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KANSAS CITY SOUTHERN
Form 8-K
May 03, 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):
April 29, 2004

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

| | | |
|---|-----------------------------|---|
| DELAWARE | 1-4717 | 44-0663509 |
| (State or other jurisdiction of incorporation) | (Commission file number) | (IRS Employer 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. | Document |
|-------------|--|
| (99) | Additional Exhibits |
| 99.1 | Press Release issued by Kansas City Southern dated April 29, 2004 entitled, "Kansas City Southern First Quarter Results Reflect Improved Domestic Performance," is attached hereto as Exhibit 99.1 |

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99.2 The following schedules are attached hereto as Exhibit 99.2 - Kansas City Southern Operating Statements, Kansas City Southern Railway Carloadings by Commodity, Kansas City Southern Consolidated Balance Sheets

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 and Exhibit 99.2 of this report. Exhibit 99.1 is the Company's press release, dated April 29, 2004, announcing KCS's first quarter earnings and operating results. Included in Exhibit 99.2 are schedules regarding certain financial information discussed during the Company's first quarter 2004 conference call.

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

Date: April 30, 2004

By: /s/ Ronald G. Russ
Ronald G. Russ
Executive Vice President and Chief Financial Officer

EXHIBIT 99.1

KANSAS CITY SOUTHERN
Cathedral Square - 427 West 12th Street - P.O. Box 219335
Kansas City, Missouri 64121-9335

PRESS RELEASE
NYSE SYMBOL: KSU

Date: April 29, 2004

Media Contact: William H. Galligan
William.h.galligan@kcsr.com

816/983-1551

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Kansas City Southern First Quarter Results Reflect Improved Domestic Performance

Kansas City, MO. Kansas City Southern (KCS or Company) (NYSE: KSU) reported operating income of \$17.4 million in the first quarter of 2004, a substantial gain over the \$6.8 million reported in the first quarter of 2003. However, these gains were offset by lower equity earnings from Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (Grupo TFM), debt retirement costs, and higher tax expense. KCS consolidated net income for first quarter of 2004 was \$3.4 million, which after preferred stock dividends amounted to \$0.02 per diluted common share, compared with net income of \$13.6 million, which after preferred stock dividends amounted to \$0.22 per diluted common share. First quarter of 2003 net income included a one-time benefit of \$8.9 million (\$0.14 per diluted share) related to the cumulative effect of a change in accounting method.

The \$10.6 million increase in KCS domestic consolidated operating income resulted from a \$7.6 million increase (5.4%) in consolidated revenues, and a \$3.0 million (2.3%) reduction in costs and expenses quarter to quarter. The reduction in consolidated costs and expenses was due primarily to lower casualty and insurance expense, depreciation expense, and equipment costs.

During the first quarter of 2004, revenues from the Company's principal operating subsidiary, The Kansas City Southern Railway (KCSR) increased \$8.2 million, or 5.9%, compared to the first quarter of 2003. This increase was primarily driven by an 11% increase in freight revenues in the first quarter 2004 compared with first quarter 2003. Agriculture & minerals commodity group revenues increased by 22.3% quarter to quarter led by solid growth in both domestic and export grain traffic. Paper & forest products revenues grew by 8.4%, reflecting strong gains in pulp and paper, and lumber. Intermodal & automotive revenues increased by 8.2% based primarily on strong traffic growth on KCSR's strategic Meridian Speedway. Chemical & petroleum products continued to rebound and posted a 2.6% increase in first quarter 2004 compared to first quarter of 2003. Coal was the only commodity group recording a decrease with revenues down 9.5% almost totally due to maintenance outages at two of the principal coal-burning electric utilities served by KCSR. In 2003, these outages occurred during the second quarter rather than the first. During April 2004, volume at those plants had returned to normal levels.

