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KANSAS CITY SOUTHERN
Form 8-K
July 30, 2002

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 25, 2002

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 July 25, 2002 entitled, "Kansas City Southern

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Reports Substantial Improvement in Second Quarter and Year to Date 2002 Earnings", is attached hereto as Exhibit 99.1

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

ITEM 9. REGULATION FD DISCLOSURE

Kansas City Southern ("KCS" or "Company") is furnishing under Item 9 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 July 25, 2002, announcing KCS's second quarter and year to date 2002 operating results. Included in Exhibit 99.2 are schedules regarding certain financial information discussed at the Company's second quarter 2002 meeting and conference call.

The information included in this Current Report on Form 8-K, including Exhibit 99.1 and Exhibit 99.2, is furnished pursuant to Item 9 and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section.

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: July 30, 2002

By: /s/ LOUIS G. VAN HORN

Louis G. Van Horn
Vice President and Comptroller
(Principal Accounting Officer)

EXHIBIT 99.1

KANSAS CITY SOUTHERN
427 WEST 12TH STREET, KANSAS CITY, MISSOURI 64105

PRESS RELEASE
NYSE SYMBOL: KSU

Date: July 25, 2002

Media Contact: William H. Galligan Phone: 816/983-1551
william.h.galligan@kcsr.com Fax: 816/983-1590

KANSAS CITY SOUTHERN REPORTS SUBSTANTIAL IMPROVEMENT IN SECOND QUARTER AND YEAR TO DATE 2002 EARNINGS

EARNINGS ANALYSIS & COMMENTARY

Kansas City Southern ("KCS" or the "Company") reported net income of \$14.5 million (23(cents) per diluted share) for the second quarter of 2002, more than triple the \$4.7 million (8(cents) per diluted share) reported for the second quarter of 2001. This \$9.8 million quarter to quarter increase resulted from a

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\$6.9 million decline in consolidated operating expenses, a \$4.0 million decrease in interest expense, a \$3.3 million increase in other income and an \$8.1 million increase in equity in earnings from Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. ("Grupo TFM"). These factors, which led to an increase in net income, were reduced by a \$5.3 million decline in consolidated revenue, a \$1.6 million decrease in equity in earnings (losses) from other unconsolidated affiliates and a \$2.9 million increase in the income tax provision. Net income for the second quarter of 2002 also includes extraordinary debt retirement costs of \$2.7 million (after-tax) associated with the early retirement of term debt in June 2002.

For the six months ended June 30, 2002, net income was \$26.2 million (42(cent) per diluted share) compared to \$10.6 million (17(cent) per diluted share) for the six months ended June 30, 2001. This \$15.6 million period to period increase was due to an \$8.9 million increase in domestic operating income, a \$1.8 million increase in equity in earnings from Grupo TFM, a \$7.9 million decline in interest expense, a \$6.7 million increase in other income and a \$4.4 million gain realized on the sale of Mexrail, Inc. ("Mexrail") to KCS's affiliate in Mexico, TFM, S.A. de C.V. ("TFM"). These items were partially offset by a \$1.6 million decline in equity in earnings (losses) from other unconsolidated affiliates and a \$10.2 million increase in the income tax provision. Additionally, net income for the first six months of 2002 includes the extraordinary debt retirement costs discussed above. Equity in earnings for the six months ended June 30, 2001 reflect the Company's proportionate share (\$9.1 million) of the income recorded by Grupo TFM relating to the reversion of certain concession assets to the Mexican government. Net income for year to date 2001 includes a \$0.4 million charge relating to the implementation of Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). This charge is presented as a cumulative effect of an accounting change for year to date 2001.

Diluted earnings per share information is as follows:

	SECOND QUARTER	
	2002	2001
U.S. operations	\$ 0.13	\$ 0.07
Grupo TFM and PCRC (includes allocated interest)	0.14	0.01
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	0.27	0.08
Extraordinary debt retirement costs, net of income taxes	(0.04)	-
Cumulative effect of accounting change, net of income taxes	-	-
Diluted earnings per share - Net income	\$ 0.23	\$ 0.08

