

KANSAS CITY SOUTHERN  
Form 10-Q  
July 30, 2009

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the quarterly period ended June 30, 2009**

**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 Number 1-4717**

**KANSAS CITY SOUTHERN**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**44-0663509**

*(I.R.S. Employer  
Identification No.)*

**427 West 12th Street,  
Kansas City, Missouri**

*(Address of principal executive offices)*

**64105**

*(Zip Code)*

**816.983.1303**

*(Registrant's telephone number, including area code)*

**None**

*(Former name, former address and former fiscal year, if changed since last report.)*

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

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files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>	<b>Outstanding at July 23, 2009</b>
Common Stock, \$0.01 per share par value	94,873,924 Shares

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**Kansas City Southern  
Form 10-Q  
June 30, 2009**

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**Kansas City Southern**

**Form 10-Q**  
**June 30, 2009**

**PART I FINANCIAL INFORMATION**

**Item 1. *Financial Statements.***

**Introductory Comments.**

The Consolidated Financial Statements included herein have been prepared by Kansas City Southern, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). As used herein, KCS or the Company may refer to Kansas City Southern or, as the context requires, to one or more subsidiaries of Kansas City Southern. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) have been condensed or omitted, pursuant to such rules and regulations. The Company believes that the disclosures are adequate to enable a reasonable understanding of the information presented. The Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q should be read in conjunction with the consolidated financial statements and the related notes, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Results for the three and six months ended June 30, 2009 are not necessarily indicative of the results expected for the full year ending December 31, 2009.

**Kansas City Southern**

**Consolidated Statements of Operations**

**Three Months Ended**                      **Six Months Ended**  
**June 30,**                                      **June 30,**  
**2009**                      **2008**                      **2009**                      **2008**  
(In millions, except share and per share amounts)  
(Unaudited)

Revenues	\$ 341.3	\$ 486.2	\$ 687.3	\$ 936.8
Operating expenses:				
Compensation and benefits	79.1	96.4	157.1	198.2
Purchased services	46.0	53.5	90.5	104.7
Fuel	40.2	91.1	83.5	168.9
Equipment costs	41.2	46.4	80.3	90.8
Depreciation and amortization	47.6	40.2	94.7	80.5
Casualties and insurance	7.7	18.6	20.2	37.2
Materials and other	36.1	35.4	69.1	68.5
Total operating expenses	297.9	381.6	595.4	748.8
Operating income	43.4	104.6	91.9	188.0
Equity in net earnings of unconsolidated affiliates	2.0	4.7	3.0	8.8
Interest expense	(45.4)	(27.7)	(87.2)	(67.2)
Debt retirement costs		(5.6)	(5.9)	(5.6)
Foreign exchange gain	6.0	5.7	0.9	8.2
Other income	2.9	0.2	4.4	3.2
Income before income taxes and noncontrolling interest	8.9	81.9	7.1	135.4
Income tax expense	1.6	26.4	2.0	42.1
Net income	7.3	55.5	5.1	93.3
Noncontrolling interest	0.5	0.1	0.4	0.2
Net income attributable to Kansas City Southern and subsidiaries	6.8	55.4	4.7	93.1
Preferred stock dividends	0.1	4.9	5.5	9.7
Net income (loss) available to common shareholders	\$ 6.7	\$ 50.5	\$ (0.8)	\$ 83.4
Earnings (loss) per share:				
Basic earnings (loss) per share	\$ 0.07	\$ 0.64	\$ (0.01)	\$ 1.07
Diluted earnings (loss) per share	\$ 0.07	\$ 0.56	\$ (0.01)	\$ 0.94

Average shares outstanding (*in thousands*):

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Basic	91,955	79,272	91,425	77,896
Potentially dilutive common shares	7,453	19,874		20,804
Diluted	99,408	99,146	91,425	98,700

See accompanying notes to consolidated financial statements.

