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KANSAS CITY SOUTHERN INDUSTRIES INC

Form 8-K

July 30, 2001

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, 2001

KANSAS CITY SOUTHERN INDUSTRIES, INC.  
-----

(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)

114 West 11th 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. (99)	Document
99.1	Press Release issued by Kansas City Southern Industries, Inc. dated July 25, 2001 entitled, "Kansas

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City Southern Industries  
Reports Second Quarter  
Operating Results", is  
attached hereto as Exhibit  
99.1

99.2

The following schedules are  
attached hereto as Exhibit  
99.2 - Combined Kansas City  
Southern Railway and Gateway  
Western Operating  
Statements, Combined Kansas  
City Southern  
Railway/Gateway Western  
Carloadings by Commodity and  
Kansas City Southern  
Industries, Inc. Preliminary  
Consolidated Balance Sheets

Item 9. Regulation FD Disclosure

Kansas City Southern Industries, Inc. ("KCSI" 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, 2001, announcing KCSI's second quarter and year to date 2001 operating results. Included in Exhibit 99.2 are schedules regarding certain financial information discussed at the Company's second quarter 2001 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 Industries, Inc.

Date: July 30, 2001

By: /s/ Louis G. Van Horn  
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Louis G. Van Horn  
Vice President and Comptroller  
(Principal Accounting Officer)

EXHIBIT 99.1

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Date: July 25, 2001

Kansas City Southern  
Industries, Inc.  
114 West 11th Street  
Kansas City, MO 64105

Media Contact: William Galligan 816-983-1551  
email: william.h.galligan@kcsr.com

NYSE Symbol: KSU

## Kansas City Southern Industries Reports Second Quarter Operating Results

### Earnings Analysis & Commentary

Kansas City Southern Industries, Inc. ("KCSI", "the Company") reported income from continuing operations of \$4.7 million (8(cents) per diluted share) for the second quarter of 2001 compared to income from continuing operations of \$8.8 million (15(cents) per diluted share) for the second quarter of 2000. This \$4.1 million quarter to quarter decline resulted from declines in domestic operating income and equity earnings from Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. ("Grupo TFM") of \$5.5 million and \$3.1 million, respectively, partially offset by a \$3.9 million decrease in interest expense and lower income taxes of \$1.3 million. KCSI's consolidated second quarter 2001 revenues declined \$1.2 million and operating expenses rose \$4.3 million compared to the second quarter of 2000.

For the six months ended June 30, 2001, income from continuing operations was \$11.0 million (18(cents) per diluted share) compared to \$19.2 million (33(cents) per diluted share) for the six months ended June 30, 2000. This \$8.2 million period to period decline was primarily due to a \$17.4 million decrease in domestic operating income, a \$1.6 million decline in equity earnings from unconsolidated affiliates and a \$1.5 million decrease in other, net, partially offset by a decrease in interest expense of \$6.2 million and lower income taxes of \$6.1 million for the current six-month period. For the first six months of 2001, KCSI's consolidated revenues declined 2% and consolidated operating expenses were 4% higher compared with the same 2001 period. Equity earnings from Grupo TFM remained relatively flat period to period. Our equity 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.

### DILUTED EARNINGS PER SHARE AND COMMON SHARES COMPARISONS (1)

	Second Quarter		Year to Date	
	2001	2000	2001	2000
	----	----	----	----
Income from continuing operations:				
U.S. operations	\$ 0.07	\$ 0.11	\$ 0.07	\$ 0.23
Grupo TFM and associated interest	0.01	0.04	0.11	0.10
	0.08	0.15	0.18	0.33
Extraordinary debt retirement costs, net of income tax	-	-	-	(0.10)
Cumulative effect of accounting change, net of income tax	-	-	(0.01)	-
	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.23
Total diluted earnings (loss) per share from continuing operations, adjusted for extraordinary item and cumulative effect of accounting change	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.23

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Common Shares Outstanding (thousands):

Weighted Average Diluted	60,916	57,614	60,849	57,539
Actual	58,455	55,750	58,455	55,750

(1) Earnings per share and common share information for each period presented reflect a one-for-two reverse stock split that occurred on July 12, 2000 in conjunction with the spin-off of Stilwell Financial Inc., the Company's formerly owned financial services segment.