SECOND QUARTER

Operating income for the quarter ended June 30, 2002 increased \$1.6 million to \$14.5 million compared to \$12.9 million for the second quarter of 2001 as a \$6.9 million decline in operating expenses more than offset a \$5.3 million decline in revenue quarter to quarter. Revenue from the Company's principal subsidiary, The Kansas City Southern Railway Company ("KCSR") declined \$3.9 million compared with the prior year quarter due to lower coal and automotive revenue, partially

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offset by an increase in chemical and petroleum products, agriculture and minerals, paper and forest products and intermodal revenue. Revenue improvements for these commodity groups were driven primarily by rate increases, increased length of haul and traffic volume gains for certain commodities. Coal revenue declined primarily as a result of a rate reduction at a major customer, which took effect on January 1, 2002, as well as lower volume related to the expiration of another coal customer's contract. Automotive revenue was lower due to the loss of Ford business, which occurred in the second half of 2001. Revenue from other subsidiaries decreased approximately \$1.4 million quarter to quarter due to demand driven volume declines. Second quarter 2002 costs and expenses for KCSR were \$5.6 million lower compared to the prior year quarter resulting mostly from declines in costs for compensation, fuel, car hire, purchased services and casualties. These factors resulted in a lower operating ratio for KCSR, which improved to 86.5% for the quarter ended June 30, 2002 compared to 88.1% for the same period in 2001.

The Company's equity in earnings from Grupo TFM increased approximately \$8.1 million quarter to quarter. Exclusive of the results from Mexrail, which was consolidated into Grupo TFM effective April 1, 2002, second quarter 2002 Grupo TFM revenues improved 1% compared to the second quarter of 2001 and operating expenses were 8% lower (under accounting principles generally accepted in the United States of America - "U.S. GAAP"). Second quarter 2002 results for Grupo TFM include a \$27.8 million deferred tax benefit (calculated under U.S. GAAP) compared to a deferred tax expense of \$2.9 million in the second quarter of 2001. This variance was caused by a weakening of the peso exchange rate as well as tax benefits derived from the impact of Mexican inflation. The fluctuation in the peso exchange rate also contributed to an \$18.4 million exchange loss for the second quarter of 2002 compared to an exchange gain of \$1.1 million in the second quarter of 2001. The Company reports its equity in Grupo TFM under U.S. GAAP while Grupo TFM reports under International Accounting Standards ("IAS").

KCS's consolidated second quarter 2002 interest expense decreased \$4.0 million (28%) from the prior year quarter as a result of lower interest rates and lower overall debt balances. Other items affecting the Company's second quarter results include a gain of approximately \$3.5 million on the sale of certain non-operating property at a smaller subsidiary, which is reflected as other income.

During the second quarter, the Company refinanced approximately \$200 million of term debt and other secured indebtedness using proceeds received from the private placement of \$200 million of 7 1/2% senior notes due June 15, 2009 ("Note Offering"). In conjunction with the Note Offering, the Company amended and restated its credit agreement. KCS reported an extraordinary charge of \$2.7 million (after-tax) related to this refinancing transaction.

YEAR TO DATE

For the first six months of 2002, KCS's operating income rose \$8.9 million as a result of lower operating expenses, which declined \$15.7 million (6%) compared to the first six months of 2001, partially offset by a \$6.8 million (2%) decline in consolidated revenue period to period. KCSR's year to date 2002 revenue dropped \$3.7 million compared to year to date 2001. Similar to the second quarter, this decline resulted primarily from lower coal and automotive revenue, partially offset by higher revenue for chemical and petroleum products, agriculture and minerals, paper and forest products and intermodal business. Revenue from other subsidiaries decreased approximately \$3.1 million period to period due to demand driven volume declines. KCSR's year to date 2002 costs and expenses were \$15.0 million lower compared to the prior year period resulting mostly from declines in costs for compensation, fuel, car hire and casualties, partially offset by higher fringe benefit costs. KCSR's operating ratio was 86.9% for the first six months of 2002 compared to 91.1% for the same period in

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2001.