KCSR's first quarter of 2004 total operating expenses decreased \$3.7 million (3.9%) from the comparable period in 2003. Decreases in casualty and insurance (\$3.0 million), material and supplies (\$1.9 million), and equipment costs (\$1.1 million) were the primary factors driving the improvements in operating expenses. Additionally, depreciation expense decreased \$3.1 million in the first quarter of 2004, primarily as a result of changes in estimates related to a recently completed KCS depreciation study, which was approved by the Surface Transportation Board. Partially offsetting these positive results was a \$2.0 million (15.9%) increase in fuel expenses caused by persistently high fuel prices. KCSR's operating expenses, as well as its yields on its freight revenue, have benefited from sustained excellent operating metrics. KCSR continues to rank among the best in the industry in terms of the primary publicly reported performance standards of average train velocity, average terminal dwell time, and cars on-line. Higher

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revenues, lower expenses, and excellent service performance have combined to improve KCSR's operating ratio to 84% for the first quarter of 2004 compared with 93.3% in the first quarter of 2003.

For KCS on a consolidated earnings basis, the impact of higher operating profit for first quarter 2004 over comparable 2003 was dampened by lower equity earnings from Grupo TFM, which decreased approximately \$5.6 million quarter to quarter. Grupo TFM's first quarter revenues were slightly lower (\$1 million) than comparable 2003, though revenues and volumes strengthened during March 2004. The revenue impact of the continuing weak North American automobile market was offset by solid gains in chemical and petrochemical businesses. Grupo TFM's operating expenses were relatively flat compared to first quarter 2003 despite a \$2 million increase in fuel expense. The primary factor in reduced equity earnings for Grupo TFM this quarter was a \$7.3 million deferred tax benefit (calculated under U.S. GAAP) compared to a \$23 million benefit in the first quarter of 2003, a \$15.7 million reduction.

Diluted earnings per share information:

Earnings (loss) per share information (1):

| | First 2004 |
|--|---------------|
| U.S. Operations | \$ 0.06 |
| Grupo TFM and PCRC (including allocated interest), preliminary | (0.04) |
| Income (loss) before cumulative effect of accounting change | 0.02 |
| Cumulative effect of accounting change, net of income taxes | --- |
| Net Income (loss) | \$ 0.02 |

Also impacting quarter-to-quarter net income comparisons is a one-time favorable benefit of \$8.9 million (net of income taxes) taken in the first quarter of 2003 relating to the cumulative effect arising from a required change in the method of accounting for removal costs of certain track structure assets. In addition, during the first quarter of 2004, KCS recorded a \$2.4 million reduction in casualty and insurance expenses related to insurance settlements. Offsetting this were \$4.2 million in debt retirement costs as a result of the write-off of unamortized debt issuance costs associated with early debt retirement following the March 30, 2004 placement of a new \$250 million senior-secured credit facility, and a \$2.1 million increase in the provision for doubtful accounts to increase the Company's bad debt reserves.

 (1) The components of the diluted earnings per share information include measurements that are not presented under accounting principles generally accepted in the United States of America ("U.S. GAAP"). This presentation includes an internal allocation of interest expense from U.S. operations to Grupo TFM. Management believes this interest expense allocation results in a more accurate reflection of the diluted earnings per share relating to

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the contribution of Grupo TFM to the consolidated net income of KCS. The interest expense allocation is based upon the initial amount of capital invested by KCS in Grupo TFM and is calculated utilizing a blended interest rate applicable to the Company's indebtedness composition. This measurement is presented to provide the reader of these financial statements with a better understanding of the impact of financing costs on the earnings per share related to KCS's investment in Grupo TFM. The nearest GAAP measurement is included in the consolidated statements of income included in this press release.

