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KANSAS CITY SOUTHERN  
Form 8-K  
July 30, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):  
July 29, 2004

KANSAS CITY SOUTHERN  
(Exact name of company as specified in its charter)

|   |                                       |   |
|---|---------------------------------------|---|
| DELAWARE<br>(State or other jurisdiction<br>of incorporation) | 1-4717<br>(Commission file<br>number) | 44-0663509<br>(IRS Employer<br>Identification Number) |
|---|---------------------------------------|---|

427 West 12th Street, Kansas City, Missouri 64105  
-----  
(Address of principal executive offices) (Zip Code)

Company's telephone number, including area code:  
(816) 983 - 1303

Not Applicable  
(Former name or former address if changed since last report)

Item 7. Financial Statements and Exhibits

(c) Exhibits

| Exhibit No.<br>(99) | Document<br>Additional Exhibits                                     |
|---------------------|---|
| 99.1                | Press Release issued by Kansas City<br>Southern dated July 29, 2004 |

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entitled, "Kansas City Southern Posts Strong Second Quarter & Year to Date Results," is attached hereto as Exhibit 99.1

Item 12. Results of Operations and Financial Condition.

Kansas City Southern ("KCS" or "Company") is furnishing under Item 12 of this Current Report on Form 8-K the information included as Exhibit 99.1 of this report. Exhibit 99.1 is the Company's press release, dated July 29, 2004, announcing KCS's second quarter earnings and operating results.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

Kansas City Southern

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Date: July 30, 2004

By: /s/ Ronald G. Russ

-----  
Ronald G. Russ  
Executive Vice President and Chief Financial Officer

EXHIBIT 99.1

Date: July 29, 2004

Media Contact: William H. Galligan Phone: 816/983-1551  
william.h.galligan@kcsr.com

Kansas City Southern Posts Strong  
Second Quarter & Year-to-Date Results

Kansas City Southern (KCS or Company) (NYSE:KSU) reported consolidated net income of \$ 9.2 million, or \$0.11 per diluted share, for the second quarter of 2004, compared to a net loss of \$0.5 million, or (\$0.03) per diluted share for the second quarter of 2003. The results were driven by The Kansas City Southern Railway Company's (KCSR) and Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V.'s (Grupo TFM) improved operating and financial results.

KCS reported consolidated net income of \$12.6 million, or \$0.13 per diluted

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share, for the 6 months ended June 30, 2004. This compares to \$4.2 million, or \$0.05 per diluted share, in 2003, exclusive of a one-time \$8.9 million benefit related to the cumulative effect of a required change in accounting (Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations," SFAS 143) that was recorded in the first quarter of 2003.

### Second Quarter

Second quarter revenues for KCSR were \$152.9 million, an increase of \$8.3 million (5.7%) over second quarter 2003. Four of KCSR's five commodity groups posted substantial quarter-over-quarter revenue increases. Overall yields also increased, led by Agriculture & Minerals which posted a 6.2% yield gain.

KCSR revenues from Chemical & Petroleum products increased by \$3.2 million (10.3%) in the second quarter of 2004 over comparable 2003, led by strong growth in petroleum products and industrial gases. Agriculture & Minerals continued to be a consistently strong revenue producer with a quarter-over-quarter increase of \$2.8 million (10.2%) driven by strong export and domestic grain volumes. Intermodal & Automotive second quarter 2004 revenues grew by \$1.6 million (10.8%) over the comparable 2003 period due to significant growth in intermodal volumes and increases in intermodal haulage business. Second quarter 2004 coal revenues grew \$1.2 million (5.3%) over second quarter 2003 due to increased volumes. Strong increases in lumber and paper traffic were offset by reduced military shipments and log and chip volumes, resulting in a very slight quarter-over-quarter decline (0.4%) in the Paper & Forest products group, the only group not to show a substantial gain.

