equity in net income of international affiliates:				
Australian Railroad Group	2,675	—	7,418	—
South America	214	—	420	—
Net income	4,531	3,192	16,196	9,882
Impact of preferred stock outstanding	236	—	708	—
Net income available to common shareholders	$ 4,295	$ 3,192	$ 15,488	$ 9,882
Basic earnings per common share	$ 0.61	$ 0.49	$ 2.25	$ 1.52
Weighted average shares	7,021	6,504	6,897	6,497
Diluted earnings per common share	$ 0.53	$ 0.48	$ 1.92	$ 1.50
Weighted average shares and equivalents	8,603	6,668	8,457	6,606

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

	As of Sept. 30, 2001	As of Dec. 31, 2000
ASSETS		
CURRENTS ASSETS:		
Cash and cash equivalents	$ 11,387	$ 3,373
Accounts receivable, net	41,405	45,209
Materials and supplies	5,120	5,023
Prepaid expenses and other	6,800	7,249
Deferred income tax assets, net	2,062	2,202
Total current assets	66,774	63,056
PROPERTY AND EQUIPMENT, net	178,145	177,317
INVESTMENT IN UNCONSOLIDATED AFFILIATES	65,849	64,091
SERVICE ASSURANCE AGREEMENT, net	10,753	11,315
OTHER ASSETS, net	21,440	22,604
Total assets	$342,961	$338,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 4,319	$ 3,996
Accounts payable	41,965	43,045
Accrued expenses	12,416	10,860
Total current liabilities	58,700	57,901
LONG-TERM DEBT, less current portion	85,882	100,805
DEFERRED INCOME TAX LIABILITIES, net	23,192	22,179
DEFERRED ITEMS—grants from government agencies	34,623	32,897
DEFERRED GAIN—sale-leaseback	4,797	3,558
OTHER LONG-TERM LIABILITIES	5,282	4,737
MINORITY INTEREST	2,923	2,725
REDEEMABLE CONVERTIBLE PREFERRED STOCK	18,957	18,849
STOCKHOLDERS' EQUITY:		
Class A common stock, $0.01 par value, one vote per share; 12,000,000 shares authorized; 7,262,045 and 6,913,751 issued (5,738,638 and 5,411,222 outstanding net of 1,523,407 and 1,502,529 in treasury) on September 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; 1,268,169 and 1,268,171 issued and outstanding on September 30, 2001 and December 31, 2000, respectively	13	8
Additional paid-in capital	54,181	49,711
Retained earnings	76,392	60,903
Accumulated other comprehensive loss	(10,591)	(4,883)
Less treasury stock, at cost	(11,463)	(11,053)
Total stockholders' equity	108,605	94,732
Total liabilities and stockholders' equity	$342,961	$338,383

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

	Nine Months Ended September 30, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,196	$ 9,882
Adjustments to reconcile net income to net cash provided by operating activities—		
Depreciation and amortization	9,446	10,485
Deferred income taxes	1,147	4,263
(Gain) loss on disposition of property and equipment	16	(39)
Gain on sale of 50% equity in Australian operations	(3,713)	—
Equity earnings of unconsolidated international affiliates	(7,838)	—
Minority interest expense	198	38
Valuation adjustment of U.S. dollar denominated foreign loans	108	1,459
Changes in assets and liabilities—		
Accounts receivable	2,903	(1,764)
Materials and supplies	(145)	(687)
Prepaid expenses and other	1,847	1,277
Accounts payable and accrued expenses	603	(6,219)
Other assets and liabilities, net	(1,354)	(1,035)
Net cash provided by operating activities	19,414	17,660
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(14,859)	(26,267)
Cash investment in unconsolidated international affiliates — South America	246	—
Cash received from unconsolidated international affiliates	4,329	—
Proceeds from disposition of property, including sale-leaseback	6,989	275
Net cash used in investing activities	(3,295)	(25,992)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term borrowings, including capital leases	(99,574)	(41,692)
Proceeds from issuance of long-term debt	86,000	43,292
Debt issuance costs paid	—	(10)
Proceeds from government grants	2,765	8,260
Proceeds from employee stock purchases	3,619	149
Dividend paid on Redeemable Convertible Preferred Stock	(644)	—
Net cash (used in) provided by financing activities	(7,834)	9,999
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(271)	(456)
INCREASE IN CASH AND CASH EQUIVALENTS	8,014	1,211
CASH AND CASH EQUIVALENTS, beginning of period	3,373	7,791
CASH AND CASH EQUIVALENTS, end of period	$ 11,387	$ 9,002
CASH PAID DURING PERIOD FOR:		
Interest	$ 7,687	$ 7,255
Income taxes	571	1,757

