

KANSAS CITY SOUTHERN  
Form 10-Q  
April 22, 2013  
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 March 31, 2013

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  
(State or other jurisdiction of incorporation or organization)

44-0663509  
(I.R.S. Employer Identification No.)

427 West 12th Street,  
Kansas City, Missouri  
(Address of principal executive offices)  
816.983.1303  
(Registrant's telephone number, including area code)

64105  
(Zip 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  
Common Stock, \$0.01 per share par value

April 12, 2013  
110,181,963 Shares



Table of Contents

Kansas City Southern  
 Form 10-Q  
 March 31, 2013  
 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 months ended March 31, 2013 and 2012</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income — Three months ended March 31, 2013 and 2012</u>	<u>5</u>
<u>Consolidated Balance Sheets — March 31, 2013 and December 31, 2012</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows — Three months ended March 31, 2013 and 2012</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>23</u>
Item 4. <u>Controls and Procedures</u>	<u>23</u>
PART II — OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>24</u>
Item 1A. <u>Risk Factors</u>	<u>24</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>24</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>24</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>24</u>
Item 5. <u>Other Information</u>	<u>24</u>
Item 6. <u>Exhibits</u>	<u>25</u>
<u>SIGNATURES</u>	<u>26</u>

Table of Contents

Kansas City Southern

Form 10-Q

March 31, 2013

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, 2012. Results for the three months ended March 31, 2013, are not necessarily indicative of the results expected for the full year ending December 31, 2013.

Table of ContentsKansas City Southern  
Consolidated Statements of Income

	Three Months Ended March 31,	
	2013	2012
	(In millions, except share and per share amounts) (Unaudited)	
Revenues	\$552.8	\$547.5
Operating expenses:		
Compensation and benefits	106.9	109.3
Purchased services	52.3	54.4
Fuel	90.9	88.3
Equipment costs	41.9	40.3
Depreciation and amortization	53.1	48.4
Materials and other	44.8	49.0
Total operating expenses	389.9	389.7
Operating income	162.9	157.8
Equity in net earnings of unconsolidated affiliates	5.5	5.8
Interest expense	(23.7	) (27.2
Debt retirement costs	—	(12.9
Foreign exchange gain	13.5	3.9
Other income, net	0.3	0.1
Income before income taxes	158.5	127.5
Income tax expense	54.3	52.2
Net income	104.2	75.3
Less: Net income attributable to noncontrolling interest	0.4	0.3
Net income attributable to Kansas City Southern and subsidiaries	103.8	75.0
Preferred stock dividends	0.1	0.1
Net income available to common stockholders	\$103.7	\$74.9
Earnings per share:		
Basic earnings per share	\$0.94	\$0.68
Diluted earnings per share	\$0.94	\$0.68
Average shares outstanding (in thousands):		
Basic	109,907	109,622
Potentially dilutive common shares	358	374
Diluted	110,265	109,996
Cash dividends declared per common share	\$0.215	\$0.195
See accompanying notes to consolidated financial statements.		

Table of ContentsKansas City Southern  
Consolidated Statements of Comprehensive Income

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
	(Unaudited)	
Net income	\$104.2	\$75.3
Other comprehensive income (loss):		
Unrealized loss on cash flow hedges arising during the period, net of tax of \$(0.2) million	—	(0.3)
Reclassification adjustment from cash flow hedges included in net income, net of tax of less than \$0.1 million	0.2	—
Foreign currency translation adjustments, net of tax of \$0.2 million and \$0.3 million	0.4	0.6
Other comprehensive income	0.6	0.3
Comprehensive income	104.8	75.6
Less: Comprehensive income attributable to noncontrolling interest	0.4	0.3
Comprehensive income attributable to Kansas City Southern and subsidiaries	\$104.4	\$75.3
See accompanying notes to consolidated financial statements.		

Table of ContentsKansas City Southern  
Consolidated Balance Sheets

	March 31, 2013	December 31, 2012
	(In millions, except share and per share amounts) (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$63.7	\$72.6
Accounts receivable, net	202.4	183.6
Materials and supplies	140.4	125.6
Deferred income taxes	87.7	92.1
Other current assets	48.8	48.4
Total current assets	543.0	522.3
Investments	56.6	51.5
Restricted funds	13.1	14.2
Property and equipment (including concession assets), net	5,745.7	5,684.8
Other assets	115.1	123.1
Total assets	\$6,473.5	\$6,395.9
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Debt due within one year	\$162.5	\$60.2
Accounts payable and accrued liabilities	356.9	364.6
Total current liabilities	519.4	424.8
Long-term debt	1,431.1	1,547.6
Deferred income taxes	909.4	894.2
Other noncurrent liabilities and deferred credits	126.5	128.6
Total liabilities	2,986.4	2,995.2
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
\$.01 par, common stock, 400,000,000 shares authorized; 123,352,185 shares issued; 110,181,963 and 110,131,353 shares outstanding at March 31, 2013 and December 31, 2012, respectively	1.1	1.1
Paid-in capital	930.6	925.3
Retained earnings	2,246.6	2,166.5
Accumulated other comprehensive loss	(1.8	) (2.4
Total stockholders' equity	3,182.6	3,096.6
Noncontrolling interest	304.5	304.1
Total equity	3,487.1	3,400.7
Total liabilities and equity	\$6,473.5	\$6,395.9

See accompanying notes to consolidated financial statements.