Comments from the Chairman

Michael R. Haverty, KCS's Chairman, President and Chief Executive Officer stated, "We are pleased that the positive revenue growth, the operating performance improvements, and the stringent cost management experienced at KCSR in the fourth quarter of 2003 continued during the first quarter of 2004. Additionally, four of KCSR's five commodity groups achieved growth, with the fifth, coal, affected by regularly scheduled maintenance outages at key utility plants served rather than changed market conditions. While a stronger economy has provided opportunities for some new and expanded markets, the primary catalysts for growth have been KCSR's much improved operating performance and customer service.

"Although disappointed in lower equity earnings from Grupo TFM, we fully recognize that the decrease in the contribution level to KCS is primarily the result of accounting for deferred taxes and the weakness of the Mexican peso versus the U.S. dollar rather than weakness in the TFM rail franchise. We are encouraged that TFM's business strengthened toward the end of the quarter, and that it has successfully brought on new business to replace that temporarily lost because of a weak North American automobile market. The 19% increase in cross border carloadings between KCSR and TFM underlines our continued commitment to NAFTA-related traffic and the strength of the market."

KCS is comprised of, among others, The Kansas City Southern Railway Company ("KCSR") and equity investments in 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.

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(dollars in millions, except per share data)

(Unaudited)

Revenues

Costs and expenses

Compensation and benefits

Purchased services

Fuel

Equipment costs

Depreciation and amortization

Casualties and insurance

Other leases

Other

Total costs and expenses

Operating income

Equity in net earnings of unconsolidated affiliates

Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (preliminary)

Other

Interest expense

Debt retirement costs

Other income

Income before income taxes and

cumulative effect of accounting change

Income tax provision (benefit)

Income before cumulative effect of accounting change

Cumulative effect of accounting change, net of income taxes

Net income

Preferred stock dividends

Net income available to Common shareholders

Per Share Data

Basic weighted average Common shares outstanding (in thousands)

Basic earnings per Common share

Income before cumulative effect of accounting change

Cumulative effect of accounting change

Net income

Diluted weighted average Common shares outstanding (in thousands)

Diluted earnings per Common share

Income before cumulative effect of accounting change

Cumulative effect of accounting change

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Net income

EXHIBIT 99.2

Kansas City Southern
Operating Statements
Dollars in Millions

| | First Quarter 2004 | First Quarter 2003 |
|-----------------------------------|-----------------------|-----------------------|
| | ----- | ----- |
| Revenues | | |
| Freight Revenue | \$ 99.3 | \$ 88.9 |
| Intermodal and Automotive Revenue | 14.6 | 13.5 |
| Unit Coal Revenue | 21.6 | 23.9 |
| Haulage Revenue | 2.6 | 2.5 |
| Other Revenue | 9.7 | 11.4 |
| | ----- | ----- |
| Total Revenues | 147.8 | 140.2 |
| | ----- | ----- |
| Operating Expenses | | |
| Compensation and Benefits | 50.8 | 50.5 |
| Purchased Services | 15.6 | 15.1 |
| Fuel | 14.8 | 12.8 |
| Material and Supplies | 5.5 | 7.4 |
| Casualties & Insurance | 5.7 | 8.1 |
| Equipment Costs | 13.0 | 14.0 |
| Other | 5.7 | 3.6 |
| | ----- | ----- |
| Net Operating Expenses | 111.1 | 111.5 |
| | ----- | ----- |
| Fixed Expenses | | |
| Other lease | 2.7 | 2.5 |
| Depreciation | 12.8 | 15.9 |
| Taxes (Other Than Income) | 3.8 | 3.5 |
| | ----- | ----- |
| Total Fixed Expenses | 19.3 | 21.9 |
| | ----- | ----- |
| Total Expenses | 130.4 | 133.4 |
| | ----- | ----- |
| Operating Income | \$ 17.4 | \$ 6.8 |
| | ===== | ===== |

Note:

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

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

| Carloadings | | | Revenue | |
|-------------------------------|--------|---------|---------------|-----------|
| First Quarter | | % | First Quarter | |
| 2004 | 2003 | Change | 2004 | 2003 |
| Coal | | | | |
| 47,857 | 46,480 | 3.0% | \$ 21,557 | \$ 23,891 |
| 682 | 658 | 3.6% | 364 | 342 |
| 48,539 | 47,138 | 3.0% | 21,921 | 24,233 |
| Total | | | | |
| Chemical & Petroleum Products | | | | |
| 1,455 | 1,414 | 2.9% | 911 | 953 |
| 4,011 | 3,664 | 9.5% | 4,022 | 3,563 |
| 7,042 | 5,307 | 32.7% | 6,397 | 5,430 |
| 5,058 | 5,634 | (10.2)% | 5,344 | 5,823 |
| 13,603 | 14,440 | (5.8)% | 9,950 | 9,465 |
| 4,511 | 5,552 | (18.8)% | 5,327 | 5,919 |
| 35,680 | 36,011 | (0.9)% | 31,951 | 31,153 |
| Total | | | | |
| Agriculture and Minerals | | | | |
| 12,475 | 11,291 | 10.5% | 10,335 | 8,673 |
| 7,490 | 5,278 | 41.9% | 7,115 | 4,390 |
| 7,099 | 7,615 | (6.8)% | 6,052 | 6,112 |
| 6,909 | 5,678 | 21.7% | 3,994 | 3,172 |
| 4,029 | 3,583 | 12.4% | 3,231 | 2,769 |
| 38,002 | 33,445 | 13.6% | 30,727 | 25,116 |
| Total | | | | |
| Paper & Forest Products | | | | |
| 23,284 | 22,685 | 2.6% | 18,791 | 17,206 |
| 1,826 | 1,694 | 7.8% | 1,142 | 1,025 |
| 6,542 | 7,159 | (8.6)% | 2,922 | 3,354 |
| 8,105 | 6,991 | 15.9% | 7,939 | 6,719 |
| 4,365 | 4,648 | (6.1)% | 3,588 | 3,569 |
| 2,129 | 1,621 | 31.3% | 2,334 | 2,010 |
| 46,251 | 44,798 | 3.2% | 36,716 | 33,883 |
| Total | | | | |
| Intermodal & Automotive | | | | |
| 1,079 | 1,395 | (22.7)% | 871 | 1,156 |
| 79,561 | 70,389 | 13.0% | 13,756 | 12,357 |
| 80,640 | 71,784 | 12.3% | 14,627 | 13,513 |
| Total | | | | |

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| | | | | | |
|---------|---------|---------|--------------------------|------------|-----------|
| 249,112 | 233,176 | 6.8% | TOTAL FOR BUSINESS UNITS | 135,942 | 127,898 |
| 4,621 | 7,700 | (40.0)% | Haulage | 2,645 | 2,487 |
| (859) | (817) | (5.1)% | Adjustments | - | (1,025) |
| 252,874 | 240,059 | 5.3% | TOTAL | \$ 138,587 | \$ 29,360 |

Kansas City Southern

Consolidated Balance Sheets

(Dollars in Millions)

| | March 31, 2004 (Unaudited) |
|---|-------------------------------|
| Assets | |
| Cash | \$ 188.6 |
| Accounts receivable | 109.1 |
| Inventories | 41.9 |
| Other current assets | 25.0 |
| Total current assets | 364.6 |
| Investments | 446.5 |
| Properties, net of depreciation | 1,372.0 |
| Other assets | 41.7 |
| Total assets | \$ 2,224.8 |
| Liabilities and Stockholders' Equity | |
| Current portion of long-term debt | \$ 9.9 |
| Accounts payable | 42.8 |
| Accrued liabilities | 134.1 |
| Total current liabilities | 186.8 |
| Long-term debt | 564.4 |
| Deferred income taxes | 391.7 |
| Other | 111.4 |
| Stockholders' equity | 970.5 |

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| | | |
|--|----|---------|
| Total liabilities and stockholders' equity | \$ | 2,224.8 |
| | | ===== |