GENESEE & WYOMING INC
Form 10-K
March 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2006

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 0-20847

GENESEE & WYOMING INC.

(Exact name of registrant as specified in its charter)

Delaware	**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.)

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

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

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

None.

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

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

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

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

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

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

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

Aggregate market value of Class A Common Stock held by non-affiliates based on closing price on June 30, 2006, as reported by the New York Stock Exchange on the last business day of Registrant s most recently completed second fiscal quarter: $848,066,028. Shares of Class A Common Stock held by each executive officer, director and holder of 5% or more of the outstanding Class A Common Stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determinant for other purposes.

Shares of common stock outstanding as of the close of business on February 23, 2007:

Class	Number of Shares Outstanding
Class A Common Stock	37,450,674
Class B Common Stock	3,975,180

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year are incorporated by reference in Part III hereof and made a part hereof.

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GENESEE & WYOMING INC.

FORM 10-K

For The Fiscal Year Ended December 31, 2006

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Unless the context otherwise requires, when used in this Annual Report on Form 10-K, the terms Genesee & Wyoming, we, our and us refer to Genesee & Wyoming Inc. and its subsidiaries and affiliates and when we use the term ARG we are referring to the Australian Railroad Group Pty Ltd and its subsidiaries. Up until June 1, 2006, ARG was our 50% owned affiliate based in Perth, Western Australia. All references to currency amounts included in this Annual Report on Form 10-K, including the financial statements, are in U.S. dollars unless specifically noted otherwise.

Cautionary Statement Regarding Forward-Looking Statements

The information contained in this Annual Report on Form 10-K (Annual Report), including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events and future performance of Genesee & Wyoming Inc. Words such as anticipates, intends, plans, believes, seeks, expects, estimates, variations of these words and expressions are intended to identify these forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Actual results may differ materially from those expressed or forecast in these forward-looking statements. Examples of forward-looking statements include all statements that are not historical in nature, including statements regarding:

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

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Forward-looking statements may be influenced by risks which exist in the following areas, among others:

- our ability to fund, consummate and integrate acquisitions and investments;
- our relationships with Class I railroads and other connecting carriers for our operations;
- our ability to obtain railcars and locomotives from other providers on which we are currently dependent;

competition from numerous sources, including those relating to geography, substitute products, other types of transportation and other rail operators;

legislative and regulatory developments, including a recent ruling by the Surface Transportation Board (STB);

strikes or work stoppages by our employees and our ability to attract and employ a sufficient number of skilled employees;

our transportation of hazardous materials by rail as a common carrier;

the occurrence of losses or other liabilities which are not covered by insurance or which exceed our insurance limits;

rising fuel costs;

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- the variability of our tax rate as a result, in part, of the expiration of the short line tax credit on January 1, 2008
- customer retention and contract continuation;
- our susceptibility to downturns in the general economy;
- our susceptibility to severe weather conditions and other natural occurrences;
- the imposition of operational restrictions as the result of covenants in our credit facilities;
- acts of terrorism and anti-terrorism measures;
- our susceptibility to various legal claims and lawsuits; and
- our susceptibility to risks associated with doing business in foreign countries.

The areas in which there is risk and uncertainty are further described under the caption Risk Factors in Item 1A, as well as in documents that we file from time to time with the Securities and Exchange Commission (the SEC), which contain additional important factors that could cause actual results to differ from current expectations and from the forward-looking statements contained herein. Readers of this document are cautioned that our forward-looking statements are not guarantees of future performance and the actual results or developments may differ materially from the expectations expressed in the forward-looking statements. In light of the risks, uncertainties and assumptions associated with forward-looking statements, you should not place undue reliance on any forward-looking statements. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this Annual Report not to occur. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Annual Report.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies without fear of litigation. We are taking advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act in connection with the forward-looking statements included in this document. Information set forth in Item 1 as well as in Item 2 should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and the discussion of risk factors in Item 1A.

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PART I

Item 1. *Business*

OVERVIEW

We are a leading owner and operator of short line and regional freight railroads in the United States, Australia, Canada, and Mexico and own a minority interest in a railroad in Bolivia. In addition, we provide freight car switching and rail-related services to industrial companies in the United States and Australia. The Company s corporate predecessor was founded in 1899 as a 14-mile rail line serving a single salt mine in upstate New York. Since 1977, when Mortimer B. Fuller III purchased a controlling interest in the Genesee and Wyoming Railroad Company and became its Chief Executive Officer, we have completed 29 acquisitions, including the June 2006 acquisition of substantially all of ARG s railroad operations in South Australia, which we renamed Genesee & Wyoming Australia Pty Ltd (GWA). Simultaneous with the purchase of GWA, we and our 50% partner, Wesfarmers Limited (Wesfarmers), completed the sale of the Western Australia operations and certain other assets of ARG to Queensland Rail and Babcock & Brown Limited (ARG Sale).

By focusing our corporate and regional management teams on improving our return on invested capital, we intend to continue to increase earnings and cash flow. In addition, we expect that each potential acquisition will adhere to our return on capital targets and that existing operations strive to improve year-over-year financial returns.

As of December 31, 2006, we operate more than 6,800 miles of owned and leased track and approximately 3,700 additional miles under track access arrangements. We operate in 26 U.S. states, five Australian states, two Canadian provinces, and six Mexican states, and serve 12 U.S. ports, five Australian ports and one Mexican port. Based on track miles, we believe that we are the second largest operator of short line and regional freight railroads in North America.

GROWTH STRATEGY

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

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

- rail lines of industrial companies, such as Bethlehem Steel Corporation, Mueller Industries, Inc. and Georgia-Pacific Corporation (GP);
- branch lines of Class I railroads, such as Burlington Northern Santa Fe Corporation (BNSF) and CSX Corporation (CSX);
- other regional railroads or short line railroads, such as Rail Management Corporation (RMC) and Emons Transportation Group, Inc. (Emons);
- foreign government-owned railroads, such as those in Australia, that have been privatized; and
- new rail and infrastructure and/or equipment associated with greenfield industrial and mineral development, such as potential new mining projects in South Australia.

We believe that additional acquisition opportunities in the United States exist among the more than 500 short line and regional railroads operating approximately 44,500 miles of track, as well as additional lines expected to be sold or leased by Class I railroads. We also believe that there are additional acquisition candidates in Australia, Europe, Canada, South America and other markets outside the United States. We believe that we are well-positioned to capitalize on additional acquisition opportunities.

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OPERATING STRATEGY

We intend to increase our earnings and cash flow through the execution of our operating strategy for both our domestic and international operations. Our railroads operate under strong local management, with centralized administrative support and oversight. During 2006, our operations were organized in nine regional businesses, which we refer to as regions. In the United States, these regions were Illinois, New York/Pennsylvania, Oregon, Rail Link (which includes industrial switching and port operations in various geographic locations) and Utah. Outside the United States, these regions were Australia, Canada (which includes certain adjacent properties located in the United States), Mexico and Bolivia. Effective January 1, 2007, we reconfigured our regions, resulting in the addition of a tenth, the Southern region, principally consisting of railroads in the southern part of the United States. We also created the Rocky Mountain region, which includes the former Utah region. In each of our regions, we seek to encourage the entrepreneurial drive, local knowledge and customer service that we view as prerequisites for us to achieve our financial goals. At the regional level, our operating strategy consists of the following four principal elements:

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

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

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

Continuous Safety Improvement. We believe that a safe work environment is essential for our employees and customers and the long-term success of our business. Each year we establish stringent safety targets as part of our safety program. Through the execution of our safety program, we have reduced our injury frequency rate from 5.89 injuries per 200,000 man-hours worked in 1998 to 1.95 in 2006.

INDUSTRY

According to the Association of American Railroads (AAR), there are 560 railroads in the United States operating over 140,000 miles of track. The AAR segments U.S. railroads into one of three categories based on the amount of revenues and track miles. Class I railroads, those with over $319.3 million in revenues, represent approximately 93% of total rail revenues. Regional and local railroads operate approximately 44,500 miles of track in the United States. The primary function of these smaller railroads is to provide feeder traffic to the Class I carriers. Regional and local railroads combined account for approximately 7% of total rail revenues. We operate one regional and 41 local (short-line) railroads in the U.S.

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

Classification of Railroads	Number	Aggregate Miles Operated	Revenues and Miles Operated
Class I(1)	7	95,664	Over $319.3 million
Regional	30	15,388	$40.0 to $319.3 million and /or 350 or more miles operated
Local	523	29,197	Less than $40.0 million and less than 350 miles operated
Total	560	140,249	

(1) Includes CSX Transportation (CSXT), BNSF Railway Co. (BNSF), Norfolk Southern (NS), Kansas City Southern Railway Company (KCS), and Union Pacific (UP)

Source: Association of American Railroads, *Railroad Facts, 2006 Edition*.

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

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

OPERATIONS

As of December 31, 2006, we owned, leased or operated 48 short line and regional freight railroads with approximately 6,800 miles of track in the United States, Australia, Mexico, Canada and Bolivia. We principally generate revenues from the haulage of freight by rail over relatively short distances. Freight revenues represented 70.1%, 74.2% and 74.5% of our total revenues in 2006, 2005 and 2004, respectively.

Customers

Our operations served more than 920 customers in 2006. Freight revenue from our 10 largest freight revenue customers accounted for approximately 24%, 24% and 27% of our revenues in 2006, 2005 and 2004, respectively. As of December 31, 2006, four of our ten largest customers operated in the paper and forest products industry. In 2006, 2005 and 2004, our largest freight revenue customer was a company in the paper and forest products industry, freight revenue from which accounted for approximately 7% of our revenues in 2006 and 8% of our revenues in both 2005 and 2004. We typically handle freight pursuant to transportation contracts between us, our connecting carriers and the customer. These contracts are in accordance with industry norms and vary in duration, with terms ranging from less than one year to 20 years. These contracts establish a price or, in the case of longer term contracts, a methodology for determining price, but do not typically obligate the customer to move any particular volume and are not typically linked to the prices of the commodities being shipped.

Commodities

Our railroads transport a wide variety of commodities. Some of our railroads have a diversified commodity mix while others transport one or two principal commodities. For a comparison of freight revenues, carloads and average freight revenue per carload by commodity group for the years ended December 31, 2006, 2005 and 2004, see the discussion under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Commodity Group Descriptions

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

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

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

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

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

The Farm and Food Products commodity group consists primarily of wheat, barley, corn and other grains.

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

The Petroleum Products commodity group consists primarily of fuel oil.

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

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

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

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Non-Freight Revenues

We generate non-freight revenues primarily through the following activities:

- Railcar switching, which includes:
  - intra-plant switching revenues earned by providing services dedicated to the movement of railcars within industrial plants and
  - intra-terminal switching revenues earned for the movement of customer railcars from one track to another track on the same railroad.
- Fuel sales to third parties revenues earned by GWA in South Australia from the sale of diesel fuel to other rail operators.
- Car hire and rental services charges paid by other railroads for use of our railcars.
- Demurrage and storage charges to customers for holding or storing railcars.
- Car repair services charges for repairing freight cars owned by others, either under contract or in accordance with AAR rules.

In 2006, 2005 and 2004, non-freight revenues constituted 29.9%, 25.8% and 25.5%, respectively, of our total operating revenues with railcar switching representing 46.0%, 50.0% and 51.0% respectively, of total non-freight revenues. For a comparison of non-freight revenues for the years ended December 31, 2006, 2005 and 2004, see discussion under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Reportable Segments

As of and for the year ended December 31, 2006, we reported financial information for two reportable segments (Railroad Operations Excluding Mexico and Mexico Operations). For financial information with respect to each of our reportable segments, see Note 17 to our Consolidated Financial Statements set forth in Part IV, Item 15. of this Annual Report.

Geographic Information

For financial information with respect to each of our geographic areas, see Note 17 to our Consolidated Financial Statements set forth in Part IV, Item 15. of this Annual Report.

Traffic

Rail traffic shipped on our rail lines can be categorized as interline, local or overhead traffic. Interline traffic either originates or terminates with customers located along a rail line and is interchanged with other rail carriers. Local traffic both originates and terminates on the same rail line and does not involve other carriers. Overhead traffic passes over the line from one connecting rail carrier to another without the carload originating or terminating on the line. Unlike overhead traffic, interline and local traffic provide us with a more stable source of revenue, because this traffic represents shipments to and/or from customers located along our rail lines and is less susceptible to competition from other rail routes or other modes of transportation. In 2006, revenues generated from interline and local traffic constituted approximately 95% of our freight revenues.

Seasonality of Operations

Typically, we experience relatively lower revenues in the first and fourth quarters of each year as the winter season and colder weather in North America tend to reduce shipments of certain products such as construction materials. In addition, due to adverse winter weather conditions, we also tend to incur higher operating costs during the first and fourth quarters. We typically initiate capital projects in the second and third quarters when weather conditions are more favorable. However, certain of our traffic, such as salt for road de-icing, often benefits from particularly cold and inclement weather.

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Employees

As of December 31, 2006, our railroads and industrial switching locations had 2,677 full time employees. Of this total, 1,154 railroad employees are members of national labor organizations. Our railroads have 37 contracts with these national labor organizations, five of which are currently in negotiations. The Railway Labor Act (RLA) governs the labor relations of employers and employees engaged in the railroad industry in the United States. The RLA establishes the right of railroad employees to organize and bargain collectively along craft or class lines and imposes a duty upon carriers and their employees to exert every reasonable effort to make and maintain collective bargaining agreements. Le Code Canadien du Travail, the Federal Workplace Relations Act and Junta Federal de Conciliación y Arbitraje govern the labor relations of employers and employees engaged in the railroad industry in Canada, Australia and Mexico, respectively. The RLA and foreign labor regulations contain detailed procedures that must be exhausted before a lawful work stoppage may occur. We have also entered into collective employee bargaining agreements with an additional 71 employees who are not represented by a national labor organization. We believe our relationship with our employees is good.

SAFETY

Our safety program involves all employees and focuses on the prevention of accidents and injuries. Operating personnel are trained and certified in train operations, the transportation of hazardous materials, safety and operating rules and governmental rules and regulations. We also participate in safety committees of the AAR, governmental and industry sponsored safety programs and the American Short Line and Regional Railroad Association Safety Committee. Our reportable injury frequency ratio, measured as reportable injuries as defined by the Federal Railroad Administration (FRA), per 200,000 man hours worked, was 1.95 and 1.99 in 2006 and 2005, respectively.

INSURANCE

We maintain insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. The liability policies have self-insured retentions of up to $0.5 million per occurrence. In addition, we maintain excess liability policies that provide supplemental coverage for losses in excess of primary policy limits. With respect to the transportation of hazardous commodities, our liability policy covers sudden releases of hazardous materials, including expenses related to evacuation. Personal injuries associated with grade crossing accidents are also covered under our liability policies. The property damage policies have self-insured retentions ranging from $0.1 million to $1.0 million, depending on the category of incident.

Employees of our United States railroads are covered by the Federal Employers Liability Act (FELA), a fault-based system under which claims resulting from injuries and deaths of railroad employees are settled by negotiation or litigation. FELA-related claims are covered under our liability insurance policies. Employees of our industrial switching business are covered under workers compensation policies.

We believe our insurance coverage is adequate in light of our experience and the experience of the rail industry.