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 nine-month periods ended September 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. Certain prior year balances have been reclassified to conform with 2001 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 September 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 adjustable interest rate dependent on operating results of Oriental, 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. On July 24, 2001, the Company increased its indirect equity interest in Oriental to 22.89% with an additional investment of $246,000. 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) and its parent company, GW Servicios, S.A. de C.V. (Servicios) (see Note 3.), 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 September 30, 2001 and December 31, 2000, and the related consolidated statements of income for the three month and nine month periods and cash flows for the nine month period ended September 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 September 30, 2001	$0.49
Average for the three months ended September 30, 2001	$0.52
Average for the nine months ended September 30, 2001	$0.52

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

	September 30, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,265	$ 9,071
Accounts receivable, net	23,981	33,401
Materials and supplies	8,792	11,306
Total current assets	40,038	53,778
PROPERTY AND EQUIPMENT, net	338,705	341,306
DEFERRED INCOME TAX ASSETS, net	5,860	11,827
OTHER ASSETS, net	11,019	8,424
Total assets	$395,622	$415,335
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current debt	$ —	$ 16,342
Accounts payable	21,955	14,872
Accrued expenses	8,971	3,506
Income taxes payable	817	—
Total current liabilities	31,743	34,720
LONG-TERM BANK DEBT	248,182	265,408
OTHER LONG-TERM LIABILITIES	1,450	2,524
TOTAL STOCKHOLDERS' EQUITY AND ADVANCES	114,247	112,683
Total liabilities and stockholders' equity	$395,622	$415,335

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

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Operating revenues	$46,748	$135,779
Operating expenses	33,631	97,653
Income from operations	13,117	38,126
Interest expense	(5,746)	(16,813)
Other income, net	118	383
Income before income taxes	7,489	21,696
Provision for income taxes	2,139	6,862
Net income	$ 5,350	$ 14,834

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

	Nine Months Ended September 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 14,834
Adjustments to reconcile net income to net cash provided by operating activities—	
Depreciation and amortization	10,167
Deferred income taxes	6,480
Gain on disposition of property	(74)
Changes in assets and liabilities	11,399
Net cash provided by operating activities	42,806
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(43,143)
Proceeds from disposition of property and equipment	70
Net cash used in investing activities	(43,073)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on short-term borrowings	(14,373)
Borrowings on debt	14,743
Proceeds from issuance of shares	7,424
Distribution to shareholders	(7,424)
Net cash provided by financing activities	370
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(1,909)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,806)
CASH AND CASH EQUIVALENTS, beginning of period	9,071
CASH AND CASH EQUIVALENTS, end of period	$ 7,265

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. 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 nine month periods ended September 30, 2001 and 2000 (in thousands):

Statement of Comprehensive Income
(in thousands)

	Three Months Ended Sept. 30, 2001	Three Months Ended Sept. 30, 2000	Nine Months Ended Sept. 30, 2001	Nine Months Ended Sept. 30, 2000
Net income	$ 4,531	$ 3,192	$16,196	$ 9,882
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5,187)	(1,197)	(4,635)	(3,993)
Transition adjustment related to change in accounting for derivative instruments and hedging activities	—	—	(255)	—
Net change in unrealized losses on qualifying cash flow hedges	(553)	—	(818)	—
Comprehensive income (loss)	$(1,209)	$ 1,995	$10,488	$ 5,889