The Company's equity in earnings from Grupo TFM increased approximately \$1.8 million period to period. In 2001, however, equity in earnings reflected the Company's proportionate share (\$9.1 million) of the income recorded by Grupo TFM relating to the reversion of certain concession assets to the Mexican government. Exclusive of this 2001 income, KCS's year to date 2002 equity in earnings from Grupo TFM increased \$10.9 million compared to same period last year. Exclusive of Mexrail's results for year to date 2002, Grupo TFM's revenue improved nearly 1% compared to year to date 2001 and operating expenses (under U.S. GAAP) were 5% lower (exclusive of the 2001 reversion income). For the six months ended June 30, 2002, Grupo TFM's results include a \$31.3 million deferred tax benefit (calculated under U.S. GAAP) compared to a deferred tax expense of \$24.6 million in the same period in 2001. This variance was caused by several factors, including a deferred tax expense recorded in 2001 related to the income from the line reversion, the weakening of the peso exchange rate, as well as tax benefits derived from the impact of Mexican inflation in 2002. The fluctuation in the peso exchange rate also contributed to a \$17.6 million exchange loss for year to date 2002 compared to an exchange gain of \$4.2 million for the same period in 2001.

KCS's consolidated year to date interest expense decreased \$7.9 million (27%) from the same prior year period as a result of lower interest rates and lower overall debt balances. Other items affecting the Company's year to date results include a gain of approximately \$6.8 million on the sale of certain non-operating property at a smaller subsidiary, which is reported as other income, and a gain on the sale of Mexrail of approximately \$4.4 million. The gain from the sale of Mexrail is presented as a separate item in the accompanying financial statements.

BUSINESS ANALYSIS AND OUTLOOK FROM THE CHAIRMAN

Michael R. Haverty, KCS's Chairman, President and Chief Executive Officer said, "we have been able to improve our bottom line in 2002 and pay down debt despite the continued economic distress in North America and its impact on revenue. Efforts to maintain our cost structure have proven effective as operating income for both second quarter and year to date 2002 has increased compared to those same periods in 2001, despite revenue declines in both periods. Revenue for the second quarter and year to date, while improved for certain commodity groups, was below our expectations. The cause of the revenue declines, as pointed out in recent periods, was primarily due to lower coal revenue arising from a rate reduction at one coal customer and the loss of business from another coal customer. Also contributing to the revenue decline was the loss of automotive traffic with Ford. Revenue gains experienced in other commodity groups were obtained mostly through targeted rate increases, favorable changes in traffic patterns and certain traffic volume improvements.

During 2002, Grupo TFM has been the most profitable part of our business and provided a significant contribution to our net income. Grupo TFM revenue continues to grow, while TFM management has been able to maintain effective control over its costs. This is a tremendous accomplishment in such a tough economic environment and shows the strong leadership of the Grupo TFM management team. We, along with our partner, Grupo TMM, are in the final stages of completing the purchase of the Mexican government's 24.6% ownership in Grupo TFM through TFM. Our call option expires on July 31, 2002 and we expect this transaction to be completed on or prior to that date. We are

excited about increasing our ownership position in Grupo TFM, which, we believe, has become a rail transportation leader in North America.

The Company has reduced its debt balance by approximately \$33 million during the

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second quarter of 2002 and by \$92 million during the course of the last twelve months, resulting in a debt balance below \$600 million. In June 2002, we issued \$200 million of seven-year 7 1/2% senior notes. This successful debt offering provides stability for our current and future capital structure. The ability to reduce our debt structure and secure a favorable note offering in a weak economy demonstrates our commitment to achieving and maintaining an efficient capital structure.

On July 14, 2002, we implemented our Management Control System ("MCS") on KCSR. This state-of-the-art transportation computer system will allow management to more effectively control and schedule the operations of the railroad and provide customers with an effective tracking mechanism. While we are experiencing the normal start-up growing pains, we are excited to have MCS in place and look forward to the efficiencies and cost savings it is expected to provide.

As we face the future, we must increase our revenue base and continue to control expenses. Even in these uncertain economic times, we believe that opportunities exist to grow revenue. We will continue to implement targeted rate increases when possible and increase traffic volumes with new as well as existing customers. And when the economy does show consistent growth, we believe KCS is well positioned to turn future revenue growth into increased profitability. We appreciate the confidence that our shareholders have placed in us during these times of economic volatility and we are as committed as ever to rewarding that confidence through continued growth and by maximizing the potential of our NAFTA rail network."