COMPETITION

Each of our railroads is typically the only rail carrier directly serving our customers; however, our railroads compete directly with other modes of transportation, principally highway competition from motor carriers and, on some routes, ship, barge and pipeline operators. Competition is based primarily upon the rate charged and the transit time required, as well as the quality and reliability of the service provided. Most of the freight we handle is interchanged with other railroads prior to reaching its final destination. As a result, to the extent other rail carriers are involved in transporting a shipment, we cannot necessarily control the cost and quality of such service. To the extent highway competition is involved, the effectiveness of that competition is affected by government policy with respect to fuel and other taxes, highway tolls and permissible truck sizes and weights.

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To a lesser degree, we also face competition with similar products made in other areas, a kind of competition commonly known as geographic competition. For example, a paper producer may choose to increase or decrease production at a specific plant served by one of our railroads depending on the relative competitiveness of that plant versus paper plants in other locations. In some instances, we face product competition, where commodities we transport are exposed to competition from substitutes. For example, our fuel oil traffic in Mexico is used to generate electricity for a power grid where competition from natural gas generation is substantial.

In acquiring rail properties, we generally compete with other short line and regional railroad operators, and more recently with private equity firms operating in conjunction with short line rail operators. Competition for rail properties is based primarily upon price and the seller s assessment of the buyer s railroad operating expertise and financing capability. We believe our established reputation as a successful acquirer and operator of short line rail properties, combined with our managerial and financial resources, effectively positions us to take advantage of acquisition opportunities.

REGULATION

United States

In addition to environmental laws, securities laws and other regulations generally applicable to many businesses, our U.S. railroads are subject to regulation by:

- the STB;
- the FRA;
- federal agencies, including the Department of Homeland Security and Department of Transportation;
- state departments of transportation; and
- some state and local regulatory agencies.

The STB is the successor to certain regulatory functions previously administered by the Interstate Commerce Commission (ICC). Established by the ICC Termination Act of 1995, the STB has jurisdiction over, among other things, certain freight rates (where there is no effective competition), extension or abandonment of rail lines, the acquisition of rail lines and consolidation, merger or acquisition of control of rail common carriers. In limited circumstances, the STB may condition its approval of an acquisition upon the acquirer of a railroad agreeing to provide severance benefits to certain subsequently terminated employees. The FRA has jurisdiction over safety, which includes the regulation of equipment standards, track maintenance, handling of hazardous shipments, locomotive and rail car inspection, repair requirements, operating practices and crew qualifications.

Canada

St. Lawrence & Atlantic Railroad (Quebec) is a federally regulated railroad and falls under the jurisdiction of the Canada Transportation Agency (CTA) and Transport Canada (TC) and is subject to the Railway Safety Act. The CTA regulates construction and operation of federally regulated railways, financial transactions of federally regulated railway companies, all aspects of rates, tariffs and services and the transferring and discontinuing of the operation of railway lines. TC administers the Railway Safety Act, which ensures that federally regulated railway companies abide by all regulations with respect to engineering standards governing the construction or alteration of railway works and the operation and maintenance standards of railway works and equipment.

Quebec Gatineau Railway and Huron Central Railway are subject to the jurisdiction of provincial governments of Quebec and Ontario, respectively. Provincially regulated railways only operate within one

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province and hold a Certificate of Fitness delivered by a provincial authority. In the Province of Quebec, the Fitness Certificate is delivered by the Ministère des Transports du Quebec, while in Ontario, under the Short Line Railways Act, a license must be obtained from the Registrar of Short Line Railways. Construction, operation and discontinuance of operation are regulated, as well as railway services.

Acquisitions of additional railroad operations in Canada, whether federally or provincially regulated, may be subject to review under the Investment Canada Act (ICA), a federal statute that applies to the acquisition of a Canadian business or establishment of a new Canadian business by a non-Canadian. In the case of an acquisition that is subject to review, a non-Canadian investor must observe a statutory waiting period prior to completion and satisfy the Minister responsible for the administration of the ICA that the investment will be of net benefit to Canada, considering certain evaluative factors set out in the legislation.

Any contemplated acquisitions may also be subject to the Competition Act (Canada), which contains provisions relating to pre-merger notification as well as substantive merger provisions.

Australia

In Australia, regulation of rail safety is generally governed by state legislation and administered by state regulatory agencies. GWA s assets are subject to the regulatory regimes governing safety in each of the states in which it operates. Regulation of track access is governed by overriding federal legislation with state-based regimes operating in compliance with the federal legislation. As a result, with respect to rail infrastructure access, GWA s Australian assets are also subject to state-based access regimes and Part IIIA of the Trade Practices Act 1974.

GWA s interstate access includes the standard gauge tracks in South Australia, as well as connecting standard gauge tracks in Victoria and the Northern Territory. The interstate network is part of the larger standard gauge network linking all capital cities in Australia from Brisbane to Perth, as well as Broken Hill in New South Wales and Alice Springs in the Northern Territory. Certain parts of this larger standard gauge network that are not covered by the interstate network are governed by the various state access regimes and the national access regime.

Mexico

In Mexico, the Secretaria de Comunicaciones y Transporte (SCT) has jurisdiction over, among other things:

- policies and programs related to the railroad system;
- the granting of concessions;
- the regulation of the concessions and resolution of any issues regarding amendments or terminations to the concessions;
- the regulation of tariff application; and
- the imposition of sanctions when operators have not complied with the terms of a concession.

Our Mexican railroad operation, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM), is also subject to the Mexican Foreign Investments Law, the Federal Law of Economic Competition and the Law of Railway Services. The Foreign Investments Law governs the ownership of Mexican railroads by foreign entities while the Law of Economic Competition is an antitrust statute. The Law of Railway Services regulates the construction and maintenance of rail lines and rights of way and related operations, interconnection services and auxiliary services.

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ENVIRONMENTAL MATTERS

Our operations are subject to various federal, state, provincial and local laws and regulations relating to the protection of the environment. In the United States, these environmental laws and regulations, which are implemented principally by the Environmental Protection Agency and comparable state agencies, govern the management of hazardous wastes, the discharge of pollutants into the air and into surface and underground waters and the manufacture and disposal of certain substances. Similarly, in Canada, these functions are administered at the federal level by Environment Canada and the Ministry of Transport and comparable agencies at the provincial level. In Mexico, these functions are administered at the federal level by the Secretary of Environment, Natural Resources and Fisheries and the Attorney General for Environmental Protection and by comparable agencies at the state level. In Australia, these functions are administered primarily by the Department of Transport at the federal level and by environmental protection agencies at the state level.

In Mexico, FCCM was awarded a 30-year concession (expiring in 2029) to operate certain railways owned by the government-owned rail company. Under the terms of the concession agreement, the federal railway company remains responsible for remediation of all contamination that occurred prior to the execution date of the concession agreement.

The Commonwealth of Australia has acknowledged that certain portions of the leasehold and freehold land acquired from them contain contamination arising from activities associated with previous operators. The Commonwealth has carried out certain remediation work to meet existing South Australian environmental standards.

There are no material environmental claims currently pending or, to our knowledge, threatened against us or any of our railroads. In addition, we believe our railroads operate in material compliance with current environmental laws and regulations. We estimate any expenses incurred in maintaining compliance with current environmental laws and regulations will not have a material effect on our earnings or capital expenditures.

AVAILABLE INFORMATION

We were incorporated in Delaware on September 1, 1977. We completed our initial public offering in June 1996 and since September 27, 2002, our shares have been listed on the New York Stock Exchange. Our principal executive offices and corporate headquarters are located at 66 Field Point Road, Greenwich, Connecticut, 06830, and our telephone number is (203) 629-3722.

Our Internet address is www.gwrr.com. We make available free of charge, on or through our Internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after those materials are electronically filed with or furnished to the SEC. Also, filings made pursuant to Section 16 of the Exchange Act with the SEC by our executive officers, directors and other reporting persons with respect to our common shares are made available, free of charge, through our website. Our website also contains hyperlinks to charters for each of the committees of our Board of Directors, our corporate governance guidelines and our Code of Ethics. Our Code of Ethics applies to all directors, officers and employees, including our chief executive officer, our chief financial officer, our principal accounting officer and our controller. We will post any amendments to the Code of Ethics, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. (NYSE), on our Internet website.

In addition, you may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically. The SEC website address is www.sec.gov.

The information regarding our website and its content is for your convenience only. The information contained on or connected to our website is not deemed to be incorporated by reference in this Annual Report or filed with the SEC.

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Item 1A. *Risk Factors*

Our operations and financial condition are subject to certain risks that could cause actual operating and financial results to differ materially from those expressed or forecast in our forward-looking statements, including the risks described below and the risks identified in other documents that are filed or furnished with the SEC.

GENERAL RISKS ASSOCIATED WITH OUR BUSINESS

If we are unable to consummate additional acquisitions or investments, we may not be able to implement our growth strategy successfully.

Our growth strategy is based to a large extent on the selective acquisition, development and investment in rail properties, both in new regions and in regions in which we currently operate. The success of this strategy will depend on, among other things:

- the availability of suitable opportunities;
- the level of competition from other companies that may have greater financial resources;
- our ability to value acquisition and investment candidates accurately and negotiate acceptable terms for those acquisitions and investments;
- our ability to identify and enter into mutually beneficial relationships with venture partners; and
- the availability of management resources to oversee the integration and operation of the new businesses.

If we are not successful in implementing our growth strategy, the market price for our Class A Common Stock may be adversely affected.

We may need additional capital to fund our acquisitions. If we are unable to obtain additional capital, we may be required to forego potential acquisitions, which would impair the execution of our growth strategy.

Since 1996, we have acquired interests in 42 railroads, the majority of which were for cash. As of December 31, 2006, we had undrawn revolver capacity of $224.8 million and $154.2 million of cash and cash equivalents available for acquisitions or other activities, net of approximately $86.0 million of taxes payable to the Australian government in 2007 related to the ARG Sale. We intend to continue to review acquisition candidates and potential purchases of railroad assets and to attempt to acquire companies and assets that meet our investment criteria. We expect that, as in the past, we will pay cash for some or all of the purchase price of any acquisitions or purchases that we make. Depending on the number of acquisitions or purchases and the prices thereof, we may not generate enough cash from operations to pay for the acquisitions or purchases. We may, therefore, need to raise substantial additional capital to fund our acquisitions. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution of our existing stockholders. If we raise additional funds through the issuance of debt securities, the terms of such debt could impose additional restrictions and costs on our operations. Additional capital, if required, may not be available on acceptable terms or at all. If we are unable to obtain additional capital, we may be required to forego potential acquisitions, which could impair the execution of our growth strategy.

Our inability to integrate acquired businesses successfully or to realize the anticipated cost savings and other benefits could have adverse consequences to our business.

We have experienced significant growth through acquisitions and we expect to continue to grow through additional acquisitions. Acquisitions generally result in increased operating and administrative costs and, to the extent financed with debt, additional interest costs. We may not be able to manage or integrate the acquired

companies or businesses successfully. The process of combining acquired businesses may be disruptive to our business and may cause an interruption or reduction of our business as a result of the following factors, among others:

- loss of key employees or customers;
- possible inconsistencies in or conflicts between standards, controls, procedures and policies among the combined companies and the need to implement company-wide financial, accounting, information technology and other systems;
- failure to maintain the quality of services that have historically been provided;
- integrating employees of rail lines acquired from Class I railroads, governments or other entities into our regional railroad culture;
- failure to coordinate geographically diverse organizations; and
- the diversion of management s attention from our day-to-day business as a result of the need to manage any disruptions and difficulties and the need to add management resources to do so.

These disruptions and difficulties, if they occur, may cause us to fail to realize the cost savings, revenue enhancements and other benefits that we expect to result from integrating acquired companies and may cause material adverse short- and long-term effects on our operating results, financial condition and liquidity.

Even if we are able to integrate the operations of acquired businesses into our operations, we may not realize the full benefits of the cost savings, revenue enhancements or other benefits that we may have expected at the time of acquisition. The expected revenue enhancements and cost savings are based on analyses completed by members of our management. These analyses necessarily involve assumptions as to future events, including general business and industry conditions, the longevity of specific customer plants and factories served, operating costs and competitive factors, many of which are beyond our control and may not materialize. While we believe these analyses and their underlying assumptions to be reasonable, they are estimates that are necessarily speculative in nature. In addition, even if we achieve the expected benefits, we may not be able to achieve them within the anticipated time frame. Also, the cost savings and other synergies from these acquisitions may be offset by costs incurred in integrating the companies, increases in other expenses or problems in the business unrelated to these acquisitions.

Many of our recent acquisitions have involved the purchase of stock of existing companies. These acquisitions, as well as acquisitions of substantially all of the assets of a company may expose us to liability for actions taken by an acquired business and its management before the acquisition. The due diligence we conduct in connection with an acquisition and any contractual guarantees or indemnities that we receive from the sellers of acquired companies may not be sufficient to protect us from or compensate us for, actual liabilities. In connection with our GP Railroads and Rail Partners acquisitions, most of the representations made by the sellers, other than certain representations related to fundamental matters, such as ownership of capital stock, have expired, in the case of GP, or will expire on or before June 2008, in the case of Rail Partners. A material liability associated with an acquisition, especially where there is no right to indemnification, could adversely affect our financial condition and operating results.

Because we depend on Class I railroads and other connecting carriers for a majority of our operations, our operating results, financial condition and liquidity may be adversely affected if our relationships with these carriers deteriorate.

The railroad industry in the U.S. and Canada is dominated by seven Class I carriers that have substantial market control and negotiating leverage. In 2006, approximately 82% of our total carloads were interchanged with Class I carriers. A decision by any of these Class I carriers to use alternate modes of transportation, such as motor carriers, or to cease certain freight movements, could have a material adverse effect on our operating

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results, financial condition and liquidity. The quantitative impact of such a decision would depend on which Class I carrier made such a decision and which of our routes and freight movements were affected.

Our ability to provide rail service to customers in the U.S. and Canada depends in large part upon our ability to maintain cooperative relationships with connecting carriers with respect to, among other matters, freight rates, revenue divisions, fuel surcharges, car supply, reciprocal switching, interchange and trackage rights. Deterioration in the operations of or service provided by, those connecting carriers or in our relationship with those connecting carriers, would adversely affect our operating results, financial condition and liquidity.

Class I carriers also have traditionally been significant sources of business for us, as well as sources of potential acquisition candidates as they divest branch lines to smaller rail operators. We lease several railroads from Class I carriers under long-term lease arrangements, which collectively accounted for approximately 10% of our 2006 revenues. In addition, we own several railroads that also lease portions of the track or right of way upon which they operate from Class I railroads. Failure of our railroads to comply with the terms of these leases and agreements in all material respects could result in the loss of operating rights with respect to those rail properties, which would adversely affect our operating results, financial condition and liquidity. Because we depend on Class I carriers for our U.S. and Canadian operations, our operating results, financial condition and liquidity may be adversely affected if our relationships with those carriers deteriorate.