Second quarter 2004 KCSR costs and expenses increased by \$4.1 million over second quarter 2003. Lower equipment costs (\$ 3.8 million), depreciation (\$3.0 million), and material and supplies (\$0.8 million) were more than offset by increases in compensation costs (\$4.4 million), from price pressure on fuel (\$3.0 million), and from casualties and insurance (\$2.6 million).

KCSR's 2004 second quarter operating income was \$23.1 million, compared to \$18.9 million the previous year, a \$4.2 million, or 22%, quarter-over-quarter increase. KCSR's operating ratio for the second quarter of 2004 improved by two points, to 84.9% from second quarter 2003.

Grupo TFM's second quarter 2004 revenues were \$184.9 million, a 4.7% increase over second quarter 2003. Costs and expenses in second quarter 2004 were \$148.2 million, \$4.4 million higher than in 2003, which included higher locomotive fuel costs of \$3.8 million. Operating income increased 12% to \$36.8 million from \$32.8 million. Equity earnings from Grupo TFM, the parent company of TFM which operates the primary rail corridor between Mexico City and the United States, increased \$5.2 million to \$2.9 million from second quarter 2003. Grupo TFM's operating ratio improved to 80.1% in the second quarter 2004 versus 81.4% in the prior year. The Company reports its equity in Grupo TFM under U.S. GAAP, while Grupo TFM reports under International Financial Reporting Standards (IFRS).

### Year-to-Date

Year-to-date 2004 revenues for KCSR increased \$16.5 million (5.8%) to \$299.9 million from 2003. KCSR's year-to-date 2004 costs and expenses decreased \$1.8 million compared to 2003, driven by \$6.1 million in lower depreciation expense and \$4.8 million in lower equipment costs, partially offset by \$4.6 million in increased compensation costs and \$5.1 million in higher fuel costs.

KCSR's 2004 year-to-date operating income was \$46.6 million, or a 65% increase (\$18.3 million), compared to \$28.3 million in 2003. KCSR's year-to-date operating ratio improved more than 5 1/2 points to 84.4% from 90.0% for the

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corresponding 2003 period.

The Company's equity earnings from Grupo TFM for the six-month period ended June 30, 2004, decreased slightly (\$0.4 million) despite TFM's improved operating performance, due principally to reduced deferred tax benefits net of current tax provisions (calculated under U.S. GAAP), and a less favorable period-over-period exchange rate due to a 5.2% devaluation of the Mexican peso versus the U.S. dollar. These factors more than offset a 2.9% increase in Grupo TFM's operating income, driven by a \$7.3 million increase in revenues year-over-year. Grupo TFM's operating ratio improved to 81.1% in the first half of 2004 versus 81.3% in the first half of 2003.

### Comments from the Chairman

Michael R. Haverty, KCSR's Chairman, President and Chief Executive Officer stated, "KCSR has now had five consecutive quarters of positive quarter-over-quarter revenue growth comparisons. During that time, KCSR has significantly improved its operating metrics and customer service. There are still more opportunities at KCSR to increase revenues throughout the remainder of this year, and there are areas in which further reduction in costs will be targeted.

It has now been two full years since MCS, KCSR's computer operating platform, was installed. The results have been exceptional in providing a powerful tool to more efficiently handle every aspect of the transportation service plan. During the second quarter 2004, MCS was installed on the Texas Mexican Railway (Tex-Mex), providing greater operational integration of KCSR and Tex-Mex. Over the last 18 months, KCSR has reduced its equipment costs by approximately \$16 million.

"The increase in Grupo TFM's revenues in the second quarter was encouraging. Cross border traffic interchange volumes and revenues between Grupo TFM and KCSR continue to increase, which speaks to the growing cooperation of the railroads as well as a strengthening North American economy. Like KCSR, Grupo TFM is committed to growing its top line and keeping its operating expenses under control.

"As KCSR moves into the peak transport season in North America, it is positioned to handle increased volume and maintain high levels of customer service. We believe TFM is, as well. The Company looks forward to an even stronger second half."

KCS is comprised of, among others, The Kansas City Southern Railway Company ("KCSR") and equity investments in Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (Grupo TFM), Southern Capital Corporation ("Southern Capital") and Panama Canal Railway Company ("PCRC").