### Second Quarter

KCSI is comprised of, among others, The Kansas City Southern Railway Company ("KCSR"), Gateway Western Railway Company ("Gateway Western") and equity investments in Grupo TFM, Mexrail, Inc. and the Panama Canal Railway Company.

KCSI reported \$4.7 million of income from continuing operations for the quarter ended June 30, 2001 compared to income from continuing operations of \$8.8 million for the comparable prior year quarter.

KCSI's consolidated second quarter 2001 revenues totaled \$143.2 million compared to \$144.4 million in the second quarter of 2000. This \$1.2 million decline resulted from lower KCSR/Gateway Western revenues of approximately \$1.8 million partially offset by slightly higher revenues from certain other smaller subsidiaries. Second quarter 2001 revenue growth occurred in coal (8%) and automotive (172%) compared to the second quarter of 2000. Paper and forest product and chemical and petroleum product revenues declined approximately 5% and 6%, respectively, quarter to quarter. Weakness in these sectors resulted primarily from lower industry production reflecting the continuing impact of the slowdown in the U.S. economy. Agriculture and mineral product revenues declined approximately 10% quarter to quarter due mostly to lower domestic grain shipments and shorter hauls. A general decline in the production of poultry in the United States has decreased demand for grain deliveries to our chicken producing customers. Additionally, flooding in Iowa and Minnesota during the second quarter forced a temporary shift in the origination of some domestic grain shipments to Illinois and Indiana, which resulted in significantly shorter hauls for KCSR.

KCSI's consolidated costs and expenses increased \$4.3 million (3.4%) to \$130.3 million in the second quarter of 2001 compared to \$126.0 million in the second quarter of 2000, resulting from higher KCSR/Gateway Western expenses of \$3.0 million and higher expenses at certain other smaller subsidiaries. Quarter to quarter increases in fringe benefit costs (\$1.0 million) and car hire costs (\$1.5 million) were the primary causes for the higher KCSR/Gateway Western expenses. Smaller increases for fuel, purchased services, casualties and insurance and other employee expenses were mostly offset by declines in salaries and wages expense and materials and supplies expense. Despite a lower overall employee count quarter to quarter, second quarter 2001 fringe benefit costs increased as a result of higher health insurance costs, which have risen over 15% compared to the second quarter of 2000. Contributing to the increase in car hire expense was a higher number of freight cars from other railroads on the Company's rail line coupled with a lower number of KCSR freight cars offline being used by other railroads. Also contributing to the increase in car hire expense was the larger number of auto rack cars being used to serve the increase in automotive traffic. As operations became more fluid in the second quarter, car hire costs showed improvement, declining approximately 12.6% compared to the first quarter of 2001. Despite a 2% decline in usage, fuel costs increased 4% in the second quarter of 2001 compared to the second quarter of 2000, due to a 6%

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increase in the average price per gallon. The Company's consolidated expenses for the second quarter also include an approximate \$0.9 million non-recurring gain on the sale of certain real estate and an approximate \$1.1 million expense related to the settlement of litigation at another subsidiary. The KCSR/Gateway Western operating ratio was 88.1% for the second quarter of 2001 compared to 84.9% for the second quarter of 2000 and 94.0% for the first quarter of 2001.

Equity earnings from the Company's investment in Grupo TFM was \$4.9 million for the second quarter of 2001 compared to \$8.0 million for the same quarter in the prior year. Grupo TFM revenues improved 5.3% to \$171.9 million in the second quarter of 2001 compared to \$163.3 million in the second quarter of 2000. These higher revenues were offset by an approximate 16.8% increase in operating expenses related primarily to salaries and wages, fringe benefits, fuel, car hire and lease costs. These higher expenses led to a decline in operating income of approximately 19% quarter to quarter. TFM's operating ratio was 74.6% for the second quarter of 2001 compared to 67.7% for the second quarter of 2000. Additionally, second quarter 2001 results include a \$2.9 million deferred tax provision (calculated under U.S. generally accepted accounting principles - "U.S. GAAP") compared to a deferred tax benefit of \$3.2 million in the second quarter of 2000. The Company reports its equity in Grupo TFM under U.S. GAAP while Grupo TFM reports under International Accounting Standards.