Of our 2006 Mexican revenues, approximately 60% originated and terminated on FCCM s railroad, while the remaining approximately 40% of revenue depended on FCCM s relationship with Ferrosur S.A. de C.V. (Ferrosur), the connecting carrier. To the extent that we experience service or other commercial disruptions with Ferrosur, our ability to serve existing customers and expand our business will suffer. In November 2005, Grupo Mexico, the majority owner of Ferrocarril Mexicano S.A. de C.V. (Ferromex), which is one of the largest railroads in Mexico and principally operates in the northern and western parts of Mexico, announced that it intended to acquire Ferrosur. The transaction is facing a legal challenge by the Mexican Commission on Competition, which rejected a similar transaction in 2002. In addition, Kansas City Southern de Mexico, which operates between Ferromex and Ferrosur and in the north eastern part of Mexico, has commenced legal proceedings to prevent the transaction from closing. We are still evaluating the potential commercial impact of this transaction on FCCM, which may result in increased costs to FCCM or limitations on FCCM s ability to access traffic originating or terminating on KCS-Mexico s network. For additional information on our Mexico Operations, see the discussion under Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Mexico.

On January 26, 2007, the STB issued a final rule on fuel surcharges that may adversely affect our revenues.

On January 26, 2007, the STB issued final rules governing fuel surcharges that require freight railroads to change the methodologies used to impose fuel surcharges on shippers. The final rule provides that computing fuel surcharges as a percentage of the base rate for transportation is an unreasonable practice because it does not account for factors (such as mileage and weight) that correlate more closely with the amount of fuel actually consumed. In addition, the final rule prohibits railroads from applying to the same movement both a fuel surcharge and a rate increase based on a cost index that includes a fuel cost component. The new rule does not apply to exempt traffic or traffic moving under contract. Freight railroads have until April 26, 2007, to modify their fuel surcharge practices accordingly. In the United States and Canada, through our contractual relationships with certain Class I railroads, we are partially compensated for increases in fuel costs through fuel surcharges. The new rule may reduce the fuel surcharges shared with us by Class I railroads, which could have a material adverse effect on our operating results, financial condition and liquidity.

Our operations are dependent on our ability to obtain railcars and locomotives from other providers.

In 2006, approximately 66% of our railcars were leased. If the number of available railcars is insufficient or if the cost of obtaining these railcars increases, we might not be able to obtain replacement railcars on favorable terms, or at all, and shippers may seek alternate forms of transportation. In addition, in some cases we use third-party locomotives to provide transportation services to our customers. Without these third-party locomotives, we would need to invest additional capital in locomotives.

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We face competition from numerous sources, including those relating to geography, substitute products, other types of transportation and other rail operators.

Each of our railroads is typically the only rail carrier directly serving our customers. Our railroads, however, compete directly with other modes of transportation, principally motor carriers and, on some routes, ship, barge and pipeline operators. Transportation providers such as motor carriers and barges utilize public rights-of-way that are built and maintained by governmental entities, while we must build and maintain our network. If the scope and quality of these alternative methods of transportation are materially increased or if legislation is passed providing materially greater opportunity for motor carriers with respect to size or weight restrictions, we could suffer a material adverse effect on our operating results, financial condition and liquidity.

We are also subject to geographic and product competition. For example, a customer could shift production to a region where we do not have operations or could substitute one commodity for another commodity that is not transported by rail. In either case, we would lose a source of revenues, which could have a material adverse effect on our operating results, financial condition and liquidity.

The extent of this competition varies significantly among our railroads. Competition is based primarily upon the rate charged, the relative costs of substitutable products and the transit time required. In addition, competition is based on the quality and reliability of the service provided. Because approximately 82% of our carloads involve interchange with another carrier, we have only limited control over the total price, transit time or quality of such service. Any future improvements or expenditures materially increasing the quality of these alternative modes of transportation in the locations in which we operate or legislation granting materially greater latitude for other modes of transportation could have a material adverse effect on our operating results, financial condition and liquidity.

It is difficult to quantify the potential impact of competition on our business, since not only each customer, but also each customer location and each product shipped from such location is subject to different types of competition.

We are subject to significant governmental regulation of our railroad operations. The failure to comply with governmental regulations could have a material adverse effect on our operating results, financial condition and liquidity.

We are subject to governmental regulation with respect to our railroad operations and a variety of health, safety, security, labor, environmental and other matters by a significant number of federal, state and local regulatory authorities. In the U.S., these agencies include the STB, the FRA, federal agencies (including the Department of Homeland Security and the Department of Transportation) and state departments of transportation. In Australia, we are subject to both Commonwealth and state regulations. Our failure to comply with applicable laws and regulations could have a material adverse effect on our operating results, financial condition and liquidity. In addition, governments may change the regulatory framework within which we operate without providing us with any recourse for any adverse effects that the change may have on our operating results, financial condition or liquidity. Also, some of the regulations require us to obtain and maintain various licenses, permits and other authorizations, and we may not continue to be able to do so.

We could incur significant costs for violations of or liabilities under, environmental laws and regulations.

Our railroad operations and real estate ownership are subject to extensive foreign, federal, state and local environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters, the handling, storage, transportation and disposal of waste and other materials and cleanup of hazardous material or petroleum releases. We may incur environmental liability from conditions or practices at properties previously owned or operated by us, properties leased by us and other properties owned by third parties, (for example, properties at which hazardous substances or wastes for which we are responsible have been treated, stored,

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spilled or disposed), as well as at properties currently owned by us. Under some environmental statutes, such liability may be without regard to whether we were at fault and may also be joint and several, whereby we are responsible for all the liability at issue even though we (or the entity that gives rise to our liability) may be only one of a number of entities whose conduct contributed to the liability.

Environmental liabilities may arise from claims asserted by owners or occupants of affected properties or other third parties affected by environmental conditions (for example, contractors and current or former employees) seeking to recover in connection with alleged damages to their property or with personal injury or death, as well as by governmental authorities seeking to remedy environmental conditions or to enforce environmental obligations. Environmental requirements and liabilities could obligate us to incur significant costs, including significant expenses to investigate and remediate environmental contamination, which could have a material adverse effect on our operating results, financial condition and liquidity.

Some of our employees belong to labor unions, and strikes or work stoppages could adversely affect our operating results, financial condition and liquidity.

We are a party to collective bargaining agreements with various labor unions in the United States, Mexico, Australia, Canada and Bolivia. We are party to 37 contracts with national labor organizations. We are currently engaged in negotiations with respect to five of those agreements. We have also entered into employee bargaining agreements with an additional 71 employees who represent themselves. GWA has a collective enterprise bargaining agreement covering the majority of its employees. Our inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If the unionized workers were to engage in a strike, work stoppage or other slowdown or other employees were to become unionized or the terms and conditions in future labor agreements were renegotiated, we could experience a significant disruption of our operations and/or higher ongoing labor costs, which, in either case, could materially adversely affect our operating results, financial condition and liquidity. We are also subject to the risk of the unionization of our non-unionized employees, which could result in higher employee compensation and restrictive working condition demands that could increase our operating costs or constrain our operating flexibility. In addition, work interruptions may be threatened, which could cause customers to seek other transportation alternatives, with a corresponding adverse financial impact.

If we are unable to employ a sufficient number of skilled workers, our operating results, financial condition and liquidity may be materially adversely affected.

We believe that our success depends upon our ability to employ and retain skilled workers that possess the ability to operate and maintain our equipment and facilities. The operation and maintenance of our equipment and facilities involve complex and specialized processes and often must be performed in harsh conditions, resulting in a high employee turnover rate when compared to many other industries. In addition, our ability to expand our operations depends in part on our ability to attract and retain skilled workers. Since 2004, our annual average number of employees has increased 28.4% from 2,038 to 2,617 for 2006. Within the next five years, we estimate approximately 12% of the current workforce will become eligible for retirement. Approximately three-fourths of these workers hold key operating positions, such as conductors, engineers and mechanics. In addition, the demand for workers with these types of skills has increased, especially from Class I railroads, which can usually offer higher wages and better benefits. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force or an increase in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase, our margins could decrease and our growth potential could be impaired, each of which could have a material adverse effect on our operating results, financial condition and liquidity.

As a common carrier by rail, we are required to transport hazardous materials, regardless of risk.

Transportation of certain hazardous materials could create catastrophic losses in terms of personal injury and property damage costs and compromise critical parts of our railroads. Legislation introduced in Congress in

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early 2005 would give federal regulators increased authority to conduct investigations and levy substantial fines and penalties in connection with railroad accidents. Federal regulators also would be required to prescribe new regulations governing railroads transportation of hazardous materials. If enacted, such legislation and regulations could impose significant additional costs on railroads. Additionally, regulations adopted by the Department of Transportation and the Department of Homeland Security could significantly increase the costs associated with moving hazardous materials on our railroads. Further, certain local governments have sought to enact ordinances banning hazardous materials moving by rail within their borders. Some legislators have contemplated pre-notification requirements for hazardous materials shipments. If promulgated, such ordinances could require the re-routing of hazardous materials shipments, with the potential for significant additional costs. Increases in our costs could materially adversely affect our operating results, financial condition and liquidity.

The occurrence of losses or other liabilities that are not covered by insurance or that exceed our insurance limits could materially adversely affect our operating results, financial condition and liquidity.

We have obtained for each of our railroads insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. On certain of the rail lines over which we operate, freight trains are commingled with passenger trains. Unexpected or catastrophic circumstances such as accidents involving passenger trains or spillage of hazardous materials could cause our liability to exceed our insurance limits. Insurance is available from only a very limited number of insurers, and we may not be able to obtain insurance protection at our current levels or obtain it on terms acceptable to us. In addition, subsequent adverse events directly and indirectly applicable to us may result in additional increases in our insurance premiums and/or our self insured retentions and could result in limitations to the coverage under our existing policies. The occurrence of losses or other liabilities that are not covered by insurance or that exceed our insurance limits could materially adversely affect our operating results, financial condition and liquidity.

Rising fuel costs could materially adversely affect our operating results, financial condition and liquidity.

Fuel costs constitute a significant portion of our total operating expenses. Fuel costs for fuel used in operations were 10.4% and 12.2% of our operating expenses for the years ended December 31, 2006 and 2005, respectively. Fuel prices and supplies are influenced by factors beyond our control, such as international political and economic circumstances. In the United States and Canada, through certain of our contractual relationships with certain Class I railroads, we are partially compensated for increases in fuel costs through fuel surcharges. If Class I railroads change their policies regarding fuel surcharges, if diesel fuel prices increase dramatically or if a fuel supply shortage were to arise from production curtailments, a disruption of oil imports or otherwise, these events could materially adversely affect our operating results, financial condition and liquidity.

The expiration of the short line tax credit on January 1, 2008, could materially adversely affect our effective tax rate.

On October 22, 2004, the American Jobs Creation Act (P. L. 108-357) was signed into law. The Act provides a tax credit for Class II and Class III railroads against their federal income tax based on qualified railroad track maintenance expenditures (the Short Line Tax Credit). Qualified expenditures include amounts incurred for maintaining track, including roadbed, bridges, and related track structures owned or leased by a Class II or III railroad. The credit is equal to 50% of the qualified expenditures, subject to an annual limitation of $3,500 multiplied by the number of miles of railroad track owned or leased by the Class II or Class III railroad as of the end of their tax year. The Short Line Tax Credit is applicable to tax years beginning after December 31, 2004, and before January 1, 2008, which includes calendar years 2005, 2006 and 2007. In 2006 and 2005, the Short Line Tax Credit lowered our effective tax rate by 4.8% and 9.0%, respectively. If the Short Line Tax Credit is not extended and expires, the loss of the credit could have a material adverse effect on our effective tax rate and our reported earnings per share.

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The loss of important customers or contracts may adversely affect our operating results, financial condition and liquidity.

Our operations served more than 920 customers in 2006. Freight revenue from our 10 largest freight revenue customers accounted for approximately 24% of our revenues in 2006. As of December 31, 2006, four of our 10 largest customers operated in the paper and forest products industry. In 2006, our largest freight revenue customer was a company in the paper and forest products industry, freight revenue from which accounted for approximately 7% of our revenues in 2006. We typically handle freight pursuant to transportation contracts between us, our connecting carriers and the customer. These contracts are in accordance with industry norms and vary in duration. These contracts establish price or, in the case of longer term contracts, a methodology for determining price, but do not typically obligate the customer to move any particular volume and are not typically linked to the prices of the commodities being shipped. In addition, GWA s largest freight customer, AWB Limited (AWB), is the subject of a government investigation and may lose its exclusive exporter status. If AWB loses its sole exporter status, under certain circumstances, it has the right to re-negotiate the terms of the contracts with GWA, which could affect our operating results, financial condition and liquidity. Substantial reduction in business with or loss of important customers or contracts could materially adversely affect our operating results, financial condition and liquidity.

Our results of operations are susceptible to downturns in the general economy.

In any given year, we, like other railroads, are susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight we transport. In addition, many of the goods and commodities carried by us experience cyclicality in their demand. Our results of operations can be expected to reflect this cyclicality, and because of the significant fixed costs inherent in railroad operations the impact could be material. Should an economic slowdown or recession occur in the countries in which we operate, the volume of rail shipments carried by us is likely to be affected.

Our results of operations are susceptible to severe weather conditions and other natural occurrences.

We are susceptible to adverse weather conditions, including floods, fires, hurricanes, droughts, earthquakes and other natural occurrences. For example:

- Mexico s revenues were reduced in 2006 and 2005 as a result of the impact of Hurricane Stan.
- Our minerals and stone revenues, which include salt, may be reduced by mild winters in the northeastern United States, which lessens demand for road salt.
- Our coal, coke and ores revenue may be reduced by mild winters in the United States, which lessens demand for coal.
- GWA s revenues are expected to be reduced in 2007 as a result of the impact of drought conditions on the South Australia grain harvest in 2006.

Bad weather and natural disasters, such as blizzards in eastern Canada and the northeastern United States and hurricanes in Mexico and the southeastern United States, could cause a shutdown or substantial disruption of operations, which could have a material adverse effect on our operating results, financial condition and liquidity. In addition, GWA derives a significant portion of its rail freight revenues from shipments of grain. For the year ended December 31, 2006, grain shipments generated approximately 24% of GWA s operating revenues. A decrease in grain shipments as a result of adverse weather or other negative agricultural conditions could have a material adverse effect on GWA s operating results, financial condition and liquidity.

Even if a material adverse weather or other condition does not directly affect our operations, it can impact the operations of our customers or connecting carriers. Such weather conditions could cause our customers or connecting carriers to reduce or suspend their operations, which could have a material adverse effect on our results of operations, financial condition and liquidity. Furthermore, our expenses could be adversely impacted by weather, including, for example, higher track maintenance and overtime costs in the winter in our New York/Pennsylvania and Canada Regions or possible track repairs related to washouts in Mexico during its rainy season.

Certain of our capital projects may be impacted by our relationships with government entities.

Certain of our existing capital projects are and certain of our future capital projects may be, at least partially dependent on our ability to obtain government funding. Within the United States, during 2006, we obtained funds for 27 separate projects, which were partially funded by federal, state and municipal agencies. These funds represented approximately 9% of our total capital expenditures during 2006. Government funding for our projects is limited, and there is no guarantee that budget pressure at the federal, state and local level or changing governmental priorities will not eliminate future funding availability. In addition, competition for government funding from other short line railroads, Class I railroads and other companies is significant, and the receipt of government funds is often contingent on the acceptance of contractual obligations that may not be strictly profit maximizing. In certain jurisdictions, the acceptance of government funds may impose additional legal obligations on our operations, such as compliance with prevailing wage requirements.