This press release includes statements concerning potential future events involving the Company, which could materially differ from the events that actually occur. The differences could be caused by a number of factors including those factors identified in the "Risk Factors" and the "Cautionary Information" sections of the Company's Form 10-K for the year-ended December 31, 2003 filed by the Company with the Securities and Exchange Commission ("SEC") (Commission file no. 1-4717). The Company will not update any forward-looking statements in this press release to reflect future events or developments.

Financial information attached

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KANSAS CITY SOUTHERN  
CONSOLIDATED STATEMENTS OF INCOME  
(dollars in millions, except per share data)  
(Unaudited)

|  | Three Months<br>Ended June 30, |          |
|--|--------------------------------|----------|
|  | 2004                           | 2003     |
| Revenues   | \$ 153.9                       | \$ 146.3 |
| Costs and expenses   |                                |          |
| Compensation and benefits  | 52.2                           | 47.5     |
| Purchased services   | 15.4                           | 15.2     |
| Fuel   | 14.6                           | 11.3     |
| Equipment costs  | 11.6                           | 15.4     |
| Depreciation and amortization  | 13.1                           | 16.0     |
| Casualties and insurance   | 10.9                           | 8.4      |
| Other leases   | 3.0                            | 2.3      |
| Other  | 13.6                           | 16.0     |
| Total costs and expenses   | 134.4                          | 132.1    |
| Operating income   | 19.5                           | 14.2     |
| Equity in net earnings (losses) of unconsolidated affiliates:            |                                |          |
| Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (preliminary)    | 2.9                            | (2.3)    |
| Other  | 0.3                            | (0.2)    |
| Interest expense   | (10.9)                         | (11.7)   |
| Debt retirement costs  | -                              | -        |
| Other income   | 1.7                            | 1.5      |
| Income before income taxes and<br>Cumulative effect of accounting change | 13.5                           | 1.5      |
| Income tax provision   | 4.3                            | 2.0      |
| Income (loss) before cumulative effect of accounting change              | 9.2                            | (0.5)    |
| Cumulative effect of accounting change, net of income taxes              | -                              | -        |
| Net income (loss)  | \$ 9.2                         | \$ (0.5) |
| Preferred stock dividends  | 2.2                            | 1.3      |
| Net income (loss) available to Common shareholders                       | \$ 7.0                         | \$ (1.8) |
| Per Share Data:  |                                |          |
| Basic Weighted Average Common shares outstanding (in thousands)          | 62,655                         | 61,649   |
| Basic earnings per Common share  |                                |          |

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|   |    |        |    |        |
|---|----|--------|----|--------|
| Income before cumulative effect of accounting change              | \$ | 0.11   | \$ | (0.03) |
| Cumulative effect of accounting change                            |    | -      |    | -      |
|   |    | -----  |    | -----  |
| Net income  | \$ | 0.11   | \$ | (0.03) |
| -----   |    |        |    |        |
| -----   |    |        |    |        |
| Diluted Weighted Average Common shares outstanding (in thousands) |    | 63,830 |    | 61,649 |
| Diluted earnings per Common share                                 |    |        |    |        |
| Income before cumulative effect of accounting change              | \$ | 0.11   | \$ | (0.03) |
| Cumulative effect of accounting change                            |    | -      |    | -      |
|   |    | -----  |    | -----  |
| Net income  | \$ | 0.11   | \$ | (0.03) |
| -----   |    |        |    |        |

