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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 (State or other jurisdiction of incorporation)	1-4717 (Commission file number)	44-0663509 (IRS Employer Identification Number)
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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. (99)	Document Additional Exhibits
99.1	Press Release issued by Kansas City 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 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 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

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

		En

		2004

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
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Kansas City Southern Railway
Operating Statements
Dollars in Millions

	Second Quarter 2004	Second Quarter 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
47,128	44,886	5.0%	Coal	
556	870	(36.1)%	\$ 22,902	\$ 21,610
47,684	45,756	4.2%	344	471
			Total	
			23,246	22,081
			Chemical & Petroleum Products	
1,520	1,419	7.1%	1,005	930
4,339	3,815	13.7%	4,339	3,796
6,969	5,451	27.8%	6,209	5,934
5,526	5,552	(0.5)%	6,030	5,837
14,561	13,299	9.5%	10,808	9,164
4,679	4,757	(1.6)%	5,404	4,980
37,594	34,293	9.6%	Total	
			33,795	30,641
			Agriculture and Minerals	
12,241	11,937	2.5%	10,623	10,205
5,701	2,949	93.3%	4,866	2,220
7,588	8,961	(15.3)%	6,882	7,269
6,718	7,012	(4.2)%	4,091	4,060
4,334	4,405	(1.6)%	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.