Our credit facilities contain numerous covenants that impose certain restrictions on the way we operate our business.

Our credit facilities contain numerous covenants that impose restrictions on our ability to, among other things:

- incur additional debt;
- create liens on our assets;
- make certain types of investments;
- repurchase shares or pay dividends;
- make expenditures for capital projects;
- merge or consolidate with others;
- make asset acquisitions other than in the ordinary course of business;
- dispose of assets or use asset sale proceeds;
- enter into sale and leaseback transactions; and
- enter into transactions with affiliates.

Our credit facilities also contain financial covenants that require us to meet a number of financial ratios and tests. Our failure to comply with the obligations in our credit facilities could result in events of default under the credit facilities, which, if not cured or waived, could permit acceleration of our indebtedness, allowing our senior lenders to foreclose on our assets.

Acts of terrorism or anti-terrorism measures may adversely affect us.

Our rail lines, port operations and other facilities and equipment, including rail cars carrying hazardous materials that we are required to transport under federal law as a common carrier, could be direct targets or indirect casualties of terrorist attacks. Any terrorist attack or other similar event could cause significant business interruption and may adversely affect our operating results, financial condition and liquidity. In addition, regulatory measures designed to control terrorism could impose substantial costs upon us and could result in impairment to our service, which could also adversely affect our operating results, financial condition and liquidity.

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We may be subject to various claims and lawsuits that could result in significant expenditures.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, freight loss and other property damage and other matters. For example, U.S. job-related personal injury and occupational claims are subject to the Federal Employers Liability Act (FELA), which is applicable only to railroads. FELA s fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker s compensation system. The variability inherent in this system could result in actual costs being very different from the liability recorded.

Any material changes to current litigation trends or a catastrophic rail accident involving any or all of freight loss or property damage, personal injury and environmental liability could have a material adverse effect on our operating results, financial condition and liquidity to the extent not covered by insurance. We have obtained commercial insurance for potential losses for third-party liability and first-party property damages. Specified levels of risk are retained by us. Insurance is available from a limited number of insurers and may not continue to be available or, if available, may not be obtainable on terms acceptable to us.

ADDITIONAL RISKS ASSOCIATED WITH OUR FOREIGN OPERATIONS

We are subject to the risks of doing business in foreign countries.

Some of our significant subsidiaries transact business in foreign countries, namely in Australia, Canada and Mexico, and we have an equity investment in Bolivia. In addition, we may consider acquisitions or other investments in other foreign countries in the future. The risks of doing business in foreign countries include:

- adverse renegotiation or modification of existing agreements or arrangements with governmental authorities;
- adverse changes or greater volatility in the economies of those countries;
- adverse effects of currency exchange controls;
- adverse currency movements that make goods produced in those countries that are destined for export markets less competitive;
- adverse changes to the regulatory environment of those countries;
- adverse changes to the tax laws and regulations of those countries;
- restrictions on the withdrawal of foreign investment and earnings;
- the nationalization of the businesses that we operate, such as threatened nationalization in Bolivia;
- the actual or perceived failure by us to fulfill commitments under concession agreements;
- the potential instability of foreign governments, including from domestic insurgency; and

the challenge of managing a culturally and geographically diverse operation.

We may incur additional losses associated with the damage to our Mexican railroad caused by Hurricane Stan.

In October 2005, our Mexican railroad operation, FCCM was struck by Hurricane Stan with the most severe impact concentrated in the State of Chiapas between the town of Tonalá and the Guatemalan border. Approximately 70 bridges were damaged or destroyed, and various segments of track were washed out, rendering portions of the rail line inoperable absent reconstruction. As of September 30, 2006, the government had not committed adequate resources to fund the reconstruction project, and we did not intend to fund the project ourselves. Accordingly, we recorded a non-cash charge of $33.1 million pre-tax ($34.1 million after-tax) in the third quarter of 2006, reflecting the write-down of non-current assets and related effects of FCCM. As of December 31, 2006, FCCM s remaining $19.6 million of assets consisted of approximately $6.7 million of non-current assets, primarily locomotives and freight cars, and approximately $12.8 million of current assets, primarily receivables and inventory. We are uncertain as to whether sufficient funds will be available from the Mexican government to fund the reconstruction of the damaged rail line. In addition, we are obligated under a guarantee arrangement of $7.0 million in the event that our Mexican subsidiary, GW Servicios S.A., is unable to fund future debt payments and its lenders accelerate the outstanding debt, $13.3 million as of December 31, 2006, and demand immediate payment under the guarantee. We expect to continue to incur operating losses from the Mexican business and may record additional charges going forward, which could affect our operating results, financial condition and liquidity.

For additional information on our Mexican operations, see the discussion under Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Mexico.

Because some of our significant subsidiaries and affiliates transact business in foreign currencies and because a significant portion of our net income comes from the operations of our foreign subsidiaries, future exchange rate fluctuations may adversely affect us and may affect the comparability of our results between financial periods.

Our operations in Australia, Canada and Mexico accounted for 9.7%, 11.6% and 5.9% of consolidated operating revenues, respectively, for the year ended December 31, 2006. The results of operations of our foreign entities are reported in the local currency the Australian dollar, the Canadian dollar and the Mexican peso and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the U.S. dollar can impact our results of operations. The exchange rates between these currencies and the U.S. dollar have fluctuated significantly in recent years and may continue to do so in the future. For instance, in the year ended December 31, 2006, the Canadian dollar appreciated 6.8% relative to the U.S. dollar.

We cannot assure that we will be able to effectively manage our exchange rate risks, and the volatility in currency exchange rates may have a material adverse effect on our operating results, financial condition and liquidity. In addition, because our financial statements are stated in U.S. dollars, such fluctuations may affect our results of operations and financial position and may affect the comparability of our results between financial periods.

Failure to meet concession commitments with respect to operations of our rail lines could result in the loss of our investment and a related loss of revenues.

We have entered into long-term concession and/or lease agreements with governmental authorities in Mexico, Bolivia and South Australia. These concession and lease agreements are subject to a number of conditions, including those relating to the maintenance of certain standards with respect to safety, service, price and the environment. These concession and lease agreements also typically carry with them a commitment to maintain the condition of the railroad and to make a certain level of capital expenditures. Our failure to meet these commitments under the long-term concession and lease agreements could result in the loss of those concession or lease agreements. The loss of any concession or lease agreement could result in the loss of our entire investment relating to that concession or lease agreement and the related revenues and income.

Australia s open access regime could lead to additional competition for GWA s business and decreased revenues and profit margins.

Australia s open access regime could lead to additional competition for GWA s business, which could result in decreased revenues and profit margins. The legislative and regulatory framework in Australia allows third-party rail operators to gain access to GWA s railway infrastructure and in turn governs GWA s access to track owned by others. Access charges are paid for access onto the track of other companies, and access charges under state and federal regimes continue to evolve because privatization of railways in Australia is recent. Where GWA pays access fees to others, if those fees were increased, GWA s operating margins could be negatively affected. In addition, if the federal government or respective state regulators were to alter a regulatory regime or determine that access fees charged to current or prospective third-party rail freight operators by GWA did not meet competitive standards, then GWA s income from those fees could be negatively affected.

When GWA operates over track networks owned by others, including Commonwealth-owned and State-owned networks, the owners of the network rather than the operators are responsible for scheduling the use of the tracks as well as for determining the amount and timing of the expenditures necessary to maintain the network in satisfactory condition. Therefore, in areas where GWA operates over tracks owned by others, it is subject to train scheduling set by the owners as well as the risk that the network will not be adequately maintained. Either risk could affect GWA.

GWA is subject to several contractual restrictions on its ability to compete.

GWA is subject to (a) a five-year non-compete in the State of Western Australia, the Melbourne to Adelaide corridor and certain areas within the State of New South Wales historically served by ARG; (b) a right of first refusal for the benefit of Queensland Rail on the sale of (i) GWA or a majority of the ownership of GWA, (ii) a number of high horse-power locomotives and intermodal wagons owned or operated by GWA and (iii) assets of GWA s yard and facilities at Port Augusta; and (c) a restriction on hiring of ARG employees who remain employed by ARG after the closing. These contractual restrictions may place limits on our ability to grow GWA s business, which could have a material adverse effect on GWA s operating results, financial condition and liquidity.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Genesee & Wyoming, through our subsidiaries and unconsolidated affiliate in Bolivia, currently has interests in 48 short line and regional freight railroads, of which 42 are located in the United States, three are located in Canada, one is located in Australia, one is located in Mexico and one is located in Bolivia. These rail properties typically consist of the track and the underlying land. Real estate adjacent to the railroad rights-of-way is generally retained by the sellers, and our holdings of such real estate are not material. Similarly, the seller typically retains mineral rights and rights to grant fiber optic and other easements in the properties acquired by us. Several of our railroads are operated under leases or operating licenses in which we do not assume ownership of the track and the underlying land.

Our railroads operate over approximately 6,800 miles of track that is owned, jointly-owned or leased by us or our affiliate. We also operate, through various trackage rights agreements, over more than 3,700 miles of track that is owned or leased by others. The track miles listed below exclude 855 miles of sidings and yards located in the U.S. (626 miles), Canada (87 miles), Mexico (77 miles) and Australia (65 miles).

The following table sets forth certain information as of December 31, 2006, with respect to our and our affiliate s railroads:

Railroad and Location	Year Acquired	Track Miles	Notes	Structure	Connecting Carriers(1)
UNITED STATES:					
Genesee and Wyoming Railroad Company (GNWR) New York	1899	27	(2)	Owned	CP, DMM, RSR, NS, CSX
The Dansville & Mount Morris Railroad Company (DMM) New York	1985	8	(2)	Owned	GNWR
Rochester & Southern Railroad, Inc. (RSR) New York	1986	50	(3)	Owned	BPRR, CP, GNWR, CSX

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Railroad and Location	Year Acquired	Track Miles	Notes	Structure	Connecting Carriers(1)
Louisiana & Delta Railroad, Inc. (LDRR) Louisiana	1987	86	(4)	Owned/Leased	UP, BNSF
Bradford Industrial Rail, Inc. (BR) Pennsylvania	1988	4	(5)	Owned	BPRR
Buffalo & Pittsburgh Railroad, Inc. (BPRR) New York, Pennsylvania	1988	331	(6)	Owned/Leased	ALY, BR, CN, CP, CSX, NS, PS, RSR, AVR, SB
Allegheny & Eastern Railroad, Inc. (ALY) Pennsylvania	1992	128	(7)	Owned	BPRR, NS, CSX
Willamette & Pacific Railroad, Inc. (WPRR) Oregon	1993	184	(8)	Leased	UP, PNWR, HLSC
Portland & Western Railroad, Inc. (PNWR) Oregon	1995	287	(9)	Owned/Leased	BNSF, UP, WPRR, POTB
Pittsburg & Shawmut Railroad, Inc. (PS) Pennsylvania	1996	160	(10)	Owned/Leased	BPRR, NS
Illinois & Midland Railroad, Inc. (IMR) Illinois	1996	97	(11)	Owned	BNSF, IAIS, CN, NS, TZPR, TPW, UP
Commonwealth Railway, Inc. (CWRY) Virginia	1996	17	(12)	Owned/Leased	NS
Talleyrand Terminal Railroad Company, Inc. (TTR) Florida	1996	2	(13)	Leased	NS, CSX
Corpus Christi Terminal Railroad, Inc. (CCPN) Texas	1997	23	(14)	Leased	UP, BNSF, TM
Golden Isles Terminal Railroad, Inc. (GITM) Georgia	1998	20	(15)	Owned/Leased	CSX, NS
Savannah Port Terminal Railroad, Inc. (SAPT) Georgia	1998	18	(16)	Leased	CSX, NS
South Buffalo Railway Company (SB) New York	2001	54	(17)	Owned	BPRR, CSX, NS CP, CN
St. Lawrence & Atlantic Railroad Company (SLR) Maine, New Hampshire and Vermont	2002	168	(18)	Owned/Leased	GRS, SLQ
York Railway Company (YRC) Pennsylvania	2002	42	(18)	Owned	CSX, NS

Utah Railway Company (URC) Utah	2002	47	(19)	Owned	UP, BNSF
Salt Lake City Southern Railroad Company (SLCS) Utah	2002	2	(20)	Owned	UP, BNSF
Chattahoochee Industrial Railroad (CIRR) Georgia	2003	15	(21)	Owned	CSX, NS, CHAT
Arkansas Louisiana and Mississippi Railroad Company (ALM) Arkansas, Louisiana	2003	53	(21)	Owned	UP, KCS, F&P
Fordyce and Princeton R.R. Co. (F&P) Arkansas	2003	57	(21)	Owned	UP, KCS, ALM
Tazewell & Peoria Railroad, Inc. (TZPR) Illinois	2004	24	(22)	Leased	CN, UP, NS, BNSF, TPW, IAIS, IMRR
First Coast Railroad Inc. (FCRD) Florida, Georgia	2005	32	(23)	Leased	CSXT, SM
AN Railway, L.L.C. (AN) Florida	2005	96	(24)	Leased	CSX

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Railroad and Location	Year Acquired	Track Miles	Notes	Structure	Connecting Carriers(1)
Atlantic & Western Railway, L.P. (ATW) North Carolina	2005	11	(24)	Owned	CSX, NS
The Bay Line Railroad, L.L.C. (BAYL) Alabama, Florida	2005	108	(24)	Owned	CSX, CHAT
East Tennessee Railway, L.P. (ETRY) Tennessee	2005	14	(24)	Owned/Leased	CSX, NS
Evansville Belt Railroad, Inc. (EBLR) Indiana	2005	6	(24)	Owned	
Galveston Railroad, L.P. (GVSR) Texas	2005	38	(24)	Leased	BNSF, UP
Georgia Central Railway, L.P. (GC) Georgia	2005	171	(24)	Owned/Leased	CSX, NS
KWT Railway, Inc. (KWT) Kentucky, Tennessee	2005	69	(24)	Owned	CSX
Little Rock & Western Railway, L.P. (LRWN) Arkansas	2005	79	(24)	Owned	BNSF, UP
Meridian & Bigbee Railroad, L.L.C. (MNBR) Alabama, Mississippi	2005	148	(24)	Owned/Leased	CSX, KCS, NS, AGR
Riceboro Southern Railway, L.L.C. (RSOR) Georgia	2005	18	(24)	Leased	CSX
Tomahawk Railway, L.P. (TR) Wisconsin	2005	6	(24)	Owned	CN
Valdosta Railway, L.P. (VR) Georgia	2005	10	(24)	Owned	CSX, NS
Western Kentucky Railway, L.L.C. (WKRL) Kentucky	2005	21	(24)	Owned	CSX
Wilmington Terminal Railroad, L.L.C. (WTRY) North Carolina	2005	17	(24)	Leased	CSX
Chattahoochee Bay Railroad, Inc. (CHAT) Georgia	2006	26	(25)	Owned	BAYL, NS, CIRR
CANADA:					
Huron Central Railway Inc.	1997	173	(26)	Leased	CP, CN