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

	Sept. 30, 2001	Dec. 31, 2000
Net foreign currency translation adjustments	$ (9,518)	$(4,883)
Net unrealized losses on qualifying cash flow hedges	(1,073)	—
Accumulated other comprehensive loss	$(10,591)	$(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 September 30, 2001 and for the three-month and nine-month periods ended September 30, 2001 and 2000 is shown in the following tables:

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

2001	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
Operating revenues	$ 38,931	—	$3,119	$ 42,050
Income from operations	4,715	—	393	5,108
Identifiable assets	335,054	—	7,907	342,961

2000	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
Operating revenues	$ 37,918	$ 9,490	$2,687	$ 50,095
Income from operations	5,473	1,110	98	6,681
Identifiable assets	263,934	38,947	8,368	311,249

Nine Months Ended September 30,

2001	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
Operating revenues	$120,230	—	$8,934	$129,164
Income from operations	15,558	—	690	16,249
Identifiable assets	335,054	—	7,907	342,961

2000	North American Railroad Operations	Australian Railroad Operations	Industrial Switching Operations	Total
Operating revenues	$119,909	$30,175	$7,776	$157,860
Income from operations	19,160	3,377	248	22,785
Identifiable assets	263,934	38,947	8,368	311,249

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. At September 30, 2001, the notional amount under these options is $1.4 million. At September 30, 2001, the fair value of these currency options is an asset of $6,788.

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 September 30, 2001, the notional amount under these agreements is $58.6 million. At September 30, 2001, the fair value of these interest rate swaps is a liability of $1.6 million. Two swaps, with a September 30, 2001 fair value liability of $305,561, expire on December 31, 2001.

10. RECENTLY ISSUED ACCOUNTING STANDARDS:

On October 3, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 supersedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.” SFAS No. 144, however, retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 supersedes the accounting and reporting provisions of APB Opinion No. 30 (“Opinion 30”), “Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,” for segments of a business to be disposed of. SFAS No. 144, however, retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. SFAS No. 144 also amends Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to eliminate the exception to consolidation for a temporarily controlled subsidiary. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS No. 144 beginning January 1, 2002. The Company is considering the provisions of SFAS No. 144 and at present is unable to determine the impact of adopting SFAS No. 144.

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 immediately for any new business combinations subsequent to June 30, 2001. As of September 30, 2001, goodwill, net of accumulated amortization, is $7.4 million and amortization expense for the nine months ended September 30, 2001 is $419,000. The Company does not anticipate any impairment charges upon adoption in 2002.

11. SUBSEQUENT EVENTS:

On October 1, 2001, the Company closed on the purchase of all the issued and outstanding shares of common stock (the Shares) of the South Buffalo Railway (South Buffalo) from Bethlehem Steel Corporation for $33.1 million in cash and $3.3 million in assumed liabilities. The Company funded the South Buffalo acquisition under its $103 million revolving credit facility which had $75 million of availability. At the closing, the Company acquired beneficial ownership of the Shares and will assume actual ownership of the Shares upon approval of the transaction by the Surface Transportation Board (STB). The Company has previously requested such approval and expects to receive the decision of the STB on or about December 1, 2001. The acquisition also triggered the right of the Fund of Brown Brothers Harriman & Co. to acquire an additional $5 million of Convertible Preferred (see Note 2.). As of November 2, 2001, no additional shares have been issued. South Buffalo operates over 52 miles of owned track in Buffalo, NY.

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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 business combinations 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.

South Buffalo Railway

On October 1, 2001, the Company closed on the purchase of all the issued and outstanding shares of common stock (the Shares) of the South Buffalo Railway (South Buffalo) from Bethlehem Steel Corporation for $33.1 million in cash and $3.3 million in assumed liabilities. The Company funded the South Buffalo acquisition under its $103 million revolving credit facility which had $75 million of availability. At the closing, the Company acquired beneficial ownership of the Shares and will assume actual ownership of the Shares upon approval of the transaction by the Surface Transportation Board (STB). The Company has previously requested such approval and expects to receive the decision of the STB on or about December 1, 2001. The acquisition also triggered the right of the Fund of Brown Brothers Harriman & Co. to acquire an additional $5 million of Convertible Preferred (see Note 2.). As of November 6, 2001, no additional shares have been issued. South Buffalo operates over 52 miles of owned track in Buffalo, NY.

