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DST SYSTEMS INC
Form 11-K
June 28, 2004

Securities and Exchange Commission
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003 and 2002

Commission File Number: 333-91478

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Gateway Western Railway Union 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Kansas City Southern
427 West 12th Street
Kansas City, Missouri 64105-1804

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Report of Independent Registered Public Accounting Firm

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Notes to Financial Statements

EXHIBIT:

Exhibit 23 - Consent of KPMG LLP

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GATEWAY WESTERN RAILWAY UNION
401(K) PLAN

Financial Statements and Supplemental Schedule

December 31, 2003 and 2002

(With Report of Independent Registered Public Accounting Firm Thereon)

GATEWAY WESTERN RAILWAY UNION
401(K) PLAN

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SUPPLEMENTAL SCHEDULE: *

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* Other schedules required by 29 CFR 2520.103 8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Participants and Plan Sponsor
Gateway Western Railway Union 401(k) Plan:

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We have audited the accompanying statements of net assets available for benefits of the Gateway Western Railway Union 401(k) Plan (the Plan) as of December 31, 2003 and 2002, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and 2002, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Kansas City, Missouri
May 15, 2004

GATEWAY WESTERN RAILWAY UNION
401(K) PLAN
Statements of Net Assets Available for Benefits
December 31, 2003 and 2002

| | 2003 | 2002 |
|--------------------------------------|-----------|-----------|
| | ----- | ----- |
| Assets: | | |
| Cash and temporary investments | \$ 11,766 | 11,496 |
| Investments, at fair value: | | |
| Common collective trust | 286,031 | 242,591 |
| Common stock of Kansas City Southern | 247 | 12,024 |
| Mutual funds | 2,395,421 | 1,722,909 |
| | ----- | ----- |
| Total investments | 2,681,699 | 1,977,524 |
| Contributions receivable: | | |
| Employee | -- | 10,014 |
| Employer | -- | 4,078 |

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| | | |
|-----------------------------------|--------------------------------|-----------------------------|
| Total contributions receivable | ----- -- | ----- 14,092 |
| Total assets | ----- 2,693,465 | ----- 2,003,112 |
| Investment trades payable | ----- 11,752 | ----- 11 |
| Net assets available for benefits | ----- \$ 2,681,713 ===== | ----- 2,003,101 ===== |

See accompanying notes to financial statements.

GATEWAY WESTERN RAILWAY UNION
401(K) PLAN
Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2003 and 2002

| | ----- 2003 ----- |
|--|--------------------------------|
| Investment income (loss): | |
| Interest and dividends | \$ 36,60 |
| Net appreciation (depreciation) in fair value of investments | 483,65 |
| Total investment gain (loss) | ----- 520,26 ----- |
| Contributions: | |
| Employee | 190,83 |
| Employer | 80,03 |
| Total contributions | ----- 270,86 ----- |
| Benefits paid | ----- (112,50) ----- |
| Increase (decrease) in net assets available for benefits | 678,61 |
| Net assets available for benefits: | |
| Beginning of year | ----- 2,003,10 ----- |
| End of year | ----- \$ 2,681,713 ===== |

See accompanying notes to financial statements.

GATEWAY WESTERN RAILWAY UNION
401(K) PLAN

Notes to Financial Statements

December 31, 2003 and 2002

(1) DESCRIPTION OF THE PLAN

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(A) GENERAL

The Gateway Western Railway 401(k) Plan (the Plan) is a contributory, defined contribution plan adopted on July 1, 1997. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the plan agreement for a more complete description of the Plan.

(B) ELIGIBILITY

The Plan covers union employees of Kansas City Southern Railway Company, located from Kansas City to East St. Louis (the Company), who are members in a craft represented by one of the following organizations: Transportation Communications International Union, Brotherhood of Locomotive Engineers, Brotherhood of Maintenance of Way Employees, Brotherhood of Railway Signalmen, International Brotherhood of Electrical Workers, International Association of Machinists and Aerospace Workers, or Brotherhood of Railway Carmen. Employees are eligible to participate in the Plan on the January 1, April 1, July 1, or October 1 coincident with or immediately following his or her first day of employment.

(C) CONTRIBUTIONS

Participants may contribute a portion of their annual eligible compensation, as defined in the Plan, not to exceed an individual annual maximum contribution of \$12,000 in 2003. The Company matches 50% of participant contributions, up to 6% of annual eligible compensation.

(D) PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contribution, Company matching contribution, and an allocation of Plan earnings, net of investment expenses. Allocations are based on participant earnings or account balances as set forth in the plan agreement. The benefit to which a participant is entitled is that which can be provided from the participant's account.

(E) VESTING

Participants are immediately vested in their contributions, Company matching contributions, plus actual plan earnings thereon.

(F) INVESTMENT OPTIONS

Upon enrollment in the Plan, a participant may direct their contributions and Company matching contributions into any of the various funds offered by the Plan.

Effective July 1, 2002, the Plan added Kansas City Southern (NYSE:KCS) common stock as an investment option.

Participants should refer to the respective prospectuses for a description of the investment objective of each fund.

(G) BENEFITS

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Distributions generally will be made in the event of retirement, death, disability, resignation, or dismissal. A participant's normal retirement age is 65. The Plan also provides for distributions at age 59 1/2.

Distributions after termination of employment will be made in a lump-sum payment. Balances not exceeding \$5,000 will be paid out within one calendar year of termination of employment. Balances exceeding \$5,000 will be paid upon the distribution date elected by the participant, but no later than April 1 following the calendar year in which the participant attains the age of 70 1/2.