(HCR) Canada					
Quebec Gatineau Railway Inc. (QGRY) Canada	1997	313	(27)	Owned/Leased	CP, CN
St. Lawrence & Atlantic Railroad (Quebec) Inc. (SLQ) Canada	2002	95	(18)	Owned	CP, CN, MMA, SLR
MEXICO:					
Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM)	1999	998	(28)	Leased	FSRR
AUSTRALIA:					
Genesee & Wyoming Australia Pty Ltd (GWA)	2006	791	(29)	Leased	
BOLIVIA (Minority Investment):					
Ferroviaria Oriental, S.A. (Oriental)	2000	773	(30)	Leased	General Belgrano, Novoeste

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(1) See Legend of Connecting Carriers following this table.
(2) The GNWR and DMM are now operated by RSR.
(3) In addition, RSR has a haulage contract over 52 miles of CP.
(4) Includes 14 miles under a lease with M.A. Patout & Sons expiring in 2011. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement. In addition, LDRR operates by trackage rights over 91 miles of UP under an agreement terminable by either party and has a haulage contract with M.A. Patout & Sons over 4 miles of track.
(5) In addition, BR operates by trackage rights over 14 miles of BPRR. BR merged with BPRR on January 1, 2004.
(6) Includes 92 miles under perpetual leases and 41 miles and 9 miles under leases with CSX expiring in 2027 and 2090, respectively. In addition, BPRR operates by trackage rights over 14 miles of CSX under an agreement expiring in 2018 and 44 miles of NS under an agreement expiring in 2027. We are seeking to sell or abandon approximately 25 miles of owned track that parallels track under the NS trackage rights agreement.
(7) ALY operates by trackage rights over 3 miles of NS. ALY merged with BPRR on January 1, 2004.
(8) All under lease with UP expiring in 2013, with renewal options subject to both parties consent. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement. In addition, WPRR operates over 41 miles of UP under a concurrent trackage rights agreement.
(9) Includes 59 miles under lease with UP expiring in 2015 with a 10-year renewal unless terminated by either party, 56 miles formerly under lease which was purchased in November 1997 and is operated under a rail service easement, 92 miles purchased in July 1997 and 76 miles under lease with UP expiring in 2017. If the leases terminate, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreements. In addition, PNWR operates by trackage rights over 2 miles of UP and 4 miles of POTB.
(10) In addition, PS operates over 11 miles pursuant to an operating contract. PS merged with BPRR on January 1, 2004. In 2005, we sold approximately 30 miles of owned track that duplicates service provided by BPRR.
(11) In addition, IMR operates by trackage rights over 15 miles of CN, 9 miles of TZPR and 6 miles of UP.
(12) Exercised an option to purchase 12.5 miles of previously leased rail line from Norfolk Southern Corp. on August 25, 2006.
(13) All under lease with Jacksonville Port Authority expiring in 2007.
(14) All under lease with Port of Corpus Christi Authority of Nueces County Texas expiring in 2007. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement.
(15) Includes 13 miles which are under lease with Georgia Port Authority expiring in 2010. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement.
(16) All under lease expiring in 2010. If the lease terminates, the lessor is obligated to reimburse us for leasehold improvements based upon stipulations in the agreement.
(17) SB was acquired October 1, 2001 from Bethlehem Steel.
(18) Subsidiary of Emons Transportation Group, Inc., acquired February 22, 2002.
(19) URC was acquired August 28, 2002. In addition, URC operates by trackage rights over 349 miles of UP.
(20) Subsidiary of Utah Railway Company, acquired August 28, 2002. In addition, SLCS operates by trackage rights over 34 miles of UP.
(21) All acquired on December 31, 2003 from Georgia Pacific Corporation.
(22) All under lease with Peoria and Pekin Union Railway expiring in 2024.
(23) All under lease with CSX expiring in 2025.
(24) All acquired on June 1, 2005 from RMC. Includes certain lines under leases with CSX, Port of Galveston and the City of Wilmington, NC.
(25) CHAT purchased the Chattahoochee & Gulf Railroad Co., Inc. and the H&S Railroad Company, Inc. on August 25, 2006 from Gulf & Ohio Railways.
(26) All under lease with CP expiring in 2017, with renewal options subject to both parties consent.
(27) Consists of 295 miles which are owned and 18 miles which are under lease expiring in 2017, with renewal options subject to both parties consent. In addition, QGRY operates by trackage rights over 27 miles of CP.
(28) All under a 30-year concession agreement expiring in 2029 operating on track structure which is owned by a government company. In addition, FCCM operates by trackage rights over 199 miles on Ferrosur (another privatized rail concession) and a government-owned line.
(29) Acquired a 50-year lease from South Australia, which expires in 2047.
(30) All under a 40-year concession agreement expiring in 2036 operating on track structure which is owned by the state-owned rail company Red Ferroviario Oriental.

Legend of Connecting Carriers

AVR	Allegheny Valley Railroad
BNSF	Burlington Northern Santa Fe Railway Company
CN	Canadian National
CP	Canadian Pacific Railway
CSX	CSX Transportation, Inc.
FSRR	Ferrocarriles del Sureste
GRS	Guilford Rail System

HLSC	Hampton Railway
IAIS	Iowa Interstate Railroad, Ltd.
KCS	Kansas City Southern
NS	Norfolk Southern Corp.
POTB	Port of Tillamook Bay Railroad
SM	St Mary s Railroad
TM	The Texas Mexican Railway Company
TPW	Toledo, Peoria & Western Railway Corp.
UP	Union Pacific Railroad Company
MMA	Montreal, Maine & Atlantic Railway, Ltd.
AGR	Alabama & Gulf Coast Railway LLC

EQUIPMENT

As of December 31, 2006, the rolling stock of our operations consisted of 519 locomotives, of which 453 were owned and 66 were leased, and 8,464 freight cars, of which 2,846 were owned and 5,618 were leased. A breakdown of the types of freight cars owned and leased is set forth in the table below.

Rail Cars by Car Type:

	Owned	Leased	Totals
Box	882	2,708	3,590
Hoppers	507	1,512	2,019
Flats	443	595	1,038
Gondolas	579	342	921
Covered Hoppers	390	163	553
Tank Cars	32	285	317
Auto Racks	13	13	26
	2,846	5,618	8,464

Item 3. ***Legal Proceedings***

Rail Partners. As previously disclosed, on February 23, 2006, James Owens d/b/a International Trade and Transport, Ltd. (Owens) and the Board of Trustees of the Port of Galveston (the Port) filed the second amended complaint in the County Court for Galveston County (County Court) in Texas against Genesee & Wyoming Inc. (the Company), Galveston Railroad, L.P. (Galveston Railroad), Rail Link Inc. (Rail Link), the general manager of the Galveston Railroad and Rail Management Corporation (RMC), the former owner of the Galveston Railroad (collectively, the Defendants). Owens claims arose in connection with a rail car switching agreement with the Galveston Railroad, and the Port s claims arose in connection with the Galveston Railroad s lease of the Port s facilities.

On August 11, 2006, the Defendants entered into a Settlement Agreement (the Settlement Agreement) with the Port. Without admitting any liability, the Defendants agreed to settle the Port s pending claims against the Defendants in the County Court. In connection with the Agreement, we agreed to pay $0.8 million to the Port, which was reflected as an expense in the statement of operations for the year ended December 31, 2006. Our subsidiary, Galveston Railroad, has also entered into a new lease with the Port, which lease has a twenty (20) year term.

Owens is not a party to the Settlement Agreement, and Owens claims against the Defendants remain unchanged. Owens alleges that Galveston Railroad violated the confidentiality agreement relating to the joint storage and switching of rail cars at the Port and thereby caused the failure of his business. Owens seeks damages

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for breach of contract and commercial tort claims, plus an amount to be determined for punitive and similar damages. On March 8, 2006, Owens filed a Motion for Partial Summary Judgment with respect to claims that Galveston Railroad and RMC breached a contractual obligation of confidentiality in November 2002. On April 20, 2006, the County Court held a hearing in connection with Owens Motion, and on April 27, 2006, the County Court issued an order granting Owens Motion, finding that there was a breach of the contractual obligation of confidentiality by Galveston Railroad and RMC. Issues related to whether this breach was the proximate cause of any damages and the amount of such damages, if any, remain the subject of further litigation.

We acquired the Galveston Railroad in June of 2005 as part of our acquisition of Rail Partners and all of the improper conduct alleged by Owens occurred prior to our acquisition of the Galveston Railroad. Pursuant to the securities purchase agreement related to our purchase of the Galveston Railroad, damages associated with Owens claims are subject to indemnification by RMC and the securities purchase agreement requires RMC to maintain certain funds in escrow, which we believe will cover our actual damages, if any. RMC has acknowledged that it is obligated to indemnify us in accordance with and subject to the terms and limits as set forth in the securities purchase agreement.

Canada. On February 2002, Mr. Paquin, an individual living adjacent to the Outremont rail yard, filed a motion for authorization of class certification in the Quebec Superior Court in Canada in connection with a claim against two of our subsidiaries, Genesee Rail-One Inc. (now Genesee & Wyoming Canada Inc.) and Quebec-Gatineau Railway Inc., as well as Canadian Pacific Railways (CP). Mr. Paquin alleged that the noise emanating from the Outremont rail yard causes significant nuisance problems to the residents living near the rail yard. The rail yard is owned by CP, part of which is leased and operated by Quebec-Gatineau Railway Inc. The plaintiff described the proposed class as comprised of all owners and tenants of dwellings who have lived within a defined section of the Outremont neighborhood in Montreal, which is adjacent to the rail yard. Mr. Paquin requested the issuance of an injunction in order to limit the hours when the rail yard may operate. The plaintiff has not alleged any specific monetary claim with respect to the damages of other members of the class but is seeking to recover for his trouble and inconvenience as well as for potential devaluation of the value of his property.

On May 27, 2004, the Quebec Superior Court dismissed the plaintiff s request to institute the class action and the plaintiff filed an appeal with Quebec Court of Appeal. On November 11, 2005, the Quebec Court of Appeal overturned the Quebec Superior Court s finding a class could not be certified but noted the proposed class could only include owners and tenants within the defined geographic area since 1999. This case was remanded back to the same judge who previously dismissed the plaintiff s request to institute a class action. On January 9, 2006, Genesee & Wyoming Canada Inc., Quebec-Gatineau Railway Inc. and CP filed applications for leave to the Supreme Court of Canada with respect to the Quebec Court of Appeal s decision to allow the class action to proceed.

On May 18, 2006, the Supreme Court of Canada rendered its decision, rejected the application for leave and remanded the matter back to the Quebec Superior Court, where the class action will be heard in accordance with the ruling of the Quebec Court of Appeal. The plaintiff published notices of the class action in local newspapers on June 7, 2006. On June 26, 2006, the plaintiff filed a Bill of Costs before the Quebec Court of Appeal and was awarded immaterial costs. The plaintiff has not yet commenced proceedings on the merits of the underlying claim and has requested a settlement conference be held prior to any proceedings being instituted. The settlement conference is expected to take place in mid-2007. Management considers the impending class action to be without merit and intends to defend the lawsuit vigorously.

Bolivia. We indirectly hold a 12.52% equity interest in Ferroviaria Oriental S.A. (Oriental) through an interest in Genesee & Wyoming Chile S.A. (GWC). GWC is an obligor of non-recourse debt of $12.0 million, which debt is secured by a lien on GWC s 12.52% indirect equity interest in Oriental held through GWC s subsidiary, Inversiones Ferroviarias Bolivianas Ltda. (IFB). This debt became due and payable on November 2, 2003. On April 21, 2006, due to the heightened political and economic unrest and uncertainties in Bolivia, we

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advised the creditors of GWC that we were ceasing our efforts to restructure the $12.0 million debt obligation. On October 27, 2006, Banco de Crédito e Inversiones (one of GWC s creditors) commenced court proceedings before the 9th Civil Tribunal of Santiago to (i) collect on its share of the debt (approximately 24% of the $12.0 million) and (ii) exercise their rights pursuant to the lien. Notice of this proceeding was given to GWC and IFB on November 6, 2006. On October 26, 2006, Banco de Chile (another of GWC s creditors that holds approximately 15% of the $12.0 million debt) commenced separate court proceedings before the 4th Civil Tribunal of Santiago with the same objectives. Notice of this proceeding was given to GWC and IFB on November 20, 2006. We do not expect these proceedings to have a material effect on our financial statements.

We also hold a 10.37% equity interest in Oriental through other companies. We do not expect the commencement of court proceedings to have any impact on this remaining 10.37% equity interest. Please refer to Note 3 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for additional information regarding our investment in Oriental.

Other. In addition to the lawsuits set forth above, from time to time we are a defendant in certain lawsuits resulting from our operations. Management believes that we have adequate provisions in the financial statements for any expected liabilities that may result from disposition of pending lawsuits. Nevertheless, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact to our results of operations, financial position or liquidity as of and for the period in which the ruling occurs.

Item 4. ***Submission of Matters to a Vote of Security Holders.***
None.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***
Stock Market Results. Our Class A Common Stock publicly trades on the New York Stock Exchange under the trading symbol GWR. On February 14, 2006, we announced a three-for-two common stock split in the form of a 50% stock dividend distributed on March 14, 2006, to shareholders of record on February 28, 2006. All share and per share amounts presented herein have been restated to reflect the retroactive effect of this stock split as well as any previous stock splits.

The tables below show the range of high and low actual trade prices for our Class A Common Stock during each quarterly period of 2006 and 2005.

Year Ended December 31, 2006	**High**	**Low**
4th Quarter	$ 29.00	$ 22.32
3rd Quarter	$ 35.69	$ 21.00
2nd Quarter	$ 36.75	$ 26.36
1st Quarter	$ 32.57	$ 24.17

Year Ended December 31, 2005	**High**	**Low**
4th Quarter	$ 25.03	$ 19.59
3rd Quarter	$ 21.37	$ 17.69
2nd Quarter	$ 19.97	$ 15.35
1st Quarter	$ 18.79	$ 15.13

Our Class B Common Stock is not publicly traded.

Number of Holders. On February 23, 2007, there were 189 Class A Common Stock record holders and 8 Class B Common Stock record holders.

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Dividends. We did not pay cash dividends in 2006 and 2005. We do not intend to pay cash dividends for the foreseeable future and intend to retain earnings, if any, for future operation and expansion of our business. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will be dependent upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors. For more information on contractual restrictions on our ability to pay dividends, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Senior U.S. and Canadian Credit Facilities in Item 7.

See Item 12 Security Ownership of Certain Beneficial Owners and Management below for the equity compensation plan table required by this Item 5.

Recent Sales of Unregistered Securities.

None.

Issuer Purchases of Equity Securities

2006	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares (or Units) Purchased as Part of Publicly announced Plans or Programs	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans of Program
October 1 to October 31				538,500
November 1 to November 30				538,500
December 1 to December 31				538,500

On November 2, 2004, we announced that our Board had authorized the repurchase of up to 1,000,000 shares of our Class A Common Stock. We intend to use the repurchased stock to offset dilution caused by the issuance of shares in connection with employee and director stock plans that may occur over time. Purchases may be made in the open market or in privately negotiated transactions from time to time at management s discretion. During the three months ended December 31, 2006, we did not repurchase any shares of our common stock. As of December 31, 2006, 461,500 shares of our common stock had been repurchased under this plan.