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 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 adjustable interest rate dependent on operating results of Oriental, 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. On July 24, 2001, the

Company increased its indirect equity interest in Oriental to 22.89% with an additional investment of $246,000. 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 September 30, 2001 Compared to Three Months Ended September 30, 2000

Consolidated Operating Revenues

Operating revenues were $42.1 million in the quarter ended September 30, 2001 compared to $50.1 million in the quarter ended September 30, 2000, a net decrease of $8.0 million or 16.1%. The net decrease was attributable to a $9.5 million decrease due to the deconsolidation of Australian railroad operations; offset by a $1.0 million increase in North American railroad revenues and a $432,000 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 $38.9 million in the quarter ended September 30, 2001 compared to $37.9 million in the quarter ended September 30, 2000, an increase of $1.0 million or 2.5%. The increase was attributable to a $703,000 increase in freight revenues and a $310,000 increase in non-freight revenues.

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

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

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
Commodity Group	**2001**	**% of Total**	**2000**	**% of Total**	**2001**	**% of Total**	**2000**	**% of Total**	**2001**	**2000**
Coal, Coke & Ores	$ 6,801	21.8%	$ 6,275	20.6%	30,190	32.7%	28,242	31.0%	$225	$222
Minerals & Stone	5,189	16.6%	4,796	15.7%	11,587	12.6%	11,607	12.8%	448	413
Pulp & Paper	4,494	14.4%	4,876	16.0%	11,886	12.9%	12,792	14.1%	378	381
Petroleum Products	3,842	12.3%	4,396	14.4%	6,246	6.8%	7,081	7.8%	615	621
Metals	2,470	7.9%	2,563	8.4%	9,112	9.9%	9,284	10.2%	271	276
Lumber & Forest Products	2,421	7.8%	1,775	5.8%	7,500	8.1%	5,800	6.4%	323	306
Farm & Food Products	2,054	6.6%	1,770	5.8%	5,270	5.7%	5,220	5.7%	390	339
Chemicals & Plastics	1,947	6.2%	2,119	6.9%	3,803	4.1%	4,067	4.5%	512	521
Autos & Auto Parts	309	1.0%	765	2.5%	453	0.5%	1,435	1.6%	682	533
Other	1,683	5.4%	1,172	3.9%	6,237	6.7%	5,445	5.9%	270	215
Total	$31,210	100.0%	$30,507	100.0%	92,284	100.0%	90,973	100.0%	338	335

Total North American carloads were 92,284 in the quarter ended September 30, 2001 compared to 90,973 in the quarter ended September 30, 2000, an increase of 1,311 or 1.4%. The average revenue per carload increased to $338 in the quarter ended

September 30, 2001, compared to $335 per carload in the quarter ended September 30, 2000, an increase of 0.1%.

North American non-freight railroad revenues were $7.7 million in the quarter ended September 30, 2001 compared to $7.4 million in the quarter ended September 30, 2000, an increase of $310,000 or 4.2%. The following table compares North America non-freight revenues for the quarters ended September 30, 2001 and 2000:

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

	2001		2000	
	$	% of Non-Freight Revenue	$	% of Non-Freight Revenue
Railroad switching	$1,897	24.6%	$2,708	36.5%
Car hire and rental income	1,860	24.1%	2,021	27.3%
Car repair services	671	8.7%	622	8.4%
Other operating income	3,293	42.6%	2,060	27.8%
Total non-freight revenues	$7,721	100.0%	$7,411	100.0%

Industrial Switching Revenues

Revenues from U.S. industrial switching activities were $3.1 million in the quarter ended September 30, 2001 compared to $2.7 million in the quarter ended September 30, 2000, an increase of $432,000 or 16.1% due primarily to new switching contracts.