KCSI's consolidated second quarter 2001 interest expense decreased \$3.9 million (21.2%) from the prior year quarter primarily as a result of lower interest rates on our variable rate debt (variable rate debt approximates \$419 million at June 30, 2001) and lower amortization related to debt issue costs.

### YEAR TO DATE

KCSI's income from continuing operations for the six months ended June 30, 2001 totaled \$11.0 million versus \$19.2 million in the same 2000 period.

KCSI's consolidated year to date 2001 revenues totaled \$287.2 million compared to \$293.3 million in the same 2000 period. This \$6.1 million decline resulted from lower KCSR/Gateway Western revenues of approximately \$8.0 million partially offset by higher revenues from certain other smaller subsidiaries. Year to date 2001 revenue growth occurred for certain commodities, including coal (1%), automotive (159%), plastics (17%) and military/other revenues (40%) compared to the same 2000 period; however, these improvements were offset by lower revenues for most other commodity groups resulting from demand driven declines as discussed above. Year to date 2001 revenues for chemical and petroleum products, agriculture and mineral products and paper and forest products have decreased approximately 2%, 12%, and 7%, respectively, compared to the six months ended June 30, 2000.

KCSI's consolidated costs and expenses increased \$11.3 million (4.4%) to \$268.2 million in the first half of 2001 compared to \$256.9 million in the first half of 2000, resulting from higher KCSR/Gateway Western expenses of \$8.9 million and higher expenses at certain other smaller subsidiaries. The increase in KCSR/Gateway Western expenses was attributable to higher costs for casualty and insurance, car hire and fuel. For the six months ended June 30, 2001, casualty and insurance costs rose approximately \$9.1 million, the majority of which (\$8.5 million) related to several significant first quarter derailments and the settlement of personal injury claims. These first quarter 2001 derailments and the ongoing economic weakness in the United States resulted in some congestion during the first three months of 2001. The effects of this congestion and certain other factors as discussed above contributed to an increase in car hire expense of approximately \$5.3 million period to period. For the six months ended June 30, 2001, fuel usage decreased approximately 7% compared to the same 2000 period; however, fuel expense increased 3% due to an increase in the average price per gallon of nearly 11%. These increases were partially offset by lower

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year to date costs for salaries and wages, fringe benefits, materials and supplies, purchased services and operating leases.

Equity earnings from Grupo TFM for the six months ended June 30, 2001 was \$16.0 million compared to \$16.2 million for the six months ended June 30, 2000. During the first quarter of 2001, TFM recorded approximately \$60 million of pre-tax income relating to the reversion of certain concession assets to the Mexican government. The Company's year to date 2001 equity earnings from Grupo TFM reflect our proportionate share of this income of approximately \$9.1 million. Grupo TFM revenues increased 5.8% to \$327.9 million for the six months ended June 30, 2001 from \$310.0 million for the six months ended June 30, 2000. These higher revenues were offset by an approximate 16.6% increase in operating expenses (exclusive of the income related to the reversion of certain concession assets) resulting in a 19.5% decline in ongoing operating income period to period. Under U.S. GAAP, the deferred tax provision was \$24.6 million for the six months ended June 30, 2001 compared to a deferred tax benefit of \$18.8 million for the six months ended June 30, 2000.

Similar to the second quarter of 2001, the Company's interest expense for the six months ended June 30, 2001 declined \$6.2 million compared to the six months ended June 30, 2000 due to lower borrowing rates.

