

KANSAS CITY SOUTHERN  
Form 10-Q  
July 22, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended June 30, 2011

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)*

**427 West 12th Street,**

**Kansas City, Missouri**  
*(Address of principal executive offices)*

**44-0663509**  
*(I.R.S. Employer  
Identification No.)*

**64105**  
*(Zip Code)*

**816.983.1303**

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

**No Change**

*(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 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.

Class	Outstanding at July 14, 2011
Common Stock, \$0.01 per share par value	109,816,933 Shares

**Table of Contents**

**Kansas City Southern**

**Form 10-Q**

**June 30, 2011**

**Index**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
<b>Item 1. <u>Financial Statements</u></b>	3
<u>Introductory Comments</u>	3
<u>Consolidated Statements of Income Three and six months ended June 30, 2011 and 2010</u>	4
<u>Consolidated Balance Sheets June 30, 2011 and December 31, 2010</u>	5
<u>Consolidated Statements of Cash Flows Six months ended June 30, 2011 and 2010</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	23
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	32
<b>Item 4. <u>Controls and Procedures</u></b>	33
<b>PART II OTHER INFORMATION</b>	
<b>Item 1. <u>Legal Proceedings</u></b>	34
<b>Item 1A. <u>Risk Factors</u></b>	34
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	34
<b>Item 3. <u>Defaults upon Senior Securities</u></b>	34
<b>Item 4. <u>(Removed and Reserved)</u></b>	34
<b>Item 5. <u>Other Information</u></b>	34
<b>Item 6. <u>Exhibits</u></b>	35
<b><u>SIGNATURES</u></b>	36

**Table of Contents**

**Kansas City Southern**

**Form 10-Q**

**June 30, 2011**

**PART I FINANCIAL INFORMATION**

**Item 1. *Financial Statements***  
**Introductory Comments**

The unaudited Consolidated Financial Statements included herein have been prepared by Kansas City Southern, 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, 2010. Results for the three and six months ended June 30, 2011 are not necessarily indicative of the results expected for the full year ending December 31, 2011.

**Table of Contents****Kansas City Southern****Consolidated Statements of Income**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In millions, except share and per share amounts)			
	(Unaudited)			
Revenues	\$ 534.9	\$ 461.6	\$ 1,023.5	\$ 897.9
Operating expenses:				
Compensation and benefits	104.4	93.7	204.8	184.4
Purchased services	54.8	48.0	102.9	92.9
Fuel	92.0	69.1	171.5	129.9
Equipment costs	42.7	41.3	84.1	80.0
Depreciation and amortization	45.5	46.9	91.2	92.7
Materials and other	43.9	35.4	89.6	82.6
Total operating expenses	383.3	334.4	744.1	662.5
Operating income	151.6	127.2	279.4	235.4
Equity in net earnings of unconsolidated affiliates	5.3	4.6	8.9	11.0
Interest expense	(32.4)	(41.9)	(65.5)	(86.3)
Debt retirement costs	(10.3)	(32.5)	(10.3)	(47.4)
Foreign exchange gain (loss)	0.4	(1.4)	0.3	1.2
Other income, net		1.0	1.7	1.5
Income before income taxes	114.6	57.0	214.5	115.4
Income tax expense	42.9	19.6	78.7	43.8
Net income	71.7	37.4	135.8	71.6
Less: Net income (loss) attributable to noncontrolling interest	0.9		1.0	(1.1)
Net income attributable to Kansas City Southern and subsidiaries	70.8	37.4	134.8	72.7
Preferred stock dividends	0.1	2.8	1.5	5.5
Net income available to common stockholders	\$ 70.7	\$ 34.6	\$ 133.3	\$ 67.2
Earnings per share:				
Basic earnings per share	\$ 0.65	\$ 0.35	\$ 1.25	\$ 0.69
Diluted earnings per share	\$ 0.64	\$ 0.34	\$ 1.23	\$ 0.68
Average shares outstanding ( <i>in thousands</i> ):				
Basic	109,428	99,907	106,858	97,946
Potentially dilutive common shares	382	459	2,918	514
Diluted	109,810	100,366	109,776	98,460

See accompanying notes to consolidated financial statements.



**Table of Contents**

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

	June 30, 2011 (In millions, except share amounts) (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 156.0	\$ 85.4
Accounts receivable, net	195.8	160.0
Materials and supplies	115.4	101.4
Deferred income taxes	136.3	138.2
Other current assets	58.0	91.2
Total current assets	661.5	576.2
Investments	48.8	46.4
Restricted funds	14.7	22.0
Property and equipment (including concession assets), net	4,994.1	4,902.4
Other assets	106.6	93.9
Total assets	\$ 5,825.7	\$ 5,640.9
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 18.2	\$ 18.1
Accounts payable and accrued liabilities	387.6	403.0
Total current liabilities	405.8	421.1
Long-term debt	1,614.6	1,621.6
Deferred income taxes	730.1	654.5
Other noncurrent liabilities and deferred credits	221.8	230.0
Total liabilities	2,972.3	2,927.2
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
Series D cumulative convertible perpetual preferred stock, \$1 par, 5.125%, 210,000 shares authorized and issued at December 31, 2010; 209,995 shares outstanding with a liquidation preference of \$1,000 per share at December 31, 2010		0.2
\$.01 par, common stock, 400,000,000 shares authorized; 123,352,185 and 116,352,298 shares issued at June 30, 2011 and December 31, 2010, respectively; 109,789,846 and 102,648,845 shares outstanding at June 30, 2011 and December 31, 2010, respectively	1.1	1.0
Paid-in capital	881.6	877.2
Retained earnings	1,679.9	1,548.0
Accumulated other comprehensive loss	(0.9)	(1.4)
Total stockholders' equity	2,567.8	2,431.1
Noncontrolling interest	285.6	282.6

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Total equity	2,853.4	2,713.7
Total liabilities and equity	\$ 5,825.7	\$ 5,640.9

See accompanying notes to consolidated financial statements.



**Table of Contents****Kansas City Southern****Consolidated Statements of Cash Flows**

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In millions)</b>	
	<b>(Unaudited)</b>	
<b>Operating activities:</b>		
Net income	\$ 135.8	\$ 71.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91.2	92.7
Deferred income taxes	77.2	42.9
Equity in undistributed earnings of unconsolidated affiliates	(8.9)	(11.0)
Share-based compensation	5.3	4.5
Excess tax benefit from share-based compensation		(15.5)
Deferred compensation		