Consolidated Operating Expenses

Operating expenses for all operations combined were $36.9 million in the quarter ended September 30, 2001, compared to $43.4 million in the quarter ended September 30, 2000, a decrease of $6.5 million or 14.9%. The net decrease was attributable to a $8.4 million decrease due to the deconsolidation of Australian railroad operations; offset by a $1.8 million increase in North American railroad operating expenses and a $138,000 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 September 30, 2001 and 2000:

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

	2001		2000	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$13,539	34.8%	$12,605	33.2%
Equipment rents	4,727	12.1%	4,767	12.6%
Purchased services	3,833	9.8%	2,689	7.1%
Depreciation and amortization	3,057	7.9%	3,083	8.1%
Diesel fuel	2,608	6.7%	2,830	7.5%
Casualties and insurance	1,739	4.5%	1,547	4.1%
Materials	2,316	5.9%	2,547	6.7%
Other expenses	2,396	6.2%	2,377	6.3%
Total operating expenses	$34,215	87.9%	$32,445	85.6%

Purchased services expense was $3.8 million in the quarter ended September 30, 2001 compared to $2.7 million in the quarter ended September 30, 2000, an increase of $1.1 million or 42.5%, due primarily to costs associated with the Company's new logistics subsidiary which was discontinued on September 30, 2001.

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 September 30, 2001 and 2000:

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

	2001		2000	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$2,075	66.5%	$1,621	60.3%
Equipment rents	77	2.5%	79	2.9%
Purchased services	88	2.8%	87	3.2%
Depreciation and amortization	153	4.9%	174	6.5%
Diesel fuel	116	3.7%	117	4.4%
Casualties and insurance	(123)	(3.9%)	105	3.9%
Materials	143	4.6%	167	6.2%
Other expenses	198	6.3%	239	9.0%
Total operating expenses	$2,727	87.4%	$2,589	96.4%

Labor and benefits expense was $2.1 million in the quarter ended September 30, 2001 compared to $1.6 million in the quarter ended September 30, 2000, an increase of $454,000 or 28.0%, due primarily to costs associated with new switching contracts.

Casualties and insurance was a net credit of $123,000 in the quarter ended September 30, 2001 due to the settlement of a long standing claim for $350,000 less than the Company's recorded accrual. Regular expense of $227,000 exceeds prior period expense of $105,000.

Operating Ratios

The Company's combined operating ratio increased to 87.9% in the quarter ended September 30, 2001 from 86.7% in the quarter ended September 30, 2000. The operating ratio for North American railroad operations increased to 87.9% in the quarter ended September 30, 2001 from 85.6% in the quarter ended September 30, 2000. The operating ratio for U.S. industrial switching operations decreased to 87.4% in the quarter ended September 30, 2001 from 96.4% in the quarter ended September 30, 2000. The operating ratio for Australian railroad operations was 88.3% in the quarter ended September 30, 2000.

Interest Expense

Interest expense was $2.4 million in the quarter ended September 30, 2001 compared to $2.7 million in the quarter ended September 30, 2000, a decrease of $308,000 or 11.4% due primarily to a decrease in outstanding debt somewhat offset by higher payments under the Company's interest rate swap agreements.

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 September 30, 2001 and 2000, the Company recorded approximately $39,000 of non-cash expense and $27,000 of non-cash income, respectively, related to valuation adjustments on these loans.

Other Income, Net

Other income, net in the quarter ended September 30, 2001, was $175,000 compared to $1.3 million in the quarter ended September 30, 2000, a decrease of $1.1 million. 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 September 30, 2001 was 42.2% which compared to 40.0% in the quarter ended September 30, 2000.

Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the quarter ended September 30, 2001, were $2.9 million while there were no equity earnings of unconsolidated international affiliates in the quarter ended September 30, 2000. The equity earnings in the quarter ended September 30, 2001, consist of $2.7 million from Australian Railroad Group and $214,000 from South American affiliates.