Effective January 1, 2001 the Company implemented Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities ("FAS 133"). As a result of this change in the method of accounting for derivative financial instruments, the Company recorded an after-tax charge to earnings of \$0.4 million in the first quarter of 2001. This charge is presented as a cumulative effect of an accounting change in the accompanying consolidated condensed statements of income for the six months ended June 30, 2001. In the first quarter of 2000, the Company completed a debt refinancing whereby it retired approximately \$400 million of its debt securities prior to maturity. Accordingly, the Company recorded debt retirement costs of approximately \$5.9 million (after-tax) in the first quarter of 2000. This is presented as an extraordinary item in the accompanying consolidated condensed statements of income for the six months ended June 30, 2000.

### BUSINESS OUTLOOK

Michael R. Haverty, KCSI Chairman, President and Chief Executive Officer, said, "Although our revenue base has not rebounded as quickly as we had planned, our cost structure is beginning to realize some of the benefits we expected from the cost reduction strategy implemented at the end of the first quarter.

Our freight revenues have continued to suffer the effects of the economic slowdown, particularly in the paper and forest products and certain chemical markets, which have typically shown a strong correlation with the strength of the economy. We expect these trends to improve when economic conditions improve. Our agriculture and mineral revenues have also suffered due mostly to declining demand for domestic grain for the poultry industry. Despite a slow first quarter, coal revenues for the first half of 2001 increased about 1% compared to the first half of 2000 and 8.5% quarter to quarter. Additionally, we have expanded our service to the automotive industry as evidenced by the 159% increase in related revenue for the first six months of this year compared to the first six months of last year.

Despite higher casualty and car hire costs for the first half of 2001, our cost structure is improving. The operating ratio for KCSR/Gateway Western for the second quarter of 2001 was 88.1% compared to 94.0% for the first quarter of 2001. Our consolidated expenses have declined from \$137.9 million in the first quarter of 2001 to \$130.3 million in the second quarter.

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Equity earnings from Grupo TFM continue to comprise a significant portion of our earnings. Despite a downturn in the U.S and Mexican economy, Grupo TFM has been able to increase its revenues by nearly 6% compared to 2000 and has maintained an operating ratio below 80%. We believe this is a significant accomplishment given the existing operating environment and is one of the reasons we are excited about the prospects of purchasing an additional ownership percentage in Grupo TFM. We and our partner, Transportacion Maritima Mexicana, S.A. de C.V., have already announced our intention to exercise our call and cause TFM to purchase the 24.6% interest in Grupo TFM currently owned by the Mexican government. We believe this is an opportunity to add value to a key component of our NAFTA franchise.

During the middle part of June 2001, the Surface Transportation Board ("STB") issued its new rules governing mergers involving two or more Class I railroads. The STB recognized that, because of KCSR's size, a merger between KCSR and another Class I carrier would not raise the same risks and concerns as other potential mergers and thus, waived application of the new rules to a merger involving KCSR. We believe the STB was prudent in its decision with respect to a potential merger involving KCSR.

During the second half of 2001, we will place our focus on these goals: 1) increasing domestic revenues; 2) improving the profitability of U.S. operations; 3) reducing our corporate debt structure. We continue to believe in the NAFTA vision and are committed to achieving our ultimate goal of building shareholder value."

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 KCSI's December 31, 2000 Form 10-K and the Current Report on Form 8-K/A dated June 3, 1997, each filed by the Company with the Securities and Exchange Commission ("SEC") (Commission file no. 1-4717) and those factors identified in the "Risk Factors" section of the Company's Registration Statement on Form S-4, as amended and declared effective on March 15, 2001, which is on file with the SEC (File No. 333-54262), and those factors identified in the "Risk Factors" section of the Company's Registration Statement on Form S-3, as amended and declared effective on June 5, 2001, which is on file with the SEC (File No. 333-61006). 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 INDUSTRIES, INC. and SUBSIDIARY COMPANIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(excludes Stilwell Financial Inc.)  
(dollars in millions, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues	\$143.2	\$144.4	\$287.2	\$293.3
Costs and expenses	115.8	111.7	239.3	228.3