KANSAS CITY SOUTHERN  
CONSOLIDATED BALANCE SHEETS  
(Dollars in millions)  
(Preliminary)

|                                      | June 30, 2004 |       |
|--------------------------------------|---------------|-------|
|                                      | -----         |       |
|                                      | (Unaudited)   |       |
| Assets                               |               |       |
| Cash                                 | \$            | 156   |
| Accounts receivable, net             |               | 116   |
| Inventories                          |               | 44    |
| Other current assets                 |               | 25    |
|                                      |               | ----- |
| Total current assets                 |               | 344   |
| Investments                          |               | 446   |
| Properties, net of depreciation      |               | 1,401 |
| Other assets                         |               | 42    |
|                                      |               | ----- |
| Total assets                         | \$            | 2,234 |
| =====                                |               |       |
| Liabilities and Stockholders' Equity |               |       |
| Current portion of long-term debt    | \$            | 8     |
| Accounts and wages payable           |               | 50    |
| Accrued liabilities                  |               | 124   |
|                                      |               | ----- |
| Total current liabilities            |               | 183   |
| Long-term debt                       |               | 563   |
| Deferred income taxes                |               | 397   |
| Other liabilities                    |               | 111   |
| Stockholders' equity                 |               | 978   |
|                                      |               | ----- |

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Total liabilities and stockholders' equity \$ 2,234

KANSAS CITY SOUTHERN  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in millions)  
(Unaudited)  
(Preliminary)

|   |    | En<br>-----<br>2004<br>----- |
|---|----|------------------------------|
| CASH FLOWS PROVIDED BY (USED FOR):                            |    |                              |
| OPERATING ACTIVITIES:   |    |                              |
| Net income  | \$ | 12.6                         |
| Adjustments to reconcile net income to net cash               |    |                              |
| Provided by operating activities                              |    |                              |
| Depreciation and amortization                                 |    | 25.9                         |
| Deferred income taxes   |    | 3.3                          |
| Equity in undistributed earnings of unconsolidated affiliates |    | (4.6)                        |
| Distributions from unconsolidated affiliates                  |    | 8.8                          |
| Gain on sale of property                                      |    | (0.7)                        |
| Cumulative effect of accounting change                        |    | -                            |
| Tax benefit realized upon exercise of stock options           |    | 0.9                          |
| Changes in working capital items                              |    |                              |
| Accounts receivable   |    | (2.3)                        |
| Inventories   |    | (7.9)                        |
| Other current assets  |    | (1.2)                        |
| Accounts and wages payable                                    |    | 3.7                          |
| Accrued liabilities   |    | 10.7                         |
| Other, net  |    | 4.4                          |
| Net cash provided by operating activities                     |    | 53.6                         |
| INVESTING ACTIVITIES:   |    |                              |
| Property acquisitions   |    | (69.6)                       |
| Proceeds from disposal of property                            |    | 1.9                          |
| Investment in and loans to affiliates                         |    | (4.8)                        |
| Other, net  |    | (5.0)                        |
| Net cash used for investing activities                        |    | (77.5)                       |
| FINANCING ACTIVITIES:   |    |                              |
| Proceeds from issuance of long-term debt                      |    | 150.0                        |
| Repayment of long-term debt                                   |    | (100.6)                      |
| Issuance of preferred stock, net                              |    | -                            |



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|   |       |
|---|-------|
| Debt issuance costs                       | (2.9) |
| Proceeds from stock plans                 | 2.9   |
| Cash dividends paid                       | (4.4) |
|   | ----- |
| Net cash provided by financing activities | 45.0  |
|   | ----- |

CASH AND CASH EQUIVALENTS:

|   |          |
|---|----------|
| Net increase in cash and cash equivalents | 21.1     |
| At beginning of year                      | 135.4    |
|   | -----    |
| At end of period                          | \$ 156.5 |
|   | =====    |