Net Income and Earnings Per Share

The Company's net income in the quarter ended September 30, 2001 was $4.5 million compared to net income in the quarter ended September 30, 2000 of $3.2 million, an increase of $1.3 million. The increase in net income is the net result of an increase in equity in net income of unconsolidated international affiliates of $2.9 million and an increase in the net income of industrial switching operations of $201,000; offset by a decrease in net income from operations in Australia of $534,000 due to the deconsolidation of ASR, and a decrease in net income from North American railroad operations of $1.2 million. Within the $1.2 million decrease, $850,000 of losses were from the Company's discontinued logistics subsidiary and $900,000 was a decrease in net income from the Company's Mexico operations; offset by $337,000 of income from a non-recurring arrangement with a customer and $236,000 of income from the settlement of a longstanding claim.

Basic and Diluted Earnings Per Share in the quarter ended September 30, 2001 were $0.61 and $0.53, respectively, on weighted average shares of 7.0 million and 8.6 million, respectively, compared to $0.49 and $0.48, respectively, on weighted average shares of 6.5 million and 6.7 million, respectively, in the quarter ended September 30, 2000. The weighted average shares outstanding for quarters ended September 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 1.9 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 September 30, 2001, the Company recorded $2.7 million of equity earnings from ARG. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the quarter ended September 30, 2001.

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

	Freight Revenues	Carloads	Average Freight Revenues Per Carload
Grain	$12,481	41,383	$302
Other Ores and Minerals	11,117	25,377	438
Iron Ore	5,809	41,559	140
Alumina	3,246	37,019	88
Hook and Pull (Haulage)	2,868	11,842	242
Bauxite	2,646	33,789	78
Gypsum	548	10,281	53
Other	3,795	16,060	236
Total	$42,510	217,310	196

Additionally, in the third quarter of 2001, ARG began executing a restructuring plan designed to adjust its Western Australia workforce to its current operating environment. Associated costs have been considered as part of the purchase price allocation related to ARG's acquisition of Westrail Freight.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Consolidated Operating Revenues

Operating revenues were $129.2 million in the nine months ended September 30, 2001 compared to $157.9 million in the nine months ended September 30, 2000, a net decrease of $28.7 million or 18.2%. The net decrease was attributable to a $30.2 million decrease due to the deconsolidation of Australian railroad operations; offset by a $321,000 increase in North American railroad revenues and a $1.2 million 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 $120.2 million in the nine months ended September 30, 2001 compared to $119.9 million in the nine months ended September 30, 2000, a net increase of $321,000 or 0.3%. The net increase was attributable to a $1.3 million increase in freight revenues and a $950,000 decrease in non-freight revenues.

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

North American Freight Revenues and Carloads Comparison by Commodity Group
Nine Months Ended September 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	$21,553	22.2%	$19,658	20.5%	94,765	33.4%	87,344	31.0%	$227	$225
Minerals & Stone	14,824	15.3%	13,598	14.2%	32,507	11.5%	31,523	11.2%	456	431
Pulp & Paper	14,227	14.7%	14,740	15.4%	37,521	13.2%	38,496	13.6%	379	383
Petroleum Products	13,364	13.8%	14,122	14.7%	21,522	7.6%	23,419	8.3%	621	603
Metals	7,688	7.9%	7,836	8.2%	27,806	9.8%	28,365	10.1%	276	276
Farm & Food Products	7,382	7.6%	6,878	7.2%	20,439	7.2%	19,639	7.0%	361	350
Lumber & Forest Products	6,597	6.8%	6,173	6.4%	19,666	6.9%	20,124	7.1%	335	307
Chemicals & Plastics	6,389	6.6%	6,753	7.0%	12,424	4.4%	13,024	4.6%	514	519
Autos & Auto Parts	976	1.0%	2,374	2.5%	1,557	0.5%	4,369	1.5%	627	543
Other	4,100	4.1%	3,697	3.9%	15,608	5.5%	15,907	5.6%	263	232
Total	$97,100	100.0%	$95,829	100.0%	283,815	100.0%	282,210	100.0%	342	340

Total North American carloads were 283,815 in the nine months ended September 30, 2001 compared to 282,210 in the nine months ended September 30, 2000, an increase of 1,605 carloads. The average revenue per carload increased to $342 in the nine months ended September 30, 2001, compared to $340 per carload in the nine months ended September 30, 2000, an increase of 0.6%.

