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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:

MidSouth Rail Union 401(k) Retirement Savings 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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EXHIBIT:

Exhibit 23 - Consent of KPMG LLP

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MIDSOUTH RAIL UNION 401(K)
RETIREMENT SAVINGS PLAN

Financial Statements and Supplemental Schedule

December 31, 2003 and 2002

(With Report of Independent Registered Public Accounting Firm Thereon)

MIDSOUTH RAIL UNION 401(K)
RETIREMENT SAVINGS PLAN

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Participants and Plan Administrator
MidSouth Rail Union 401(k) Retirement Savings Plan:

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We have audited the accompanying statements of net assets available for benefits of the MidSouth Rail Union 401(k) Retirement Savings 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

MIDSOUTH RAIL UNION 401(K)
RETIREMENT SAVINGS PLAN
Statements of Net Assets Available for Benefits

	December 31, 2003 and 2002	
	2003	2002
	-----	-----
Assets:		
Cash	\$ 9,673	11,202
Investments, at fair value:		
Common stock of Kansas City Southern	60,215	3,972
Common collective trust	1,034,694	1,046,922
Mutual funds	1,619,031	1,182,831

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Total investments	----- 2,713,940	----- 2,233,725
Total assets	----- 2,723,613	----- 2,244,927
Investment trades payable	9,654	--
Net assets available for benefits	----- \$ 2,713,959	----- 2,244,927
	=====	=====

See accompanying notes to financial statements.

MIDSOUTH RAIL UNION 401(K)
RETIREMENT SAVINGS PLAN
Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2003 and 2002

	2003	2002
	-----	-----
Investment income (loss):		
Interest and dividends	\$ 62,779	\$ 10,000
Net appreciation (depreciation) in fair value of investments	320,409	10,000
Total investment gain (loss)	----- 383,188	----- 10,000
Contributions:		
Participant contributions	235,260	235,260
Company contributions	69,872	69,872
Total contributions	----- 305,132	----- 305,132
Benefits paid	(219,288)	(219,288)
Increase in net assets available for benefits	----- 469,032	----- 469,032
Net assets available for benefits:		
Beginning of year	2,244,927	2,244,927
End of year	----- \$ 2,713,959	----- \$ 2,244,927
	=====	=====

See accompanying notes to financial statements.

MIDSOUTH RAIL UNION 401(K)
RETIREMENT SAVINGS PLAN
Notes to Financial Statements
December 31, 2003 and 2002

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(1) DESCRIPTION OF THE PLAN

The following description of the MidSouth Rail Union 401(k) Retirement Savings Plan (the Plan) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(A) GENERAL

The Plan is a participant-directed, contributory, defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

During 1993, the MidSouth Corporation was acquired by Kansas City Southern Industries, Inc. and was merged into The Kansas City Southern Railway Company (the Company), a wholly owned subsidiary of Kansas City Southern Industries, Inc., on January 1, 1994. Effective May 2, 2002, Kansas City Southern Industries, Inc. changed its name to Kansas City Southern.

On January 1, 2001, the SouthRail Corporation Union Savings Plan was merged into the Plan.

(B) ELIGIBILITY

The Plan covers all full-time employees of the Company who are members of one of the following collective bargaining units with the former MidSouth Rail Corporation: Brotherhood of Locomotive Engineers, Brotherhood of Maintenance of Way Employees, Brotherhood of Railway Carmen, Brotherhood of Railroad Signalmen, International Association of Machinists and Aerospace Workers, International Brotherhood of Electrical Workers, Transportation Communications International Union, or United Transportation Union. Plan entry dates are the first day of each quarter.

A participant that ends his or her membership in any of the above collective bargaining units is no longer eligible to receive Company contributions. However, such participant will continue to receive credit for vesting under the provisions of the Plan and continues to share fully in trust fund allocations, as set forth in the Plan. Upon rejoining any of the above collective bargaining units, such participant is then immediately eligible to participate in all future Company contributions, as set forth in the Plan.

Participants in the former SouthRail Corporation Union Savings Plan and the participants in the MidSouth Rail Union 401(k) Retirement Savings Plan and Trust Agreement who were employees of the Company on January 1, 2001, continue to be participants in the Plan.