(H) PLAN TERMINATION

Although it has expressed no intention to do so, the Company has the right to terminate the Plan at any time subject to the provisions of ERISA. Upon termination of the Plan, the participants shall receive amounts equal to their respective account balances.

(I) PLAN EXPENSES

All administrative expenses of the Plan are paid by the Company.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The Plan's financial statements are presented on the accrual basis of accounting and present the net assets available for benefits and changes in those net assets. Benefit payments to participants are recorded when paid.

(B) INVESTMENTS

The fair value of marketable securities is based upon quotations from national securities exchanges; where marketable securities are not listed on an exchange, quotations are obtained from brokerage firms. Securities transactions are accounted for on the trade date (the date the order to buy or sell is executed).

The assets held in a common collective trust (Invesco Stable Value Fund) are valued at contract value as determined by the AMVESCAP National Trust Company.

(C) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes in net assets available for benefits. Actual results could differ from those estimates.

(3) INVESTMENTS

Investments, which exceeded 5% of the net assets available for plan benefits at December 31, 2003 and 2002, were as follows:

| | 2003 | 2002 |
|--|------------|---------|
| | ----- | ----- |
| Invesco Stable Value Fund | \$ 286,031 | 242,588 |
| Barclay's Global Inv Equity Index Fund I | -- | 236,167 |

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| | | |
|--|--------------|-----------|
| Growth Fund of America | 670,630 | 481,751 |
| Oppenheimer Quest Balanced Value | 178,314 | 141,376 |
| PIMCO Renaissance | 195,396 | -- |
| PIMCO Total Return Administrative Shares | 365,363 | 341,530 |
| Scudder Equity 500 Index | 289,025 | -- |
| Washington Mutual Investors Fund | 186,719 | 116,647 |
| Other | 510,221 | 417,465 |
| | ----- | ----- |
| Total investments | \$ 2,681,699 | 1,977,524 |
| | ===== | ===== |

During 2003 and 2002, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value by \$483,657 and (\$418,415), respectively, as follows:

| | 2003 | 2002 |
|-----------------------------------|------------|-----------|
| | ----- | ----- |
| Kansas City Southern common stock | \$ 4,071 | (1,944) |
| Mutual funds | 479,586 | (416,471) |
| | ----- | ----- |
| | \$ 483,657 | (418,415) |
| | ===== | ===== |

(4) PLAN AMENDMENT

Effective April 1, 2002, the Plan was amended and restated and a new trustee, administrator and custodian of the Plan were appointed. Plan assets transferred to the new trustee were transferred into funds comparable to those offered by the previous custodian or as determined by a formal request from each participant. The conversion initiated a "black out" period beginning March 15, 2002, and continued through April 22, 2002. During this period, funds could not be withdrawn from the Plan and investment elections could not be changed until the trustee had time to accurately complete the conversion. During this period, employee contributions continued to be made through payroll deductions and the contributions were deposited.

(5) PORTFOLIO RISK

The Plan provides for investments in various securities that, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

(6) INCOME TAX STATUS

The Plan received a favorable determination letter from the Internal Revenue Service, dated July 15, 2003, indicating that it is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from tax under Section 501(a) of the Code. The determination letter is applicable for amendments executed through June 30, 2003.

The Company is not aware of any activity or transactions that may adversely affect the qualified status of the Plan.

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SCHEDULE 1

GATEWAY WESTERN RAILWAY UNION
401(K) PLAN

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)

December 31, 2003

| IDENTITY | DESCRIPTION |
|--|---|
| Common Stock: | |
| * Kansas City Southern common stock | 17,249 shares, with a fair value of \$14.32 per share |
| Common collective trust: | |
| Invesco Stable Value | 286,031.00 shares, with a fair value of \$1.00 per share |
| Mutual Funds: | |
| AIM Small Cap Growth Fund | 2,122.117 shares, with a fair value of \$25.71 per share |
| EuroPacific Growth | 2,878.98 shares with a fair value of \$30.21 per share |
| Franklin Balance Sheet Investment A | 1,968.291 shares, with a fair value of \$47.57 per share |
| Growth Fund of America | 27,328.04 shares, with a fair value of \$24.54 per share |
| ING International Value Fund | 6,619.461 shares, with a fair value of \$15.11 per share |
| Janus Fund | 2,777.9 shares, with a fair value of \$23.47 per share |
| Janus Twenty Fund | 334.913 shares, with a fair value of \$36.17 per share |
| MFS Value Fund | 4,792.396 shares, with a fair value of \$20.34 per share |
| Oppenheimer Quest Balanced Value | 10,892.74 shares, with a fair value of \$16.37 per share |
| PIMCO Renaissance | 8,418.622 shares, with a fair value of \$23.21 per share |
| PIMCO Total Return Administrative Shares | 34,114.174 shares, with a fair value of \$10.71 per share |
| Scudder Equity 500 Index | 2,313.497 shares, with a fair value of \$124.93 per share |
| Washington Mutual Investors Fund | 6,487.815 shares, with a fair value of \$28.78 per share |
| Total investments | |

* Party-in-interest.

See accompanying report of independent registered public accounting firm.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

GATEWAY WESTERN RAILWAY UNION 401(K) PLAN

By /s/ Eric B. Freestone

Eric B. Freestone
Title: Vice President Human Resources

Dated June 28, 2004