North American non-freight railroad revenues were $23.1 million in the nine months ended September 30, 2001 compared to $24.1 million in the nine months September 30, 2000, a decrease of $950,000 or 3.9%. The following table compares North America non-freight revenues for the nine months ended September 30, 2001 and 2000:

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

	2001		2000	
	$	% of Non-Freight Revenue	$	% of Non-Freight Revenue
Railroad switching	$ 6,179	26.7%	$ 8,142	33.8%
Car hire and rental income	5,578	24.1%	6,132	25.5%
Car repair services	2,326	10.1%	2,339	9.7%
Other operating income	9,047	39.1%	7,467	31.0%
Total non-freight revenues	$23,130	100.0%	$24,080	100.0%

Industrial Switching Revenues

Revenues from U.S. industrial switching activities were $8.9 million in the nine months ended September 30, 2001 compared to $7.7 million in the nine months ended September 30, 2000, an increase of $1.2 million or 14.9% due primarily to new switching contracts.

Consolidated Operating Expenses

Operating expenses for all operations combined were $112.9 million in the nine months ended September 30, 2001, compared to $135.1 million in the nine months ended September 30, 2000, a decrease of $22.2 million or 16.4%. The net decrease was attributable to a $26.8 million decrease due to the deconsolidation of Australian railroad operations; offset by a $3.9 million increase in North American railroad operating expenses and a $716,000 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 nine months ended September 30, 2001 and 2000:

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

	2001		2000	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$ 41,955	34.9%	$ 40,528	33.8%
Equipment rents	14,916	12.4%	14,641	12.2%
Purchased services	9,262	7.7%	8,356	7.0%
Depreciation and amortization	8,982	7.5%	8,218	6.9%
Diesel fuel	9,046	7.5%	9,056	7.6%
Casualties and insurance	5,033	4.2%	4,705	3.9%
Materials	7,965	6.6%	8,043	6.7%
Other expenses	7,512	6.2%	7,202	5.9%
Total operating expenses	$104,671	87.1%	$100,749	84.0%

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 nine months ended September 30, 2001 and 2000:

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

	2001		2000	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$5,729	64.1%	$4,674	60.1%
Equipment rents	220	2.5%	170	2.2%
Purchased services	268	3.0%	235	3.0%
Depreciation and amortization	464	5.2%	493	6.3%
Diesel fuel	372	4.2%	399	5.1%
Casualties and insurance	48	0.5%	358	4.6%
Materials	520	5.8%	492	6.3%
Other expenses	623	7.1%	707	9.2%
Total operating expenses	$8,244	92.3%	$7,528	96.8%

Casualties and insurance reflects the settlement of a longstanding claim for $350,000 less than the Company’s recorded accrual in the quarter ended September 30, 2001. Regular expense of $398,000 exceeds prior period expense of $358,000.

Operating Ratios

The Company's combined operating ratio increased to 87.4% in the nine months ended September 30, 2001 from 85.6% in the nine months ended September 30, 2000. The operating ratio for North American railroad operations increased to 87.1% in the nine months ended September 30, 2001 from 84.0% in the nine months ended September 30, 2000. The operating ratio for U.S. industrial switching operations decreased to 92.3% in the nine months ended September 30, 2001 from 96.8% in the nine months ended September 30, 2000. The operating ratio for Australian railroad operations was 88.8% in the nine months ended September 30, 2000.

Interest Expense

Interest expense in the nine months ended September 30, 2001 was $7.5 compared to $8.0 million in the nine months ended September 30, 2000, a decrease of $448,000 or 5.6% due primarily to a decrease in outstanding debt somewhat offset by higher payments under the Company's interest rate swap agreements.

Gain on Sale of Equity Interest in ARG

As described earlier, the Company recorded an additional $3.7 million gain in March 2001 related to the December 2000 sale of 50% of ARG.

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 nine months ended September 30, 2001 and 2000, the Company recorded approximately $108,000 and $1.5 million of non-cash expense, respectively, related to valuation adjustments on these loans.

