

KANSAS CITY SOUTHERN  
Form 10-Q  
October 21, 2011  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-4717

KANSAS CITY SOUTHERN

(Exact name of registrant as specified in its charter)

Delaware

44-0663509

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

427 West 12th Street,  
Kansas City, Missouri

64105

(Address of principal executive offices)

(Zip Code)

816.983.1303

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at October 13, 2011

Common Stock, \$0.01 per share par value

109,843,741 Shares



Table of Contents

Kansas City Southern  
Form 10-Q  
September 30, 2011  
Index

	Page
PART I — FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Introductory Comments</u>	<u>3</u>
<u>Consolidated Statements of Income — Three and nine months ended September 30, 2011 and 2010</u>	<u>4</u>
<u>Consolidated Balance Sheets — September 30, 2011 and December 31, 2010</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows — Nine months ended September 30, 2011 and 2010</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
Item 4. <u>Controls and Procedures</u>	<u>34</u>
PART II — OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>35</u>
Item 1A. <u>Risk Factors</u>	<u>35</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>35</u>
Item 4. <u>(Removed and Reserved)</u>	<u>35</u>
Item 5. <u>Other Information</u>	<u>35</u>
Item 6. <u>Exhibits</u>	<u>36</u>
<u>SIGNATURES</u>	<u>38</u>

Table of Contents

Kansas City Southern

Form 10-Q

September 30, 2011

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Introductory Comments

The unaudited Consolidated Financial Statements included herein have been prepared by Kansas City Southern pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). As used herein, “KCS” or the “Company” may refer to Kansas City Southern or, as the context requires, to one or more subsidiaries of Kansas City Southern. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures are adequate to enable a reasonable understanding of the information presented. The Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q should be read in conjunction with the consolidated financial statements and the related notes, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. Results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results expected for the full year ending December 31, 2011.

Table of Contents

Kansas City Southern  
Consolidated Statements of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In millions, except share and per share amounts) (Unaudited)			
Revenues	\$544.5	\$438.3	\$1,568.0	\$1,336.2
Operating expenses:				
Compensation and benefits	109.3	87.3	314.1	271.7
Purchased services	50.6	48.0	153.5	140.9
Fuel	86.5	61.8	258.0	191.7
Equipment costs	41.4	37.5	125.5	117.5
Depreciation and amortization	47.9	46.1	139.1	138.8
Gain on insurance recoveries related to hurricane damage	(25.6)	) —	(25.6)	) —
Materials and other	52.6	41.6	142.2	124.2
Total operating expenses	362.7	322.3	1,106.8	984.8
Operating income	181.8	116.0	461.2	351.4
Equity in net earnings of unconsolidated affiliates	4.7	5.2	13.6	16.2
Interest expense	(32.2)	) (36.2)	) (97.7)	) (122.5)
Debt retirement costs	(3.9)	) (1.9)	) (14.2)	) (49.3)
Foreign exchange gain (loss)	(7.2)	) 2.0	(6.9)	) 3.2
Other income, net	0.6	2.4	2.3	3.9
Income before income taxes	143.8	87.5	358.3	202.9
Income tax expense	43.7	34.7	122.4	78.5
Net income	100.1	52.8	235.9	124.4
Less: Net income (loss) attributable to noncontrolling interest	0.3	(0.1)	) 1.3	(1.2)
Net income attributable to Kansas City Southern and subsidiaries	99.8	52.9	234.6	125.6
Preferred stock dividends	—	2.7	1.5	8.2
Net income available to common stockholders	\$99.8	\$50.2	\$233.1	\$117.4
Earnings per share:				
Basic earnings per share	\$0.91	\$0.49	\$2.16	\$1.18
Diluted earnings per share	\$0.91	\$0.48	\$2.13	\$1.17
Average shares outstanding (in thousands):				
Basic	109,515	102,082	107,752	99,337
Potentially dilutive common shares	347	7,428	2,052	7,485
Diluted	109,862	109,510	109,804	106,822
See accompanying notes to consolidated financial statements.				