Kansas City Southern Railway  
Operating Statements  
Dollars in Millions

|                                   | Second Quarter<br>2004 | Second Quarter<br>2003 | Ye    |
|-----------------------------------|------------------------|------------------------|-------|
|                                   | -----                  | -----                  | ----- |
| Revenues                          |                        |                        |       |
| Chemical and Petroleum            | \$ 33.8                | \$ 30.6                | \$    |
| Paper and Forest                  | 38.3                   | 38.4                   |       |
| Agricultural and Mineral          | 30.0                   | 27.2                   |       |
| Intermodal and Automotive Revenue | 16.5                   | 14.9                   |       |
| Unit Coal Revenue                 | 22.9                   | 21.6                   |       |
| Haulage Revenue                   | 2.7                    | 2.7                    |       |
| Other Revenue                     | 8.7                    | 9.2                    |       |
|                                   | -----                  | -----                  | ----- |
| Total Revenues                    | 152.9                  | 144.6                  |       |
|                                   | -----                  | -----                  | ----- |
| Operating Expenses                |                        |                        |       |
| Compensation and Benefits         | 50.9                   | 46.5                   |       |
| Purchased Services                | 14.4                   | 13.0                   |       |
| Fuel                              | 14.4                   | 11.4                   |       |
| Equipment Costs                   | 11.6                   | 15.4                   |       |
| Casualties & Insurance            | 9.8                    | 7.2                    |       |
| Material and Supplies             | 6.4                    | 7.2                    |       |
| Other                             | 2.8                    | 3.2                    |       |
|                                   | -----                  | -----                  | ----- |
| Net Operating Expenses            | 110.3                  | 103.9                  |       |
|                                   | -----                  | -----                  | ----- |
| Fixed Expenses                    |                        |                        |       |
| Other Lease                       | 2.9                    | 2.3                    |       |
| Depreciation                      | 12.9                   | 15.9                   |       |
| Taxes (Other Than Income)         | 3.7                    | 3.6                    |       |
|                                   | -----                  | -----                  | ----- |

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|                      |         |         |       |
|----------------------|---------|---------|-------|
| Total Fixed Expenses | 19.5    | 21.8    |       |
|                      | -----   | -----   | ----- |
| Total Expenses       | 129.8   | 125.7   |       |
|                      | -----   | -----   | ----- |
| Operating Income     | \$ 23.1 | \$ 18.9 | \$    |
|                      | =====   | =====   | ===== |
| Operating Ratio      | 84.9%   | 86.9%   |       |

Note:

Certain prior year amounts have been reclassified to conform to the current year presentation.

Kansas City Southern Railway  
Carloadings By Commodity - Second Quarter 2004  
Dollars in Thousands

| Carloadings    |        |         |                               | Revenue        |           |
|----------------|--------|---------|-------------------------------|----------------|-----------|
| Second Quarter |        | %       |                               | Second Quarter |           |
| 2004           | 2003   | Change  |                               | 2004           | 2003      |
| -----          | -----  | -----   |                               | -----          | -----     |
|                |        |         | Coal                          |                |           |
| 47,128         | 44,886 | 5.0%    | Unit Coal                     | \$ 22,902      | \$ 21,610 |
| 556            | 870    | (36.1)% | Other Coal                    | 344            | 471       |
| -----          | -----  |         |                               | -----          | -----     |
| 47,684         | 45,756 | 4.2%    | Total                         | 23,246         | 22,081    |
| -----          | -----  |         |                               | -----          | -----     |
|                |        |         | Chemical & Petroleum Products |                |           |
| 1,520          | 1,419  | 7.1%    | Agri Chemicals                | 1,005          | 930       |
| 4,339          | 3,815  | 13.7%   | Gases                         | 4,339          | 3,796     |
| 6,969          | 5,451  | 27.8%   | Organic                       | 6,209          | 5,934     |
| 5,526          | 5,552  | (0.5)%  | Inorganic                     | 6,030          | 5,837     |
| 14,561         | 13,299 | 9.5%    | Petroleum                     | 10,808         | 9,164     |
| 4,679          | 4,757  | (1.6)%  | Plastics                      | 5,404          | 4,980     |
| -----          | -----  |         |                               | -----          | -----     |
| 37,594         | 34,293 | 9.6%    | Total                         | 33,795         | 30,641    |
| -----          | -----  |         |                               | -----          | -----     |
|                |        |         | Agriculture and Minerals      |                |           |
| 12,241         | 11,937 | 2.5%    | Domestic Grain                | 10,623         | 10,205    |
| 5,701          | 2,949  | 93.3%   | Export Grain                  | 4,866          | 2,220     |
| 7,588          | 8,961  | (15.3)% | Food Products                 | 6,882          | 7,269     |
| 6,718          | 7,012  | (4.2)%  | Ores and Minerals             | 4,091          | 4,060     |
| 4,334          | 4,405  | (1.6)%  | Stone, Clay & Glass           | 3,555          | 3,487     |
| -----          | -----  |         |                               | -----          | -----     |
| 36,582         | 35,264 | 3.7%    | Total                         | 30,017         | 27,241    |
| -----          | -----  |         |                               | -----          | -----     |
|                |        |         | Paper & Forest Products       |                |           |