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 COMPANY'S DECEMBER 31, 2001 FORM 10-K AND THE CURRENT REPORT ON FORM 8-K DATED DECEMBER 11, 2001, EACH 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)

KANSAS CITY SOUTHERN
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
REVENUES	\$ 137.9	\$ 137.9
Costs and expenses	108.8	108.8
Depreciation and amortization	14.6	14.6
OPERATING INCOME	14.5	14.5

Equity in net earnings (losses) of unconsolidated affiliates:

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Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (PRELIMINARY)	13.0	
Other	(1.3)	
Gain on sale of Mexrail, Inc.	-	
Interest expense	(10.5)	
Other income	4.4	
	-----	-----

INCOME BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	20.1	
Income tax provision (benefit)	2.9	
	-----	-----

INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	17.2	
Extraordinary item, net of income taxes	(2.7)	
Cumulative effect of accounting change, net of income taxes	-	
	-----	-----

NET INCOME	\$ 14.5	\$
	=====	=====

PER SHARE DATA:

Basic Weighted Average Common shares outstanding (IN THOUSANDS)	60,095	5
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Basic Earnings (Loss) per Common share		
Income before extraordinary item and cumulative effect of accounting change	\$ 0.28	\$
Extraordinary item, net of income taxes	(0.04)	
Cumulative effect of accounting change	-	
	-----	-----

Net Income	\$ 0.24	\$
	=====	=====

Diluted Weighted Average Common shares outstanding (IN THOUSANDS)	62,327	6
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Diluted Earnings (Loss) per Common share		
Income before extraordinary item and cumulative effect of accounting change	\$ 0.27	\$
Extraordinary item, net of income taxes	(0.04)	
Cumulative effect of accounting change	-	
	-----	-----

Net Income	\$ 0.23	\$
	=====	=====

EXHIBIT 99.2

KANSAS CITY SOUTHERN RAILWAY
OPERATING STATEMENTS
DOLLARS IN MILLIONS

SECOND QUARTER
2002

SECOND QUARTER
2001

YEAR TO
JUNE 30

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Revenues			
Freight Revenue	\$	89.8	\$ 82.9
Intermodal and Automotive Revenue		15.1	18.0
Unit Coal Revenue		20.9	27.6
Haulage Revenue		3.4	3.3
Other Revenue		7.1	8.4
Total Revenues		136.3	140.2
Operating Expenses			
Compensation		31.3	32.2
Fringe Benefits		14.1	14.1
Fuel		9.3	11.4
Material and Supplies		7.9	7.3
Car Hire		4.1	5.7
Purchased Services		11.3	12.5
Casualties & Insurance		6.5	7.4
Other		2.7	1.9
Net Operating Expenses		87.2	92.5
Fixed Expenses			
Leases, Net		13.4	13.9
Depreciation		13.7	13.6
Taxes (Other Than Income)		3.7	3.6
Total Fixed Expenses		30.8	31.1
Total Expenses		118.0	123.6
Operating Income	\$	18.3	\$ 16.6

KANSAS CITY SOUTHERN RAILWAY
 CARLOADINGS BY COMMODITY - YEAR TO DATE JUNE 30, 2002
 DOLLARS IN THOUSANDS

CARLOADINGS				REV
Year to Date		%		Year to D
2002	2001	Change		2002
COAL				
103,095	92,314	11.7%	Unit Coal	\$ 49,206
2,012	2,404	(16.3)%	Other Coal	1,082
105,107	94,718	11.0%	Total	50,288