Table of ContentsKansas City Southern  
Consolidated Balance Sheets

	September 30, 2011	December 31, 2010
	(In millions, except share amounts) (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 217.1	\$ 85.4
Accounts receivable, net	186.9	160.0
Materials and supplies	116.0	101.4
Deferred income taxes	132.1	138.2
Other current assets	71.6	91.2
Total current assets	723.7	576.2
Investments	55.2	46.4
Restricted funds	15.4	22.0
Property and equipment (including concession assets), net	5,159.5	4,902.4
Other assets	112.2	93.9
Total assets	\$ 6,066.0	\$ 5,640.9
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 36.3	\$ 18.1
Accounts payable and accrued liabilities	400.6	403.0
Total current liabilities	436.9	421.1
Long-term debt	1,676.2	1,621.6
Deferred income taxes	768.4	654.5
Other noncurrent liabilities and deferred credits	229.6	230.0
Total liabilities	3,111.1	2,927.2
Commitments and contingencies	—	—
Stockholders' equity:		
\$25 par, 4% noncumulative, preferred stock, 840,000 shares authorized, 649,736 shares issued, 242,170 shares outstanding	6.1	6.1
Series D — cumulative convertible perpetual preferred stock, \$1 par, 5.125%, 210,000 shares authorized and issued at December 31, 2010; 209,995 shares outstanding with a liquidation preference of \$1,000 per share at December 31, 2010	—	0.2
\$.01 par, common stock, 400,000,000 shares authorized; 123,352,185 and 116,352,298 shares issued at September 30, 2011 and December 31, 2010, respectively; 109,844,141 and 102,648,845 shares outstanding at September 30, 2011 and December 31, 2010, respectively	1.1	1.0
Paid-in capital	884.0	877.2
Retained earnings	1,779.7	1,548.0
Accumulated other comprehensive loss	(1.9)	(1.4)
Total stockholders' equity	2,669.0	2,431.1
Noncontrolling interest	285.9	282.6
Total equity	2,954.9	2,713.7
Total liabilities and equity	\$ 6,066.0	\$ 5,640.9

See accompanying notes to consolidated financial statements.

Table of Contents

Kansas City Southern  
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2011	2010
	(In millions)	
	(Unaudited)	
Operating activities:		
Net income	\$235.9	\$124.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	139.1	138.8
Deferred income taxes	120.2	77.0
Equity in net earnings of unconsolidated affiliates	(13.6)	(16.2)
Share-based compensation	6.4	6.1
Excess tax benefit from share-based compensation	—	(15.7)
Deferred compensation	18.5	5.9
Distributions from unconsolidated affiliates	9.1	15.5
Gain on insurance recoveries related to hurricane damage	(25.6)	—
Cash payments related to hurricane damage	(1.9)	—
Insurance proceeds related to hurricane damage	36.6	—
Gain on sale of assets	(0.5)	(1.6)
Debt retirement costs	14.2	49.3
Changes in working capital items:		
Accounts receivable	(37.4)	(34.1)
Materials and supplies	(11.8)	0.8
Other current assets	(0.1)	7.7
Accounts payable and accrued liabilities	12.3	54.5
Other, net	(36.3)	(52.5)
Net cash provided by operating activities	465.1	359.9
Investing activities:		
Capital expenditures	(284.0)	(200.3)
Acquisition of an intermodal facility, net of cash acquired	—	(25.0)
Property investments in MSLLC	(29.0)	(18.2)
Insurance proceeds related to hurricane damage	12.4	—
Proceeds from disposal of property	6.8	6.2
Other, net	1.6	11.6
Net cash used for investing activities	(292.2)	(225.7)
Financing activities:		
Proceeds from issuance of long-term debt	500.0	300.7
Repayment of long-term debt	(521.9)	(662.0)
Proceeds from common stock issuance	—	214.9
Debt costs	(18.2)	(44.8)
Proceeds from employee stock plans	1.8	0.8
Excess tax benefit from share-based compensation	—	15.7
Preferred stock dividends paid	(2.9)	(8.2)



Edgar Filing: KANSAS CITY SOUTHERN - Form 10-Q

Net cash used for financing activities	(41.2	) (182.9	)
Cash and cash equivalents:			
Net increase (decrease) during each period	131.7	(48.7	)
At beginning of year	85.4	117.5	
At end of period	\$217.1	\$68.8	
See accompanying notes to consolidated financial statements.			

Table of Contents

Kansas City Southern  
Notes to Consolidated Financial Statements

1. Accounting Policies, Interim Financial Statements and Basis of Presentation

In the opinion of the management of KCS, the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of the results for interim periods. All adjustments made were of a normal and recurring nature. Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (the "FASB") issued new guidance on the presentation of comprehensive income, which eliminates the option for entities to present components of other comprehensive income ("OCI") as a part of the statement of changes in stockholders' equity and requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. Additionally, the standard does not affect the calculation or reporting of earnings per share. This standard is effective for the Company beginning in the first quarter of 2012.

In September 2011, the FASB amended the guidance on testing goodwill for impairment. Under this new guidance, companies have the option to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step quantitative goodwill impairment test required under current accounting standards. This guidance will be effective for the Company beginning in the first quarter of 2012.

3. Earnings Per Share Data

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Nonvested stock awards granted to employees and officers are included in weighted-average shares as they are earned for purposes of computing basic earnings per common share. Diluted earnings per share adjusts basic earnings per common share for the effects of potentially dilutive common shares, if the effect is not anti-dilutive. Potentially dilutive common shares include the dilutive effects of shares issuable upon the conversion of preferred stock to common stock and shares issuable under the Stock Option and Performance Award Plan. During the first quarter of 2011, the Company converted all of the remaining outstanding Cumulative Convertible Perpetual Preferred Stock, Series D, into 6,999,887 shares of common stock.

Table of Contents

Kansas City Southern

Notes to Consolidated Financial Statements—(Continued)

The following table reconciles the basic earnings per share computation to the diluted earnings per share computation (in millions, except share and per share amounts):

Three Months Ended  
September 30,

Nine Months Ended