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Depreciation and amortization	14.5	14.3	28.9	28.6
	-----	-----	-----	-----
Operating income	12.9	18.4	19.0	36.4
Equity in net earnings of unconsolidated affiliates:				
Grupo Transportacion Ferroviaria				
Mexicana, S.A. de C.V.	4.9	8.0	16.0	16.2
Other	0.3	1.2	0.4	1.8
Interest expense	(14.5)	(18.4)	(29.7)	(35.9)
Other, net	1.1	0.9	2.1	3.6
	-----	-----	-----	-----
Income from continuing operations				
before income taxes, extraordinary				
item and cumulative effect of				
accounting change	4.7	10.1	7.8	22.1
Income tax provision (benefit)	-	1.3	(3.2)	2.9
	-----	-----	-----	-----
Income from continuing operations				
before extraordinary item and				
cumulative effect of accounting change	4.7	8.8	11.0	19.2
Extraordinary item, net of income taxes:				
Debt retirement costs	-	-	-	(5.9)
Cumulative effect of accounting				
change, net of income taxes	-	-	(0.4)	-
	=====	=====	=====	=====
Income from continuing operations,				
net of extraordinary item and				
cumulative effect of accounting				
change	4.7	8.8	10.6	13.3
	-----	-----	-----	-----
Per Share Data:				
Basic Weighted Average Common shares				
outstanding (in thousands)	58,380	55,724	58,321	55,624
Basic Earnings (Loss) per				
Common share from continuing				
operations	\$ 0.08	\$ 0.16	\$0.19	\$0.34
Extraordinary item	-	-	-	(0.10)
Cumulative effect of				
accounting change	-	-	(0.01)	-
	-----	-----	-----	-----
Basic Earnings per Common				
share, net of extraordinary				
item and cumulative effect of				
accounting change	\$0.08	\$0.16	\$0.18	\$0.24
	-----	-----	-----	-----
Diluted Weighted Average Common shares				
outstanding (in thousands)	60,916	57,614	60,849	57,539
Diluted Earnings (Loss) per Common				
share from continuing operations	\$0.08	\$0.15	\$0.18	\$0.33
Extraordinary item	-	-	-	(0.10)
Cumulative effect of				



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accounting change	-	-	(0.01)	-
	-----	-----	-----	-----
Diluted Earnings per Common share, net of extraordinary item and cumulative effect of accounting change	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.23
	-----	-----	-----	-----

KANSAS CITY SOUTHERN INDUSTRIES, INC. and SUBSIDIARY COMPANIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(dollars in millions, except per share data)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues	\$143.2	\$144.4	\$287.2	\$293.3
Costs and expenses	115.8	111.7	239.3	228.3
Depreciation and amortization	14.5	14.3	28.9	28.6
	-----	-----	-----	-----
Operating income	12.9	18.4	19.0	36.4
Equity in net earnings of unconsolidated affiliates:				
Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V.	4.9	8.0	16.0	16.2
Other	0.3	1.2	0.4	1.8
Interest expense	(14.5)	(18.4)	(29.7)	(35.9)
Other, net	1.1	0.9	2.1	3.6
	-----	-----	-----	-----
Income from continuing operations before income taxes, extraordinary item and cumulative effect of accounting change	4.7	10.1	7.8	22.1
Income tax provision (benefit)	-	1.3	(3.2)	2.9
	-----	-----	-----	-----
Income from continuing operations before extraordinary item and cumulative effect of accounting change	4.7	8.8	11.0	19.2
Income from discontinued operations (1) (net of income taxes)	-	151.7	-	340.4
	-----	-----	-----	-----
Income before extraordinary item and cumulative effect of accounting change	4.7	160.5	11.0	359.6
Extraordinary item, net of income taxes:				
Debt retirement costs	-	-	-	(5.9)
Cumulative effect of accounting change, net of income taxes	-	-	(0.4)	-
	-----	-----	-----	-----
Net income	\$ 4.7	\$160.5	\$10.6	\$353.7