CHEMICAL & PETROLEUM PRODUCTS

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3,213	3,591	(10.5)%	Agri Chemicals	2,337
6,828	5,661	20.6%	Gases	6,707
11,392	11,387	0.0%	Organic	11,530
10,236	9,661	6.0%	Inorganic	10,865
27,153	33,930	(20.0)%	Petroleum	19,654
14,879	13,639	9.1%	Plastics	14,579
-----	-----			-----
73,701	77,869	(5.4)%	Total	65,672
-----	-----			-----
AGRICULTURE AND MINERALS				
24,265	24,496	(0.9)%	Domestic Grain	17,167
7,446	5,049	47.5%	Export Grain	5,574
13,855	13,209	4.9%	Food Products	11,428
11,047	11,585	(4.6)%	Ores and Minerals	6,181
7,801	7,556	3.2%	Stone, Clay & Glass	6,034
-----	-----			-----
64,414	61,895	4.1%	Total	46,384
-----	-----			-----
PAPER & FOREST PRODUCTS				
42,629	41,031	3.9%	Pulp/Paper	31,966
2,926	3,420	(14.4)%	Scrap Paper	1,730
17,104	17,732	(3.5)%	Pulpwood/Logchips	6,961
13,766	12,824	7.3%	Lumber/Plywood	12,606
8,944	11,289	(20.8)%	Metal/Scrap	7,542
3,499	3,375	3.7%	Military/Other Carloads	5,275
-----	-----			-----
88,868	89,671	(0.9)%	Total	66,080
-----	-----			-----
INTERMODAL & AUTOMOTIVE				
9,481	23,743	(60.1)%	Automotive	6,328
128,790	126,573	1.8%	Intermodal	22,990
-----	-----			-----
138,271	150,316	(8.0)%	Total	29,318
-----	-----			-----
470,361	474,469	(0.9)%	TOTAL FOR BUSINESS UNITS	257,742
18,128	17,204	5.4%	HAULAGE	6,482
(3,523)	(4,997)	29.5%	Adjustments	(2,540)
-----	-----			-----
484,966	486,676	(0.4)%	TOTAL	\$ 261,684
=====	=====			=====

KANSAS CITY SOUTHERN RAILWAY
CARLOADINGS BY COMMODITY - SECOND QUARTER 2002
DOLLARS IN THOUSANDS

CARLOADINGS

REV

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Second Quarter		%		Second Qu
2002	2001	Change		2002
			COAL	
45,503	47,120	(3.4)%	Unit Coal	\$ 20,925
1,131	1,151	(1.7)%	Other Coal	623
46,634	48,271	(3.4)%		21,548
			CHEMICAL & PETROLEUM PRODUCTS	
1,392	1,722	(19.2)%	Agri Chemicals	933
3,588	2,866	25.2%	Gases	3,588
5,978	5,675	5.3%	Organic	6,106
5,372	4,869	10.3%	Inorganic	5,707
14,066	14,938	(5.8)%	Petroleum	10,004
7,425	6,644	11.8%	Plastics	7,463
		3.0%	Total	33,801
37,821	36,714			
			AGRICULTURE AND MINERALS	
12,141	12,435	(2.4)%	Domestic Grain	8,779
2,531	1,867	35.6%	Export Grain	1,763
6,572	6,940	(5.3)%	Food Products	5,429
5,991	5,970	0.4%	Ores and Minerals	3,353
4,139	3,833	8.0%	Stone, Clay & Glass	3,222
		1.1%	Total	22,546
31,374	31,045			
			PAPER & FOREST PRODUCTS	
22,060	20,450	7.9%	Pulp/Paper	16,813
1,383	1,772	(22.0)%	Scrap Paper	833
8,318	9,062	(8.2)%	Pulpwood/Logs/Chips	3,262
6,968	6,833	2.0%	Lumber/Plywood	6,491
4,695	5,208	(9.9)%	Metal/Scrap	4,076
1,611	1,918	(16.0)%	Military/Other carloads	2,668
		(0.5)%	Total	34,143
45,035	45,243			
			INTERMODAL & AUTOMOTIVE	
3,710	12,198	(69.6)%	Automotive	2,823
67,574	61,294	10.2%	Intermodal	12,196
		(3.0)%	Total	15,019
71,284	73,492			
232,148	234,765	(1.1)%	TOTAL FOR BUSINESS UNITS	127,057
9,852	8,589	14.7%	HAULAGE	3,375
(1,461)	(2,833)	48.4%	Adjustments	(1,274)
240,539	240,521	0.0%	TOTAL	\$ 129,158

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KANSAS CITY SOUTHERN
 CONSOLIDATED BALANCE SHEETS
 (DOLLARS IN MILLIONS)

JUNE 30, 2002

(UNAUDITED)

ASSETS

Cash	\$	23.5
Accounts receivable		131.5
Inventories		30.6
Other current assets		36.1

Total current assets		221.7
Investments held for operating purposes		394.7
Properties, net of depreciation		1,329.9
Other assets		33.2

Total assets	\$	1,979.5
		=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current portion of long-term debt	\$	10.3
Accounts payable		43.4
Accrued liabilities		161.9

Total current liabilities		215.6
Long-term debt		584.7
Deferred income taxes		368.0
Other		98.5
Stockholders' equity		712.7

Total liabilities and stockholders' equity	\$	1,979.5
		=====