**Kansas City Southern**  
**Consolidated Balance Sheets**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In millions, except share amounts)</b>	
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 62.3	\$ 229.9
Accounts receivable, net	163.8	163.8
Restricted funds	45.0	34.0
Materials and supplies	114.3	96.3
Deferred income taxes	102.4	62.8
Other current assets	45.0	98.8
 Total current assets	 532.8	 685.6
Investments	51.3	60.5
Property and equipment, net of accumulated depreciation of \$876.2 million and \$914.2 million at June 30, 2009 and December 31, 2008, respectively	3,544.4	3,416.3
Concession assets, net of accumulated amortization of \$210.9 million and \$186.5 million at June 30, 2009 and December 31, 2008, respectively	1,153.3	1,182.1
Deferred income taxes	10.9	36.4
Other assets	73.8	58.3
 Total assets	 \$ 5,366.5	 \$ 5,439.2
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 21.6	\$ 637.4
Accounts payable and accrued liabilities	364.1	455.4
 Total current liabilities	 385.7	 1,092.8
Long-term debt	2,013.1	1,448.7
Deferred income taxes	500.4	492.4
Other noncurrent liabilities and deferred credits	213.5	220.1
 Total liabilities	 3,112.7	 3,254.0
 Commitments and contingencies		
Stockholders' equity:		
\$25 par, 4% noncumulative, preferred stock, 840,000 shares authorized, 649,736 shares issued, 242,170 shares outstanding	6.1	6.1
	0.2	0.2

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Series D cumulative convertible perpetual preferred stock, \$1 par, 5.125%,  
210,000 shares authorized and issued, 209,995 shares outstanding with a liquidation  
preference of \$1,000 per share

\$.01 par, common stock, 400,000,000 shares authorized; 109,457,760 and  
106,252,860 shares issued at June 30, 2009 and December 31, 2008, respectively;  
94,873,978 and 91,463,762 shares outstanding at June 30, 2009 and December 31,  
2008, respectively

Paid-in capital	0.9	0.9
Retained earnings	630.1	572.3
Accumulated other comprehensive loss	1,336.8	1,337.6
	(4.0)	(5.6)
Total stockholders' equity	1,970.1	1,911.5
Noncontrolling interest	283.7	273.7
Total equity	2,253.8	2,185.2
Total liabilities and equity	\$ 5,366.5	\$ 5,439.2

See accompanying notes to consolidated financial statements.



**Kansas City Southern**

**Consolidated Statements of Cash Flows**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In millions)</b>	
	<b>(Unaudited)</b>	
<b>Operating activities:</b>		
Net income	\$ 5.1	\$ 93.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	94.7	80.5
Deferred income taxes	1.5	41.3
Equity in undistributed earnings of unconsolidated affiliates	(3.0)	(8.8)
Share-based compensation	4.9	3.2
Other deferred compensation	(1.6)	8.1
Distributions from unconsolidated affiliates		12.7
Loss (gain) on sale of assets	(3.6)	0.7
Debt retirement costs	5.9	5.6
Changes in working capital items:		
Accounts receivable		1.4
Materials and supplies	(18.0)	(14.4)
Other current assets	53.8	(45.2)
Accounts payable and accrued liabilities	(91.3)	(7.1)
Other, net	(9.3)	(5.9)
Net cash provided by operating activities	39.1	165.4
<b>Investing activities:</b>		
Capital expenditures	(179.8)	(292.5)
Proceeds from disposal of property	7.9	6.8
Contribution from NS for MSLLC		15.0
Property investments in MSLLC	(12.3)	(16.9)
Other, net	0.5	(7.8)
Net cash used for investing activities	(183.7)	(295.4)
<b>Financing activities:</b>		
Proceeds from issuance of long-term debt	189.8	357.8
Repayment of long-term debt	(250.1)	(234.4)
Debt costs	(9.3)	(10.9)
Proceeds from common stock issuance	51.3	
Proceeds from stock plans	0.8	1.1
Preferred stock dividends paid	(5.5)	(9.7)
Net cash provided by (used for) financing activities	(23.0)	103.9

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Cash and cash equivalents:		
Net decrease during each period	(167.6)	(26.1)
At beginning of year	229.9	55.5
At end of period	\$ 62.3	\$ 29.4

See accompanying notes to consolidated financial statements.

**Kansas City Southern**

**Notes to Consolidated Financial Statements**

**1. Accounting Policies and Interim Financial Statements.**

In the opinion of the management of KCS, the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of the results for interim periods. All adjustments made were of a normal and recurring nature. Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These consolidated financial statements should be read in conjunction with the financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. Certain prior year amounts have been reclassified to conform to the current year presentation.

**2. Recent Accounting Pronouncements.**

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board (the "FASB") Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" an amendment of ARB No. 51 ("SFAS 160") on a prospective basis, except for the presentation and disclosure requirements, which apply retrospectively. As a result of the adoption, the Company reported noncontrolling interests as a separate component of equity in the consolidated balance sheets and the net income or loss attributable to noncontrolling interests is separately identified in the consolidated statements of operations. Prior period amounts have been reclassified to conform to the current period presentation as required by SFAS 160. These reclassifications did not have any impact on the Company's previously reported results of operations.

In April of 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments", which amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instru