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	=====	=====	=====	=====
Per Share Data:				
Basic Weighted Average Common shares outstanding (in thousands)	58,380	55,724	58,321	55,624
Basic Earnings per Common share				
Continuing operations	\$0.08	\$0.16	\$0.19	\$0.34
Discontinued operations	-	2.72	-	6.12
	-----	-----	-----	-----
Basic Earnings (Loss) per Common share before extraordinary item and cumulative effect of accounting change	0.08	2.88	0.19	6.46
Extraordinary item	-	-	-	(0.10)
Cumulative effect of accounting change	-	-	(0.01)	-
	-----	-----	-----	-----
Basic Earnings per Common share	\$ 0.08	\$ 2.88	\$ 0.18	\$ 6.36
	=====	=====	=====	=====
Diluted Weighted Average Common shares outstanding (in thousands)	60,916	57,614	60,849	57,539
Diluted Earnings per Common share				
Continuing operations	\$ 0.08	\$ 0.15	\$ 0.18	\$ 0.33
Discontinued operations	-	2.59	-	5.82
	-----	-----	-----	-----
Diluted Earnings (Loss) per Common share before extraordinary item and cumulative effect of accounting change	0.08	2.74	0.18	6.15
Extraordinary item	-	-	-	(0.10)
Cumulative effect of accounting change	-	-	(0.01)	-
	-----	-----	-----	-----
Diluted Earnings per Common share	\$0.08	\$2.74	\$0.17	\$ 6.05
	=====	=====	=====	=====

(1) - Stilwell Financial Inc., the Company's formerly owned financial services segment

EXHIBIT 99.2

Combined KCSR and Gateway Western  
Operating Statements  
Dollars in Millions

	Second Quarter 2001	Second Quarter 2000	Six Months 2001	Six Months 2000
	-----	-----	-----	-----
Revenues				
Freight Revenue	\$ 82.9	\$ 88.8	\$ 166.4	\$ 178.4
Intermodal and Automotive Revenue	18.0	15.5	36.6	30.7
Unit Coal Revenue	27.6	25.7	54.5	54.7
Haulage Revenue	3.3	2.7	6.3	6.1
Other Revenue	8.4	9.3	16.6	18.5

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Total Revenues	140.2	142.0	280.4	288.4
Operating Expenses				
Salaries & Wages	32.2	33.2	67.6	68.6
Fringe Benefits	14.1	13.1	26.4	27.5
Fuel	11.4	11.0	23.8	23.1
Material and Supplies	7.3	7.9	14.6	16.1
Car Hire	5.7	4.2	12.2	6.9
Purchased Services	12.5	12.0	23.5	24.9
Casualties & Insurance	7.4	6.7	21.8	12.7
Other	1.9	1.4	5.0	4.1
Net Operating Expenses	92.5	89.5	194.9	183.9
Fixed Expenses				
Leases, Net	13.9	14.2	27.3	28.6
Depreciation	13.6	13.2	27.0	26.4
Taxes (Other Than Income)	3.6	3.7	6.2	7.6
Total Fixed Expenses	31.1	31.1	60.5	62.6
Total Expenses	123.6	120.6	255.4	246.5
Operating Income	16.6	21.4	25.0	41.9

Combined Kansas City Southern Railway/Gateway Western  
Carloadings By Commodity - Year to Date June 30, 2001  
Dollars in Thousands

Carloadings			Revenue		
Year to Date		%	Year to Date		%
2001	2000		2001	2000	
92,314	92,976	(0.7)%	\$54,515	\$54,717	(0.4)%
2,404	1,568	53.3%	1,347	532	153.2%
94,718	94,544	0.2%	55,862	55,249	1.1%
Chemical & Petroleum Products					
3,591	4,708	(23.7)%	2,846	3,321	(14.3)%
5,661	7,074	(20.0)%	5,165	6,451	(19.9)%
11,387	13,297	(14.4)%	11,350	12,601	(9.9)%
9,661	8,705	11.0%	9,949	10,184	(2.3)%