(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 100% of the first \$200 of participant salary deferral contributions and 50% of the second \$600 of participant salary deferral contributions, with a maximum annual Company matching contribution of \$500 per participant.

(D) PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's

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contribution, the Company's 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 salary deferral contributions plus actual earnings thereon.

Company contributions vest according to the following schedule:

Years of service	Percent
Less than 1	%
	--
1	20
2	40
3	60
4	80
5 or more	100

(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

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 distribution 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

Investment expenses are paid by the Plan as long as Plan assets are sufficient to provide for such expenses. Administrative expenses are

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principally 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 the common collective trust (Invesco Stable Value Fund) are valued at contract value, which approximates fair value, as determined by AMVESCAP National Trust Company.

(C) FORFEITURES

Nonvested amounts forfeited by employees are allocated to the other participants as a part of and in the same manner as the Company contribution for the Plan year in which the forfeiture occurs. Allocated forfeitures were \$190 and \$5,463 for the Plan years ended December 31, 2003 and 2002, respectively.

(D) 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 benefits at December 31, 2003 and 2002, were as follows:

	2003	2002
	-----	-----
Invesco Stable Value	\$ 1,034,694	1,046,912
Franklin Balance Sheet Investment A	184,332	132,750
PIMCO Renaissance	204,707	114,339
PIMCO Total Return Administrative Shares	351,186	321,001
Other	939,021	618,723
	-----	-----
Total Investments	\$ 2,713,940	2,233,725
	=====	=====

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 \$320,409 and (\$216,986), respectively, as follows:

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	2003	2002
	-----	-----
Kansas City Southern common stock	\$ 8,805	(642)
Mutual funds	311,604	(216,344)
	-----	-----
	\$ 320,409	(216,986)
	=====	=====

(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. Accordingly, the Plan was renamed MidSouth Rail Union 401(k) Retirement Savings Plan. 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 by 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 has received a favorable determination letter from the Internal Revenue Service, dated March 7, 2003, indicating that it is qualified under Section 401(a) of the Internal Revenue Code and, therefore, the related trust is exempt from tax under Section 501(a) of the Internal Revenue Code. The determination letter is applicable for the amendments executed through April 1, 2002.

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

SCHEDULE 1

MIDSOUTH RAIL UNION 401(K)
RETIREMENT SAVINGS PLAN
Schedule H, Line 4i -- Schedule of Assets (Held at End of Year)
December 31, 2003

IDENTITY

DESCRIPTION

Common Stock:

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*Kansas City Southern common stock	4,203 shares, with a fair value of \$14.32 per share
Common Collective Trust:	
Invesco Stable Value	1,034,721.93 shares, with a fair value of \$1.00 per share
Mutual Funds:	
AIM Small Cap Growth Fund	1,521.626 shares, with a fair value of \$25.71 per share
EuroPacific Growth	3,028.708 shares with a fair value of \$30.21 per share
Franklin Balance Sheet Investment A	3,874.963 shares, with a fair value of \$47.57 per share
Growth Fund of America	4,769.48 shares, with a fair value of \$24.54 per share
ING International Value Fund	5,028.589 shares, with a fair value of \$15.11 per share
Janus Fund	5,370.99 shares, with a fair value of \$23.47 per share
Janus Twenty Fund	667.868 shares, with a fair value of \$36.17 per share
MFS Value Fund	5,911.71 shares, with a fair value of \$20.34 per share
Oppenheimer Quest Balanced Value	6,277.833 shares, with a fair value of \$16.37 per share
PIMCO Renaissance	8,819.771 shares, with a fair value of \$23.21 per share
PIMCO Total Return Administrative Shares	32,790.476 shares, with a fair value of \$10.71 per share
Scudder Equity 500 Index	418.532 shares, with a fair value of \$124.93 per share
Washington Mutual Investors Fund	4,504.849 shares, with a fair value of \$28.78 per share
Total investments	

*Party-in-interest.

See accompanying report of independent registered public accounting firm.

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.

MIDSOUTH RAIL UNION 401(k)
RETIREMENT SAVINGS PLAN

By /s/ Eric B. Freestone

Eric B. Freestone

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Title: Vice President Human Resources

Dated June 28, 2004