On February 13, 2007, we announced that our Board of Directors authorized the repurchase of up to 2,000,000 additional shares of our Class A Common Stock. The repurchases may occur from time to time in the open market or in privately negotiated transactions. The timing and amount of any repurchase of shares will be determined by our management based on its evaluation of market conditions and other factors.

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Item 6. ***Selected Financial Data***

The following selected consolidated income statement data and selected consolidated balance sheet data of Genesee & Wyoming as of and for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, have been derived from our consolidated financial statements. All of the information should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

	(In thousands, except per share amounts) Year Ended December 31,				
	2006	2005	2004	2003	2002
Income Statement Data:					
Operating revenues	$ 478,846	$ 385,389	$ 303,784	$ 244,827	$ 209,540
Operating expenses	435,433	314,458	253,745	208,522	177,533
Income from operations	43,413	70,931	50,039	36,305	32,007
Gain on sale of equity investment in ARG	218,845				
Investment loss Bolivia	(5,878)				
Equity (loss) income of unconsolidated international affiliates	(10,752)	14,224	21,044	12,574	12,536
Interest income	7,837	343	209	326	668
Interest expense	(17,476)	(14,900)	(11,142)	(8,646)	(8,139)
Other income (expense), net	2,381	(561)	(340)	660	58
Income before income taxes	238,370	70,037	59,810	41,219	37,130
Provision for income taxes	104,367	19,902	22,191	12,500	11,523
Net income	134,003	50,135	37,619	28,719	25,607
Preferred stock dividends and cost accretion			479	1,270	1,172
Net income available to common stockholders	$ 134,003	$ 50,135	$ 37,140	$ 27,449	$ 24,435
Basic earnings per common share:					
Earnings per common share	$ 3.56	$ 1.36	$ 1.03	$ 0.77	$ 0.71
Weighted average shares	37,609	36,907	36,207	35,489	34,524
Diluted earnings per common share:					
Earnings per common share	$ 3.16	$ 1.20	$ 0.90	$ 0.68	$ 0.62
Weighted average shares	42,417	41,712	41,103	40,152	39,566
Balance Sheet Data at Year End:					
Total assets	$ 1,141,064	$ 980,598	$ 677,251	$ 627,173	$ 514,859
Total debt	245,685	338,351	132,237	158,022	125,417
Mandatorily redeemable convertible preferred stock				23,994	23,980
Stockholders equity	520,187	397,820	341,700	267,086	209,621

We have completed a number of acquisitions and a disposition during the periods reported. Because of variations in the structure, timing and size of these acquisitions and disposition, our results of operations in any reporting period may not be directly comparable to our results of operations in other reporting periods. See Note 3 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for a complete description of our most recent acquisitions and disposition.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K. In addition to disclosing results for the years ended December 31, 2006 and 2005 that are determined in accordance with accounting principles generally

accepted in the United States (GAAP), the Company also discloses a non-GAAP financial measure that excludes the effects of the Australian Transactions and the non-cash impairments in Mexico and Bolivia recorded in the 2006 period on net income. We are presenting a non-GAAP financial measure excluding the effects of the Australian Transactions and the non-cash impairments in Mexico and Bolivia because we believe it is useful for investors to be able to assess our financial results compared with the same period in the prior year. Within the text, in connection with the non-GAAP financial measure presented, we have presented the most directly comparable financial measure calculated in accordance with GAAP and have provided a reconciliation of the differences between the non-GAAP financial measure with its most directly comparable financial measure calculated and presented in accordance with GAAP.

Overview

We are a leading owner and operator of short line and regional freight railroads in the United States, Canada, Mexico and Australia and own a minority interest in a railroad in Bolivia. In addition, we provide freight car switching and rail-related services to industrial companies in the United States and Australia.

In the first quarter of 2006, there was a three-for-two split of our common stock in the form of a 50% stock dividend. All share and per share amounts in this Form 10-K reflect this stock split.

During 2006, we experienced several individually significant transactions. During the second and third quarters, we completed the ARG Sale and recognized a net gain totaling $218.8 million ($129.8 million after-tax) and received approximately $307.0 million in net cash proceeds. We used some of this cash to reduce our outstanding debt obligations under our Revolving Credit Facility. In 2007, we expect to remit approximately $100 million in U.S. and Australian taxes related to this transaction. Even after the payment of these taxes we believe we have the strongest balance sheet in our history to pursue our growth and operating strategies.

We also recognized non-cash charges during the second and third quarters of 2006. Our 50% share of asset impairment losses recorded by ARG in connection with the GWA Purchase resulted in a charge of $16.2 million ($11.3 million after-tax), and our assessment of the effects of political unrest in Bolivia on our investment in Oriental resulted in a charge of $5.9 million ($5.9 million after-tax) during the second quarter of 2006. In the third quarter of 2006, as a result of the uncertainty of the reconstruction of our hurricane-damaged rail line in Chiapas, Mexico, we recorded a charge of $33.1 million ($34.1 million after-tax), reflecting the non-cash write-down of all of our Mexican non-current assets, other than rolling stock and other readily transferable assets, and related effects. We are continuing efforts to resolve the situation in Mexico.

From the standpoint of executing on our growth strategy in 2006, we completed the GWA Purchase for $15.1 million and the acquisition of the Chattahoochee Bay Railroad for $6.1 million. Combined, these operations provided $47.1 million in revenues and $6.5 million in operating income to our consolidated income statement in 2006. In addition, we commenced a $14.0 million infrastructure improvement project (including approximately $6.0 million in government grants) to meet the projected capacity needs of a customer s new container terminal in Portsmouth, VA, which is expected to be complete in July 2007.

Our revenues increased $93.5 million in 2006 as a result of growth from existing operations (same railroad growth) as well as the contribution from acquisitions. Same railroad growth is an important indicator of our performance as it is a measure of our ability to increase revenues from our existing operations. Same railroad revenues and total revenues increased 3.4% and 24.3%, respectively, in 2006 when compared with 2005. The increase in same railroad revenues was primarily due to higher average freight rates, higher fuel surcharges and favorable exchange rate movements. Growth in same railroad revenues provided $13.0 million or 13.9% of the year-over-year growth in revenues in 2006.

Despite a favorable rate environment in 2006, our results were negatively impacted by a number of industry and other factors. Lumber and forest products carloads decreased 17.3% from 2005 to 2006, primarily the result of the weaker housing market in the United States. Our pulp and paper products carloads were negatively impacted by Class I railroad rate increases, which caused certain shippers to move traffic from rail to other modes of transportation, principally truck. Our minerals and stone products carloads were negatively impacted by reduced shipments of rock salt for ice control resulting from a relatively mild 2005-2006 winter season in the Northeast United States. Our coal carloads were also negatively impacted as a result of a relatively mild 2005-2006 winter season.

Overall, our 2006 net income was $134.0 million, an increase of $83.9 million over 2005. Total revenues in 2006 were $478.8 million, an increase of 24.3% over 2005. Our operations produced net cash flow of $83.3 million in 2006, and we invested $63.0 million in property and equipment, net of proceeds from government grants. We expect to receive $7.1 million in funding from third parties in 2007 related to 2006 capital expenditures.

Outlook for 2007

In 2007, we expect the favorable rail pricing environment in the United States and Canada will continue, but that the rate increases may moderate from levels experienced in 2006. Aggregate carload volumes in North America are anticipated to be in line with 2006 levels.

We will recognize the positive impact of a full year of operation of GWA in 2007, versus only seven months in 2006, offset by reduced grain traffic in South Australia due to drought conditions. We will also experience continued operating losses in Mexico in 2007 due to the line closure in Chiapas caused by Hurricane Stan.

Although the ARG Sale occurred in 2006, the payment of taxes to the Australian government related to the transaction totaling approximately $86 million is not required until 2007. Accordingly, we anticipate a corresponding reduction in our cash balances in 2007 as a result of making timely payment of these taxes. To the extent we repurchase shares of our common stock in 2007, our cash balances will further decline.

Australia

Effective June 1, 2006, we and our 50% partner, Wesfarmers Limited (Wesfarmers), completed the sale of the Western Australia operations and certain other assets of ARG to Queensland Rail and Babcock & Brown Limited (ARG Sale). As a result of the sale, we recognized a $218.8 million net gain, including a $22.8 million gain from the cumulative translation of the foreign currency investment and related equity earnings in ARG into U.S. dollars since 2000. In connection with the ARG Sale, we also incurred $6.4 million of net transaction-related expenses, of which $5.8 million related to management bonuses and stock option awards.

Simultaneous with the ARG Sale, we purchased Wesfarmers 50% ownership of the remaining ARG operations, which are principally located in South Australia, for approximately $15.1 million (GWA Purchase) (collectively, Australian Transactions). This business, which is based in Adelaide, South Australia, was renamed Genesee & Wyoming Australia Pty Ltd (GWA) and is a 100% owned subsidiary. The GWA Purchase was accounted for under the purchase method of accounting. However, because we previously held a 50% share of these assets through our ownership interest in ARG, we applied a step-method to the allocation of value among the assets and liabilities of GWA. Because the $15.1 million purchase price for Wesfarmers 50% share was lower than 50% of the book value ARG had historically recorded on these assets, we recorded a non-cash loss of $16.2 million ($11.3 million, net of tax), representing our 50% share of the impairment loss recorded by ARG, which was included in equity income of international affiliates in the consolidated statement of operations in the year ended December 31, 2006. GWA commenced operations on June 1, 2006. Accordingly, 100% of the value of GWA s net assets ($30.1 million) was included in our consolidated balance sheet since June 1, 2006.

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While we expect to complete our allocation of the value of GWA among respective assets and liabilities during the second quarter of 2007, the following table sets forth our preliminary allocation (dollars in thousands):

Cash	$ 1,441
Other current assets	12,902
Property and equipment	24,886
Deferred tax asset	3,799
Total assets	43,028
Current liabilities	10,888
Long-term liabilities	2,036
Total liabilities	12,924
Net assets	$ 30,104

South America

On April 21, 2006, due to the heightened political and economic unrest and uncertainties in Bolivia, we advised the creditors of Genesee & Wyoming Chile S.A. (GWC), which indirectly owns a 12.52% interest in Oriental, that we were ceasing our efforts to restructure the $12.0 million non-recourse debt obligation of GWC, through which we maintain a partial equity interest in Ferroviaria Oriental S.A. (Oriental).

In May 2006, the Bolivian government issued a Presidential decree ordering the nationalization of Bolivia s oil and gas industry. In June 2006, the government announced that it intended to nationalize, take a partial ownership stake in or restructure the operations of other local companies, including Oriental. As a result of the government s stated intentions, we believed it was likely that Oriental s results of operations, financial condition and liquidity will be adversely affected.

Accordingly, we determined during the second quarter of 2006 that our $8.9 million equity investment in Oriental (which represents a 22.89% indirect interest in Oriental), including the portion held though GWC, had suffered an other than temporary decline in value. Based on our assessment of fair value, the investment was written down by $5.9 million with a corresponding charge to earnings in the year ended December 31, 2006.

As of June 1, 2006, we discontinued equity accounting for the remaining $3.0 million investment in Oriental. We will account for this investment under the cost method in future periods and will record income to the extent that we receive cash dividends from Oriental. Historically Oriental s results of operations have not had a material impact on our results of operations. We will continue to monitor the political situation in Bolivia.

Mexico

In October 2005, our Mexican railroad operation, FCCM was struck by Hurricane Stan with the most severe impact concentrated in the State of Chiapas between the town of Tonalá and the Guatemalan border. Approximately 70 bridges were damaged or destroyed, and various segments of track were washed out. Since then, FCCM has been working with the Secretaria de Comunicaciones y Transporte (SCT) and other Mexican government agencies to develop a reconstruction plan for the damaged portion of the railroad. In July 2006, FCCM received a letter from the SCT indicating that the SCT intended to fund 75% of the $20.0 million expected cost to rebuild the damaged rail line subject to certain conditions.

After July 2006, FCCM began negotiating a formal agreement with the SCT and undertook project design work. However, actions taken by the Mexican National Water Commission (CNA) and other Mexican government agencies in the storm-damaged area significantly increased the cost of the rail line reconstruction project and made the timetable to completion uncertain. As of September 30, 2006, the government had not committed adequate resources to fund the project, and we did not intend to fund the additional costs. Accordingly, we recorded a non-cash charge of $33.1 million pre-tax ($34.1 million after-tax) in the third quarter of 2006, reflecting the write-down of non-current assets and related effects of FCCM. FCCM s remaining $19.6

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million of assets as of December 31, 2006, consisted of approximately $6.7 million of non-current assets, primarily locomotives and freight cars, and approximately $12.8 million of current assets, primarily receivables and inventory.

As a result of the impairment charges and expected further operating losses, absent a clear change from the current expectations, future capital expenditures in Mexico, if any, will be expensed as incurred. The exception would be capital expenditures for investments in rolling stock or other readily transferable assets.

On September 15, 2006, our Mexican subsidiary, GW Servicios S.A. (Servicios) was unable to fund its principal and interest payment of $1.9 million due under its loan agreements. In November 2006, we made this payment on Servicios behalf under a corresponding guarantee arrangement, which in turn reduced our guarantee by the same amount. In the event Servicios is unable to fund future payments, the lenders to the Mexican operations will have the right to accelerate the outstanding debt and commence actions to (i) collect on the entire outstanding balance under the loan agreements (approximately $13.3 million) or (ii) exercise their rights to the collateral pledged under the loan agreements, including FCCM s rolling stock and our shares in FCCM and Servicios. If the lenders accelerate the outstanding debt, they may demand immediate payment of $7.0 million from us pursuant to a guarantee. Neither payment defaults by Servicios, nor any action taken by the lenders to collect under the loan agreements, will result in a default under our other outstanding debt obligations. We anticipate Servicios will not be able to meet its debt service obligations in 2007. If the lenders demand from us the amount of the debt service due in 2007, or any amount up to the $7.0 million, we will be obligated to fund the amount demanded.

We are engaged in a number of actions seeking resolution of the situation in Mexico. However, we expect to continue to incur operating losses from the Mexican business and may record additional charges going forward. In addition, despite any previous agreements with the SCT and other government agencies, we are uncertain as to whether sufficient funds will be available from the Mexican government to fund the reconstruction of the damaged rail line. In Mexico, we have initiated a dialogue with the representatives for the new Calderon administration to resolve the issues concerning our Mexican railroads. Because the administration assumed office in December 2006, it is too early to determine the outcome of these discussions. As a result of the changing economic circumstances of our Mexican operations as compared to our other businesses, we have presented our Mexican business as a separate segment in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, beginning July 1, 2006. See Note 17 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for additional information.

United States

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

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

Homer City Branch: In July 2005, our Homer City Branch, which is located in Homer City, Pennsylvania, began operations to a coal-fired power plant upon completion of track rehabilitation, a portion of which was funded through government grants. The Homer City Branch, which was acquired in January of 2004 from CSX, is contiguous to our existing railroad operations.