Other Income, Net

Other income, net in the nine months ended September 30, 2001, was $779,000 compared to $2.6 million in the nine months ended September 30, 2000, a decrease of $1.8 million. 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 nine months ended September 30, 2001 was 36.2% which compared to 37.9% in the nine months ended September 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 nine months ended September 30, 2001, were $7.8 million while there were no equity earnings of unconsolidated international affiliates in the nine months ended September 30, 2000. The equity earnings in the nine months ended September 30, 2001, consist of $7.4 million from Australian Railroad Group and $420,000 from South America affiliates.

Net Income and Earnings Per Share

The Company's net income in the nine months ended September 30, 2001 was $16.2 million compared to net income in the nine months ended September 30, 2000 of $9.9 million, an increase of $6.3 million. The increase in net income is the net result of an increase in equity in net income of unconsolidated international affiliates of $7.8 million, and an increase in net income of industrial switching operations of $268,000; offset by a decrease in net income from operations in Australia of $1.6 million due to the deconsolidation of ASR and a decrease in net income from North American railroad operations of $223,000 (including the $2.6 million after-tax gain related to the ARG sale and $850,000 after-tax losses related to GW Logistics).

Basic and Diluted Earnings Per Share in the nine months ended September 30, 2001 were $2.25 and $1.92 respectively, on weighted average shares of 6.9 million and 8.5 million respectively, compared to $1.52 and $1.50 respectively, on weighted average shares of 6.5 million and 6.6 million respectively, in the nine months ended September 30, 2000. The weighted average shares outstanding for nine months ended September 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 1.9 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

The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the nine months ended September 30, 2001.

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

	Freight Revenues	Carloads	Average Freight Revenues Per Carload
Grain	$ 37,301	123,881	$301
Other Ores and Minerals	28,011	74,801	374
Iron Ore	14,778	117,287	126
Alumina	12,062	109,361	110
Hook and Pull (Haulage)	7,316	31,167	235
Bauxite	6,974	95,277	73
Gypsum	1,531	28,603	54
Other	14,939	47,190	317
Total	$122,912	627,567	196

Liquidity and Capital Resources

During the nine months ended September 30, 2001, the Company generated cash from operations of $19.4 million, invested $14.9 million in capital assets (including $2.8 million in state grant funds received for track rehabilitation and construction), received $7.0 million in proceeds from the disposition of property including $6.5 million from a sale-leaseback of locomotives, received $4.3 million from unconsolidated affiliates, and received $3.6 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 $644,000 of dividends on the Company's Redeemable Convertible Preferred Stock, and had a net decrease in debt of $13.6 million during this same period.

During the nine months ended September 30, 2000, the Company generated cash from operations of $17.7 million, invested $26.3 million in capital assets (including $8.3 million in state grant funds received for track rehabilitation and construction), had a net increase in debt of $1.6 million, and received $275,000 in proceeds from the disposition of property.

The Company has budgeted approximately $20.6 million in capital expenditures in 2001, of which $17.6 million is for track rehabilitation. Of the $20.6 million in capital expenditures, $4.0 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 $14.9 million of the budgeted capital expenditures of $20.6 million were completed as of September 30, 2001. Of this $14.9 million in capital expenditures, $12.1 million was funded by cash from operations and $2.8 million was funded by governmental grants.

At September 30, 2001 the Company had long-term debt, including current portion, totaling $90.2 million, which comprised 41.0% 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.

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 September 30, 2001, the notional amount under these agreements is $58.6 million. At September 30, 2001, the fair value of these interest rate swaps is a liability of $1.6 million. Two swaps, with a September 30, 2001 fair value liability of $305,561, expire on December 31, 2001.

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 — NONE

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: — NONE

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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

Stock Purchase and Sale Agreement dated September 28, 2001 by and between Bethlehem Steel Corporation and Genesee & Wyoming Inc. (Exhibit 2.1) (7)

*(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.

(7)Exhibit previously filed as part of, and incorporated herein by reference to, the Registrant's Report on Form 8-K dated October 1, 2001. 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: November 7, 2001

By: /s/John C. Hellmann

Name: John C. Hellmann
Title: Chief Financial Officer

Date: November 7, 2001

By: /s/Alan R. Harris

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

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