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|         |         |         |                          |            |            |
|---------|---------|---------|--------------------------|------------|------------|
| 28,164  | 27,739  | 1.5%    | Petroleum                | 20,758     | 18,629     |
| 9,190   | 10,309  | (10.9)% | Plastics                 | 10,731     | 10,899     |
| -----   | -----   |         |                          | -----      | -----      |
| 73,274  | 70,304  | 4.2%    | Total                    | 65,746     | 61,794     |
| -----   | -----   |         |                          | -----      | -----      |
|         |         |         | Agriculture and Minerals |            |            |
| 24,716  | 23,228  | 6.4%    | Domestic Grain           | 20,958     | 18,878     |
| 13,191  | 8,227   | 60.3%   | Export Grain             | 11,981     | 6,610      |
| 14,687  | 16,576  | (11.4)% | Food Products            | 12,934     | 13,381     |
| 13,627  | 12,690  | 7.4%    | Ores and Minerals        | 8,085      | 7,232      |
| 8,363   | 7,988   | 4.7%    | Stone, Clay & Glass      | 6,786      | 6,256      |
| -----   | -----   |         |                          | -----      | -----      |
| 74,584  | 68,709  | 8.6%    | Total                    | 60,744     | 52,357     |
| -----   | -----   |         |                          | -----      | -----      |
|         |         |         | Paper & Forest Products  |            |            |
| 47,199  | 46,400  | 1.7%    | Pulp/Paper               | 38,191     | 36,311     |
| 3,757   | 3,387   | 10.9%   | Scrap Paper              | 2,497      | 2,099      |
| 12,781  | 15,248  | (16.2)% | Pulpwood/Logchips        | 5,915      | 6,999      |
| 16,564  | 14,911  | 11.1%   | Lumber/Plywood           | 16,639     | 14,483     |
| 8,742   | 9,038   | (3.3)%  | Metal/Scrap              | 7,418      | 7,603      |
| 3,676   | 3,266   | 12.6%   | Military/Other Carloads  | 4,312      | 4,791      |
| -----   | -----   |         |                          | -----      | -----      |
| 92,719  | 92,250  | 0.5%    | Total                    | 74,972     | 72,286     |
| -----   | -----   |         |                          | -----      | -----      |
|         |         |         | Intermodal & Automotive  |            |            |
| 2,508   | 3,145   | (20.3)% | Automotive               | 2,030      | 2,613      |
| 165,200 | 146,508 | 12.8%   | Intermodal               | 29,125     | 25,815     |
| -----   | -----   |         |                          | -----      | -----      |
| 167,708 | 149,653 | 12.1%   | Total                    | 31,155     | 28,428     |
| -----   | -----   |         |                          | -----      | -----      |
| 504,508 | 473,810 | 6.5%    | TOTAL FOR BUSINESS UNITS | 277,784    | 261,179    |
| 9,298   | 14,952  | (37.8)% | Haulage                  | 5,298      | 5,198      |
| (1,334) | (1,735) | 23.1%   | Adjustments              | -          | (1,025)    |
| -----   | -----   |         | Other KCSR Revenue       | 16,769     | 18,036     |
| -----   | -----   |         |                          | -----      | -----      |
| 512,472 | 487,027 | 5.2%    | TOTAL                    | \$ 299,851 | \$ 283,388 |
| =====   | =====   |         |                          | =====      | =====      |

Note:

Certain prior year amounts have been reclassified to conform to the current year presentation.