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Rail Partners: On June 1, 2005, we acquired from Rail Management Corporation (RMC) substantially all of its rail operations (collectively, Rail Partners) for $238.2 million in cash (net of $4.9 million cash received), the assumption of $1.4 million of non-interest bearing debt and $1.8 million in acquisition costs. During the three months ended June 30, 2006, we completed our allocation of the purchase price from this acquisition, including an adjustment of $6.6 million to reduce our preliminary estimate of the value of acquired intangible assets with a corresponding increase in goodwill. In the final allocation, the purchase price was allocated to current assets ($19.4 million, including $4.9 million in cash received), property and equipment ($186.0 million), intangible assets ($53.8 million) and goodwill ($6.6 million), less current liabilities ($21.3 million) and debt assumed ($1.4 million). The intangible assets consist of customer contracts and relationships with a weighted average amortization period of 27 years.

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

Results of Operations

When comparing our results of operations from one reporting period to another, you should consider that we have historically experienced fluctuations in revenues and expenses due to one-time freight moves, weather related impacts such as hurricanes, floods, drought or snow, customer plant expansions and shut-downs, sales of land and equipment, accidents and derailments. In periods when these events occur, results of operations are not easily comparable to other periods. Recent transactions (including acquisitions in the U.S. and Australia, the divestiture of our 50% equity investment in Australia and the write-down of non-current assets in our Mexico Operations) have changed our operations. Because of variations in the structure, timing and size of these transactions our operating results in any reporting period may not be directly comparable to our operating results in other reporting periods.

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

Year Ended December 31, 2006, Compared with Year Ended December 31, 2005

Operating Revenues

Overview

Operating revenues were $478.8 million in the year ended December 31, 2006, compared with $385.4 million in the year ended December 31, 2005, an increase of approximately $93.5 million or 24.3%. The $93.5 million increase in operating revenues consisted of approximately $80.5 million in revenues from new operations and an increase of approximately $13.0 million, or 3.4%, in revenues on existing operations. New operations consist of current year results of operations from recent acquisitions that did not exist in our financial results for a comparable period in the prior year. The $13.0 million increase in revenues on existing operations included approximately $9.2 million in freight revenues and $3.8 million in non-freight revenues. The following table breaks down our operating revenues into new operations and existing operations for the years ended December 31, 2006 and 2005 (dollars in thousands):

	2006			2005	2006-2005 Variance Information			
	Total Operations	New Operations	Existing Operations	Total Operations	Increase in Total Operations		Increase in Existing Operations	
Freight revenues	$ 335,847	$ 40,611	$ 295,236	$ 285,999	$ 49,848	17.4%	$ 9,237	3.2%
Non-freight revenues	142,999	39,859	103,140	99,390	43,609	43.9%	3,750	3.8%
Total operating revenues	$ 478,846	$ 80,470	$ 398,376	$ 385,389	$ 93,457	24.3%	$ 12,987	3.4%

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The $49.8 million increase in freight revenues in 2006 compared with 2005 consisted of $40.6 million in freight revenues from new operations, and $9.2 million in freight revenues from existing operations. Fuel surcharge revenue included within freight revenues increased to $21.6 million in 2006 from $11.2 million in 2005. The $43.6 million increase in non-freight revenues in 2006 compared with 2005 consisted of $39.9 million in non-freight revenues from new operations, and $3.8 million in non-freight revenues on existing operations.

Freight Revenues

The following table compares freight revenues, carloads and average freight revenue per carload for the years ended December 31, 2006 and 2005 (in thousands, except average revenue per carload):

Freight Revenues and Carloads Comparison by Commodity Group

Years Ended December 31, 2006 and 2005

	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
Commodity Group	**2006**	**% of Total**	**2005**	**% of Total**	**2006**	**% of Total**	**2005**	**% of Total**	**2006**	**2005**
Pulp & Paper	$ 69,486	20.7%	$ 59,401	20.8%	136,649	16.1%	129,807	17.2%	$ 508	$ 458
Coal, Coke & Ores	59,367	17.7%	51,803	18.1%	198,075	23.3%	197,891	26.3%	300	262
Metals	36,663	10.9%	28,432	9.9%	84,556	9.9%	78,221	10.4%	434	363
Minerals and Stone	36,236	10.8%	29,050	10.2%	110,454	13.0%	73,307	9.7%	328	396
Lumber & Forest Products	34,929	10.4%	35,336	12.4%	91,085	10.7%	98,087	13.0%	383	360
Farm & Food Products	30,048	8.9%	17,842	6.2%	79,385	9.3%	52,501	7.0%	379	340
Chemicals-Plastics	24,849	7.4%	21,481	7.5%	42,934	5.0%	40,434	5.4%	579	531
Petroleum Products	22,707	6.8%	25,717	9.0%	30,982	3.6%	33,041	4.4%	733	778
Autos & Auto Parts	7,033	2.1%	6,584	2.3%	13,387	1.6%	13,600	1.8%	525	484
Intermodal	1,651	0.5%	2,151	0.7%	3,936	0.5%	4,805	0.6%	419	448
Other	12,878	3.8%	8,202	2.9%	59,213	7.0%	31,579	4.2%	217	260
Total freight revenues	$ 335,847	100.0%	$ 285,999	100.0%	850,656	100.0%	753,273	100.0%	395	380

Total carloads increased by 97,383 carloads or 12.9%. The increase consisted of 126,833 carloads from new operations, partially offset by a decrease of 29,450 carloads or 3.9% from existing operations.

The overall average revenues per carload increased 4.0%. The increase was attributable to an increase in revenues per carload of 7.4% to $408 on existing operations, partially offset by $320 per carload from new operations.

The following table sets forth freight revenues by new operations and existing operations for the years ended December 31, 2006 and 2005 (dollars in thousands):

	2006			2005	2006-2005 Variance Information			
Freight revenues	**Total Operations**	**New Operations**	**Existing Operations**	**Total Operations**	**Increase in Total Operations**		**Increase in Existing Operations**	
Pulp & Paper	$ 69,486	$ 7,735	$ 61,751	$ 59,401	$ 10,085	17.0%	$ 2,350	4.0%
Coal, Coke & Ores	59,367	1,191	58,176	51,803	7,564	14.6%	6,373	12.3%
Metals	36,663	3,170	33,493	28,432	8,231	28.9%	5,061	17.8%
Minerals and Stone	36,236	6,518	29,718	29,050	7,186	24.7%	668	2.3%
Lumber & Forest Products	34,929	3,577	31,352	35,336	(407)	-1.2%	(3,984)	-11.3%
Farm & Food Products	30,048	12,318	17,730	17,842	12,206	68.4%	(112)	-0.6%
Chemicals-Plastics	24,849	2,357	22,492	21,481	3,368	15.7%	1,011	4.7%

Petroleum Products	22,707	388	22,319	25,717	(3,010)	-11.7%	(3,398)	-13.2%
Autos & Auto Parts	7,033	180	6,853	6,584	449	6.8%	269	4.1%
Intermodal	1,651		1,651	2,151	(500)	-23.2%	(500)	-23.2%
Other	12,878	3,177	9,701	8,202	4,676	57.0%	1,499	18.3%
Total freight revenues	$ 335,847	$ 40,611	$ 295,236	$ 285,999	$ 49,848	17.4%	$ 9,237	3.2%

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The following information discusses the significant changes in freight revenues by commodity group from existing operations. With the exception of petroleum products, which had a decrease in average revenue per carload in 2006 compared with 2005, primarily due to a change in mix of business, the increases in average revenue per carload in 2006 compared with 2005 for each commodity are primarily driven by a combination of rate and fuel surcharge increases and secondarily impacted by a change in the mix of business.

Pulp and paper revenues increased by $2.4 million or 4.0%. The increase consisted of approximately $7.4 million due to a 12.5% increase in average revenue per car, partially offset by approximately $5.0 million due to a carload decrease of 9,807 or 7.6%. The carload decrease was primarily due to the impact of Class I railroad rate increases, which caused certain shippers to move traffic from rail to other modes of transportation, principally truck.

Coal, coke and ores revenues increased by $6.4 million or 12.3%. The increase consisted of approximately $7.0 million due to a 13.5% increase in average revenue per car, partially offset by approximately $0.6 million due to a carload decrease of 2,052 or 1.0%. The carload decrease was primarily due to planned maintenance at a power plant served by us in November and December of 2006.

Metals revenue increased by $5.1 million or 17.8%. The increase consisted of approximately $4.5 million due to a 15.8% increase in average revenue per car and approximately $0.6 million due to a carload increase of 1,359 or 1.7%. The carload increase was primarily due to increased customer shipments of pipe and scrap metal.

Minerals and stone revenues increased by $0.7 million or 2.3%. The increase consisted of approximately $2.6 million due to a 9.1% increase in average revenue per car, partially offset by approximately $2.0 million due to a carload decrease of 4,568 or 6.2%. The carload decrease was primarily due to decreased customer shipments of rock salt for ice control resulting from a relatively mild 2005-2006 winter season in the Northeast United States.

Lumber and forest products revenues decreased by $4.0 million or 11.3%. The decrease consisted of approximately $6.6 million due to a carload decrease of 16,971 or 17.3%, partially offset by approximately $2.6 million due to a 7.3% increase in average revenue per carload. The carload decrease was primarily due to weaker product demand attributable to a decline in the housing market in the United States and customer shipments moving by truck.

Chemicals-Plastics revenues increased by $1.0 million or 4.7%. The increase consisted of approximately $1.6 million due to a 7.6% increase in average revenue per carload, partially offset by approximately $0.6 million due to a carload decrease of 1,093 or 2.7%.

Petroleum products revenue decreased by $3.4 million or 13.2%. The decrease consisted of approximately $1.4 million due to a 5.6% decrease in average revenue per car and approximately $2.0 million due to a carload decrease of 2,658 or 8.0%. The decrease of 5.6% in average revenue per carload was primarily driven by a change in the geographic mix of traffic. Both the carload and rate decreases were primarily due to a reduction in our Mexico region due to the closure of a portion of the Chiapas line.

All remaining commodities combined increased by a net $1.2 million or 3.3%.

Non-Freight Revenues

Non-freight revenues were $143.0 million in the year ended December 31, 2006, compared with $99.4 million in the year ended December 31, 2005, an increase of $43.6 million or 43.9%. The $43.6 million increase in non-freight revenues consisted of $39.9 million in revenues from new operations and an increase of approximately $3.7 million or 3.8% in revenues from existing operations.

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The following table compares non-freight revenues for the years ended December 31, 2006 and 2005 (dollars in thousands):

Non-Freight Revenues Comparison

Years Ended December 31, 2006 and 2005

	2006	% of Total	2005	% of Total
Railcar switching	$ 65,714	46.0%	$ 49,683	50.0%
Car hire and rental income	22,515	15.7%	16,328	16.4%
Fuel sales to third parties	13,831	9.7%		
Demurrage and storage	12,414	8.7%	11,624	11.7%
Car repair services	5,800	4.1%	5,112	5.1%
Other operating income	22,725	15.8%	16,643	16.8%
Total non-freight revenues	$ 142,999	100.0%	$ 99,390	100.0%

The following table sets forth non-freight revenues by new operations and existing operations for the years ended December 31, 2006 and 2005 (dollars in thousands):

	2006			2005	2006-2005 Variance Information			
Non-freight revenues	Total Operations	New Operations	Existing Operations	Total Operations	Increase in Total Operations		Increase in Existing Operations	
Railcar switching	$ 65,714	$ 10,042	$ 55,672	$ 49,683	$ 16,031	32.3%	$ 5,989	12.1%
Car hire and rental income	22,515	7,533	14,982	16,328	6,187	37.9%	(1,346)	-8.2%
Fuel sales to third parties	13,831	13,831			13,831	100.0%		0.0%
Demurrage and storage	12,414	946	11,468	11,624	790	6.8%	(156)	-1.3%
Car repair services	5,800	337	5,463	5,112	688	13.5%	351	6.9%
Other operating income	22,725	7,170	15,555	16,643	6,082	36.5%	(1,088)	-6.5%
Total non-freight revenues	$ 142,999	$ 39,859	$ 103,140	$ 99,390	$ 43,609	43.9%	$ 3,750	3.8%

The following information discusses the significant changes in non-freight revenues from existing operations.

Railcar switching revenues increased $6.0 million or 12.1%, of which $3.3 million was due to an increase from intra-plant switching due to new customers and rate increases, and $2.7 million was due to an increase from intra-terminal switching.

Car hire and rental income decreased $1.3 million or 8.2%, primarily due to the termination of a railcar lease from which we earned off-line car hire and a net deduction of off-line time for owned and leased railcars.

All other non-freight revenues decreased $0.9 million or 2.7%, primarily due to decreased terminal services in our Mexico Region due to the closure of a portion of the Chiapas line.

Operating Expenses

Overview

Operating expenses were $435.4 million in the year ended December 31, 2006, compared with $314.5 million in the year ended December 31, 2005, an increase of $121.0 million or 38.5%. The increase was attributable to $64.1 million from new operations and an increase of $56.9 million on existing operations, which included charges of $33.1 million related to the write-down of non-current assets and related effects from our Mexico operations. See Note 3 in Item 8 of this report for additional information regarding the write-down of non-current assets and related effects from our Mexico operations.

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Operating Ratio

Our operating ratio, defined as total operating expenses divided by total operating revenues, increased to 90.9% in the year ended December 31, 2006, from 81.6 % in the year ended December 31, 2005, primarily as a result of the $33.1 million write-down in Mexico.

The following table sets forth a comparison of our operating expenses in the years ended December 31, 2006 and 2005 (dollars in thousands):

Operating Expense Comparison

Years Ended December 31, 2006 and 2005

	2006		2005	
	$	Percentage of Operating Revenues	$	Percentage of Operating Revenues
Labor and benefits	$ 158,506	33.1%	$ 122,941	31.9%
Equipment rents	40,126	8.4%	34,364	8.9%
Purchased services	37,873	7.9%	26,250	6.8%
Depreciation and amortization	29,846	6.2%	24,575	6.4%
Diesel fuel	45,171	9.4%	38,414	10.0%
Diesel fuel sold to third parties	12,493	2.6%		0.0%
Casualties and insurance	17,472	3.6%	17,704	4.6%
Materials	23,960	5.0%	19,933	5.2%
Net loss (gain) on sale and impairment of assets	33,102	6.9%	(3,207)	-0.8%
Gain on insurance recovery	(1,937)	-0.4%		0.0%
Other expenses	38,821	8.2%	33,484	8.6%
Total operating expenses	$ 435,433	90.9%	$ 314,458	81.6%

Labor and benefits expense was $158.5 million in the year ended December 31, 2006, compared with $122.9 million in the year ended December 31, 2005, an increase of $35.6 million or 28.9%. The increase was attributable to $16.4 million in labor and benefits expense from new operations and an increase of $19.2 million from existing operations. The increase from existing operations was primarily attributable to $5.8 million in bonus and stock option expense related to the ARG Sale, $1.7 million in compensation expense due to the adoption of SFAS No. 123R as of July 1, 2005, $1.2 million in non-cash compensation expense related to the reassessment of accounting measurement dates for certain stock options in prior years and $12.8 million from regular wage and benefit increases and the impact of approximately 90 new hires, partially offset by a $2.6 million credit due to a reduction in deferred profit sharing liability from our Mexico operations.

Equipment rents were $40.1 million in the year ended December 31, 2006, compared with $34.4 million in the year ended December 31, 2005, an increase of $5.8 million or 16.8%. The increase was attributable to $4.5 million from new operations and an increase of $1.3 million from existing operations.