Table of ContentsKansas City Southern  
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
	(Unaudited)	
Operating activities:		
Net income	\$104.2	\$75.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53.1	48.4
Deferred income taxes	22.1	34.9
Equity in net earnings of unconsolidated affiliates	(5.5)	(5.8)
Share-based compensation	4.6	3.2
Excess tax benefit from share-based compensation	(2.9)	(13.2)
Deferred compensation	—	7.3
Debt retirement costs	—	12.9
Changes in working capital items:		
Accounts receivable	(18.7)	(21.1)
Materials and supplies	(13.1)	(11.5)
Other current assets	5.2	4.8
Accounts payable and accrued liabilities	(25.4)	0.2
Other, net	2.0	4.1
Net cash provided by operating activities	125.6	139.5
Investing activities:		
Capital expenditures	(112.7)	(99.4)
Property investments in MSLLC	(12.9)	(6.7)
Proceeds from disposal of property	2.9	2.7
Other, net	(0.1)	2.3
Net cash used for investing activities	(122.8)	(101.1)
Financing activities:		
Proceeds from issuance of long-term debt	—	229.6
Repayment of long-term debt	(14.5)	(237.0)
Debt costs	(0.5)	(15.0)
Proceeds from employee stock plans	0.4	0.3
Excess tax benefit from share-based compensation	2.9	13.2
Dividends paid	—	(0.1)
Net cash used for financing activities	(11.7)	(9.0)
Cash and cash equivalents:		
Net increase (decrease) during each period	(8.9)	29.4
At beginning of year	72.6	72.4
At end of period	\$63.7	\$101.8
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 note disclosures 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, 2012. The results of operations for the three months ended March 31, 2013, are not necessarily indicative of the results to be expected for the full year ending December 31, 2013. Certain prior year amounts have been reclassified to conform to the current year presentation.

Effective January 1, 2013, the Company adopted, on a prospective basis, the new guidance issued by the Financial Accounting Standards Board (FASB) related to the disclosure of amounts reclassified out of accumulated other comprehensive income by component and line item within the consolidated statements of income.

2. 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. 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 under the Stock Option and Performance Award Plans.

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 March 31,	
	2013	2012
Net income available to common stockholders for purposes of computing basic and diluted earnings per share	\$ 103.7	\$ 74.9
Weighted-average number of shares outstanding (in thousands):		
Basic shares	109,907	109,622
Effect of dilution	358	374
Diluted shares	110,265	109,996
Earnings per share:		
Basic earnings per share	\$0.94	\$0.68
Diluted earnings per share	\$0.94	\$0.68
Potentially dilutive shares excluded from the calculation (in thousands):		
Stock options excluded as their inclusion would be anti-dilutive	57	93

Table of ContentsKansas City Southern  
Notes to Consolidated Financial Statements—(Continued)

## 3. Property and Equipment (including Concession Assets)

Property and equipment, including concession assets, and related accumulated depreciation and amortization are summarized below (in millions):

	March 31, 2013	December 31, 2012
Land	\$209.3	\$208.9
Concession land rights	141.2	141.2
Road property	5,652.0	5,664.4
Equipment	978.7	962.6
Technology and other	147.9	148.1
Construction in progress	192.3	156.2
Total property	7,321.4	7,281.4
Accumulated depreciation and amortization	1,575.7	1,596.6
Property and equipment (including concession assets), net	\$5,745.7	\$5,684.8

Concession assets, net of accumulated amortization of \$424.9 million and \$413.3 million, totaled \$1,923.1 million and \$1,916.5 million at March 31, 2013 and December 31, 2012, respectively.

## 4. Fair Value Measurements

Assets and liabilities recognized at fair value are required to be classified into a three-level hierarchy. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

The Company's derivative financial instruments are measured at fair value on a recurring basis and consist of interest rate swap agreements and foreign currency forward contract agreements, which are classified as Level 2 instruments. The Company determines the fair value of its derivative financial instrument positions based upon pricing models using inputs observed from actively quoted markets and also takes into consideration the contract terms as well as other inputs, including, where applicable, forward interest rate curves and market currency exchange rates. The fair value of interest rate swap liabilities was \$0.7 million and \$0.9 million as of March 31, 2013 and December 31, 2012, respectively, and the fair value of the foreign currency forward contract assets was \$9.1 million as of March 31, 2013. The Company's short-term financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The carrying value of the short-term financial instruments approximates their fair value.

The fair value of the Company's debt is estimated using quoted market prices when available. When quoted market prices are not available, fair value is estimated based on current market interest rates for debt with similar maturities and credit quality. The fair value of the Company's debt was \$1,691.0 million and \$1,719.9 million at March 31, 2013 and December 31, 2012, respectively. The carrying value was \$1,593.6 million and \$1,607.8 million at March 31, 2013 and December 31, 2012, respectively. If the Company's debt were measured at fair value, the individual debt instruments would have been classified as either Level 1 or Level 2 in the fair value hierarchy.

## 5. Derivative Instruments

In general, the Company enters into derivative transactions in certain situations based on management's assessment of current market conditions and perceived risks. Management intends to respond to evolving business and market conditions and in doing so, may enter into such transactions more frequently as deemed appropriate.