Purchased services expense was $37.9 million in the year ended December 31, 2006, compared with $26.3 million in the year ended December 31, 2005, an increase of $11.6 million or 44.3%. The increase was attributable to $12.9 million from new operations primarily due to GWA s outsourcing of track, freight car and locomotive repairs, partially offset by a decrease of $1.3 million from existing operations. The decrease on existing operations was primarily attributable to a reduction in terminal services in our Mexico Operations.

Depreciation and amortization expense was $29.8 million in the year ended December 31, 2006, compared with $24.6 million in the year ended December 31, 2005, an increase of $5.3 million or 21.4%. The increase was attributable to $4.4 million from new operations and an increase of $0.8 million from existing operations.

Diesel fuel used in operations was $45.2 million in the year ended December 31, 2006, compared with $38.4 million in the year ended December 31, 2005, an increase of $6.8 million or 17.6%. The increase was attributable to $4.2 million from new operations and an increase of $2.6 million or 6.8% on existing operations. The increase on existing operations was due to a 13.1% increase in the average price per gallon, partially offset by a 5.7% decrease in fuel consumption.

Diesel fuel sold to third parties was all due to GWA operations.

Casualties and insurance expense was $17.5 million in the year ended December 31, 2006, compared with $17.7 million in the year ended December 31, 2005, a net decrease of $0.2 million or 1.3%. The net decrease was primarily attributable to declines of $1.1 million in derailment expense and $0.4 million in all other casualties and insurance expense on existing operations, partially offset by an increase of $1.3 million in casualties and insurance expense from new operations. The $0.4 million decline in all other casualties and insurance expense on existing operations was primarily due to a decline of approximately $1.2 million in claims expense, partially offset by the $0.8 million Galveston litigation settlement.

Materials expense was $24.0 million in the year ended December 31, 2006, compared with $19.9 million in the year ended December 31, 2005, an increase of $4.1 million or 20.2%. The increase was attributable to $2.2 million in materials expense from new operations and an increase of $1.8 million on existing operations primarily due to increased track and equipment maintenance.

Net loss (gain) on sale and impairment of assets was a loss of $33.1 million in the year ended December 31, 2006, compared with a gain of $3.2 million in the year ended December 31, 2005, a decrease of $36.3 million. The loss of $33.1 million in the year ended December 31, 2006, was primarily attributable to the impairment of assets in our Mexico Region. The gain of $3.2 million in the year ended December 31, 2005, was attributable to the sale of excess track property in our New York/Pennsylvania Region.

Gain on insurance recovery of $1.9 million in the year ended December 31, 2006, was attributable to insurance proceeds for the replacement of a bridge destroyed by fire in our New York/Pennsylvania Region.

Other expenses were $38.8 million in the year ended December 31, 2006, compared with $33.5 million in the year ended December 31, 2005, an increase of $5.3 million or 15.9%. The increase was attributable to $3.0 million from new operations and an increase of $2.3 million on existing operations primarily due to travel, reporting and other expenses related to the Australia Transactions.

Other Income (Expense) Items

Gain On Sale of ARG

We recorded a pre-tax gain of $218.8 million in the year ended December 31, 2006, related to the ARG Sale. See Note 3 in the Consolidated Financial Statements in Item 8 of this report for additional information on the ARG Sale.

Investment Loss   Bolivia

We recorded an investment loss of $5.9 million in the year ended December 31, 2006, related to our South America equity investment. See Note 3 in the Consolidated Financial Statements in Item 8 of this report.

Equity (loss) Income of Unconsolidated International Affiliates

Equity (loss) income of unconsolidated international affiliates was a loss of $10.8 million in the year ended December 31, 2006, including a $16.2 million pre-tax impairment loss, representing our 50% share of the

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impairment loss recorded by ARG, compared with income of $14.2 million in the year ended December 31, 2005, primarily due to ARG. See Note 3 in the Consolidated Financial Statements in Item 8 of this report for additional information regarding the impairment.

Interest Income

Interest income was $7.8 million in the year ended December 31, 2006, compared with $0.3 million in the year ended December 31, 2005, an increase of $7.5 million. The increase in interest income was primarily due to the investment of cash proceeds from the ARG Sale since June 2006.

Interest Expense

Interest expense was $17.5 million in the year ended December 31, 2006, compared with $14.9 million in the year ended December 31, 2005, an increase of $2.6 million or 17.3%, primarily due to higher outstanding debt resulting from the June 1, 2005, acquisition of Rail Partners, partially offset by the reduction of debt in June 2006 resulting from the use of a portion of the cash proceeds from the ARG Sale.

Other Income (Expense), Net

Other income (expense), net in the year ended December 31, 2006, was income of $2.4 million compared with expense of $0.6 million in the year ended December 31, 2005, an increase of $2.9 million. The $2.9 million increase was primarily due to a reduction of approximately $1.5 million in the minority interest liability related to our Mexico operations and a non-cash foreign currency gain of approximately $0.7 million on U.S. dollar-denominated intercompany debt in Mexico.

Provision for Income Taxes

Our effective income tax rate in the year ended December 31, 2006 was 43.8% compared with 28.4% in the year ended December 31, 2005. The increase in 2006 was primarily attributable to the gain on the ARG Sale and the recording of a full valuation allowance on the deferred income tax assets of our Mexican subsidiaries. During the year ended December 31, 2006, we recorded a valuation allowance of $8.8 million against the deferred income tax assets of our Mexican subsidiaries. We believe it is more likely than not that the benefits of the deferred income tax assets in Mexico will not be realized due to continuing adverse business conditions since Hurricane Stan washed out a portion of our Chiapas line in October 2005.

Net Income and Earnings Per Share

Net income in the year ended December 31, 2006, was $134.0 million compared with net income in the year ended December 31, 2005, of $50.1 million, an increase of $83.9 million. Excluding the net gain and related effects from the Australian Transactions of $196.9 million ($114.5 million after-tax) and the non-cash impairments in Mexico and Bolivia, which totaled $39.0 million ($39.8 million after-tax), GWI s net income would have been $59.3 million.

Basic Earnings Per Share increased by $2.20 to $3.56 in the year ended December 31, 2006, from $1.36 in the year ended December 31, 2005. Diluted earnings per share increased by $1.96 to $3.16 in the year ended December 31, 2006, from $1.20 in the year ended December 31, 2005. Weighted average shares for basic and diluted were 37.6 million and 42.4 million, respectively, in the year ended December 31, 2006, compared with 36.9 million and 41.7 million, respectively, in the year ended December 31, 2005, as adjusted for the stock split announced February 14, 2006 and all previous stock splits.

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Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Operating Revenues

Overview

Operating revenues (which exclude revenues from our equity investments) were $385.4 million in the year ended December 31, 2005, compared with $303.8 million in the year ended December 31, 2004, an increase of $81.6 million or 26.9%. The $81.6 million increase consisted of $54.5 million in revenues from new operations and an increase of $27.1 million or 8.9%, in revenues from existing operations. The $27.1 million increase in revenues from existing operations included approximately $22.5 million in increased freight revenues and $4.6 million in increased non-freight revenues. The following table sets forth our operating revenues from new operations and existing operations for the years ended December 31, 2005 and 2004 (dollars in thousands):

	2005			2004	2005-2004 Variance Information			
	Total Operations	New Operations	Existing Operations	Total Operations	Increase in Total Operations		Increase in Existing Operations	
Freight revenues	$ 285,999	$ 37,280	$ 248,719	$ 226,265	$ 59,734	26.4%	$ 22,454	9.9%
Non-freight revenues	$ 99,390	17,267	82,123	77,519	21,871	28.2%	4,604	5.9%
Total operating revenues	$ 385,389	$ 54,547	$ 330,842	$ 303,784	$ 81,605	26.9%	$ 27,058	8.9%

The $59.7 million increase in freight revenues in 2005 consisted of $37.3 million in freight revenues from new operations and $22.5 million in freight revenues from existing operations. Fuel surcharge revenue included within freight revenues increased to $11.2 million in 2005 from $2.1 million in 2004. The $21.9 million increase in non-freight revenues in 2005 consisted of $17.3 million in non-freight revenues from new operations and $4.6 million in non-freight revenues from existing operations.

The following table compares freight revenues, carloads and average freight revenue per carload for the years ended December 31, 2005 and 2004 (dollars in thousands, except average revenue per carload):

Freight Revenues

Freight Revenues and Carloads Comparison by Commodity Group

Years Ended December 31, 2005 and 2004

	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
Commodity Group	2005	% of Total	2004	% of Total	2005	% of Total	2004	% of Total	2005	2004
Pulp & Paper	$ 59,401	20.8%	$ 40,486	17.9%	129,807	17.2%	94,340	14.9%	$ 458	$ 429
Coal, Coke & Ores	51,803	18.1%	45,126	19.9%	197,891	26.3%	191,038	30.2%	262	236
Lumber & Forest Products	35,336	12.4%	25,295	11.2%	98,087	13.0%	76,055	12.0%	360	333
Minerals and Stone	29,050	10.2%	22,294	9.9%	73,307	9.7%	59,197	9.3%	396	377
Metals	28,432	9.9%	23,464	10.4%	78,221	10.4%	73,412	11.6%	363	320
Petroleum Products	25,717	9.0%	24,465	10.8%	33,041	4.4%	32,401	5.1%	778	755
Chemicals-Plastics	21,481	7.5%	16,270	7.2%	40,434	5.4%	31,262	4.9%	531	520
Farm & Food Products	17,842	6.2%	16,203	7.2%	52,501	7.0%	40,520	6.4%	340	400
Autos & Auto Parts	6,584	2.3%	6,362	2.8%	13,600	1.8%	14,665	2.3%	484	434
Intermodal	2,151	0.7%	2,409	1.1%	4,805	0.6%	6,425	1.0%	448	375
Other	8,202	2.9%	3,891	1.6%	31,579	4.2%	14,034	2.3%	260	277

Total freight revenues	$ 285,999	100.0%	$ 226,265	100.0%	753,273	100.0%	633,349	100.0%	380	357

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Total carloads increased 119,924 carloads or 18.9%. The increase consisted of 112,275 carloads from new operations and an increase of 7,649 carloads or 1.2% from existing operations.

The overall average revenues per carload increased 6.3%. The increase was attributable to an increase in revenues per carload of 8.6% to $388 from existing operations, partially offset by $332 average revenues per carload from new operations.

The following table sets forth freight revenues by new operations and existing operations for the years ended December 31, 2005 and 2004 (dollars in thousands):

	2005			2004	2005-2004 Variance Information			
					Increase in Total Operations		Increase in Existing Operations	
Freight revenues	**Total Operations**	**New Operations**	**Existing Operations**	**Total Operations**				
Pulp & Paper	$ 59,401	$ 11,971	$ 47,430	$ 40,486	$ 18,915	46.7%	$ 6,944	17.2%
Coal, Coke & Ores	51,803	2,524	49,279	45,126	6,677	14.8%	4,153	9.2%
Lumber & Forest Products	35,336	5,347	29,989	25,295	10,041	39.7%	4,694	18.6%
Minerals and Stone	29,050	3,178	25,872	22,294	6,756	30.3%	3,578	16.0%
Metals	28,432	2,588	25,844	23,464	4,968	21.2%	2,380	10.1%
Petroleum Products	25,717	913	24,804	24,465	1,252	5.1%	339	1.4%
Chemicals-Plastics	21,481	3,218	18,263	16,270	5,211	32.0%	1,993	12.2%
Farm & Food Products	17,842	3,702	14,140	16,203	1,639	10.1%	(2,063)	-12.7%
Autos & Auto Parts	6,584	40	6,544	6,362	222	3.5%	182	2.9%
Intermodal	2,151		2,151	2,409	(258)	-10.7%	(258)	-10.7%
Other	8,202	3,799	4,403	3,891	4,311	110.8%	512	13.2%
Total freight revenues	$ 285,999	$ 37,280	$ 248,719	$ 226,265	$ 59,734	26.4%	$ 22,454	9.9%

The following information discusses the significant changes in freight revenue by commodity group from existing operations. With the exception of farm and food products, which had a decrease in average revenue per car load in 2005 compared with 2004, the increase in average revenue per carload for each commodity was primarily driven by a combination of rate and fuel surcharge increases and secondarily impacted by a change in mix of business.

Pulp and paper revenues increased by $6.9 million or 17.2%. The increase consisted of approximately $4.6 million due to an 11.4% increase in average revenue per carload and approximately $2.3 million due to a carload increase of 4,858 or 5.1%.

Coal, coke and ores revenues increased by $4.2 million or 9.2%. The increase consisted of approximately $3.5 million due to a 7.7% increase in average revenue per carload and approximately $0.7 million due to a carload increase of 2,619 or 1.4%. Carloads of coal from existing operations were primarily destined for electricity generating facilities.

Lumber and forest products revenues increased by $4.7 million or 18.6%. The increase consisted of approximately $2.4 million due to a 9.3% increase in average revenue per carload and approximately $2.3 million due to a carload increase of 6,435 or 8.5%. The increase in carloads was primarily due to increased product demand attributable to an increase in housing starts in 2005 compared to 2004.

Minerals and Stone revenues increased by $3.6 million or 16.0%. The increase consisted of approximately $1.9 million due to an 8.4% increase in average revenue per carload and approximately $1.7 million due to a carload increase of 4,170 or 7.0%.

Metals revenues increased by a net $2.4 million or 10.1%. The increase consisted of approximately $3.4 million due to a 14.4% increase in average revenue per carload, partially offset by approximately $1.0 million due to a carload decrease of 2,730 or 3.7%.

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Chemicals-Plastics revenues increased by $2.0 million or 12.2%. The increase consisted of approximately $1.6 million due to a 9.9% increase in average revenue per car and approximately $0.4 million due to a carload increase of 681 or 2.2%.

Farm and Food Products revenues decreased by $2.1 million or 12.7%. The decrease consisted of approximately $0.2 million due to a 0.8% decrease in average revenue per car and approximately $1.9 million due to a carload decrease of 4,860 or 12.0%. The decrease in average revenue per carload was due to the impact of lower average revenue per carload from acquired railroads, and the decrease in carloads was primarily due to a reduction in our Mexican region due to the closure of a portion of the Chiapas line.

All remaining commodities combined increased by a net $0.8 million or 2.1%.

Non-Freight Revenues

Non-freight revenues were $99.4 million in the year ended December 31, 2005, compared with $77.5 million in the year ended December 31, 2004, an increase of $21.9 million or 28.2%. The $21.9 million increase in non-freight revenues consisted of $17.3 million in revenues from new operations and an increase of $4.6 million or 5.9% in revenues from existing operations.

The following table compares non-freight revenues for the years ended December 31, 2005 and 2004 (dollars in thousands):

Non-Freight Revenues Comparison

Years Ended December 31, 2005 and 2004

	2005	% of Total	2004	% of Total
Railcar switching	$ 49,683	50.0%	$ 39,539	51.0%
Car hire and rental income	16,328	16.4%	11,858	15.3%
Demurrage and storage	11,624	11.7%	7,533	9.7%
Car repair services	5,112	5.1%	5,460	7.0%
Other operating income	16,643	16.8%	13,129	17.0%
Total non-freight revenues	$ 99,390	100.0%	$ 77,519	100.0%

The following table sets forth non-freight revenues by new operations and existing operations for the years ended December 31, 2005 and 2004 (dollars in thousands):

	2005	2004