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33,185	31,404	5.7%	Petroleum	19,806	19,937	(0.7)%
13,503	12,988	4.0%	Plastics	13,652	11,671	17.0%
-----	-----			-----	-----	
76,988	78,176	(1.5)%	Total	62,768	64,165	(2.2)%
-----	-----			-----	-----	
Agriculture and Minerals						
24,496	26,791	(8.6)%	Domestic Grain	16,449	19,692	(16.5)%
5,049	4,967	1.7%	Export Grain	3,198	3,289	(2.8)%
13,209	14,545	(9.2)%	Food Products	10,651	11,626	(8.4)%
11,585	13,177	(12.1)%	Ores and Minerals	6,294	6,737	(6.6)%
7,556	8,856	(14.7)%	Stone, Clay & Glass	5,576	6,553	(14.9)%
-----	-----			-----	-----	
61,895	68,336	(9.4)%	Total	42,168	47,897	(12.0)%
-----	-----			-----	-----	
Paper & Forest Products						
41,031	46,119	(11.0)%	Pulp/Paper	28,435	31,500	(9.7)%
3,420	3,404	0.5%	Scrap Paper	1,772	1,820	(2.6)%
17,732	18,054	(1.8)%	Pulpwood/Logchips	7,397	7,234	2.3%
12,824	14,692	(12.7)%	Lumber/Plywood	11,071	12,947	(14.5)%
11,289	13,907	(18.8)%	Metal/Scrap	8,730	10,359	(15.7)%
			Military/Other			
4,256	3,910	8.8%	Carloads	5,067	3,632	39.5%
-----	-----			-----	-----	
90,552	100,086	(9.5)%	Total	62,472	67,492	(7.4)%
-----	-----			-----	-----	
Intermodal & Automotive						
23,743	10,018	137.0%	Automotive	14,699	5,667	159.4%
126,573	111,264	13.8%	Intermodal	21,859	25,005	(12.6)%
-----	-----			-----	-----	
150,316	121,282	23.9%	Total	36,558	30,672	19.2%
-----	-----			-----	-----	
TOTAL FOR BUSINESS UNITS						
474,469	462,424	2.6%		259,828	265,475	(2.1)%
17,204	22,646	(24.0)%	Haulage	6,291	6,117	2.8%
(4,997)	(3,600)	38.8%	Adjustments	(2,352)	(1,733)	35.7%
-----	-----			-----	-----	
486,676	481,470	1.1%	TOTAL	\$263,767	\$269,859	(2.3)%
=====	=====			=====	=====	

Combined Kansas City Southern Railway/Gateway Western  
Carloadings By Commodity - Second Quarter 2001  
Dollars in Thousands

Carloadings			Revenue	
Second	Quarter	%	Second	Quarter
-----	-----		-----	-----
		%		%

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2001	2000	Change		2001	2000	Change
47,120	45,716	3.1%	Coal	27,574	25,745	7.1%
1,151	864	33.2%	Unit Coal	672	297	126.3%
48,271	46,580	3.6%	Other Coal	28,246	26,042	8.5%
Chemical & Petroleum Products						
1,722	2,301	(25.2)%	Agri Chemicals	1,408	1,632	(13.7)%
2,866	3,513	(18.4)%	Gases	2,563	3,211	(20.2)%
5,675	6,492	(12.6)%	Organic	5,656	6,208	(8.9)%
4,869	4,305	13.1%	Inorganic	5,062	5,064	(0.0)%
14,613	14,763	(1.0)%	Petroleum	9,336	9,901	(5.7)%
6,508	7,001	(7.0)%	Plastics	6,479	6,316	2.6%
36,253	38,375	(5.5)%	Total	30,504	32,332	(5.7)%
Agriculture and Minerals						
12,435	13,076	(4.9)%	Domestic Grain	8,233	9,791	(15.9)%
1,867	1,779	4.9%	Export Grain	906	952	(4.8)%
6,940	7,209	(3.7)%	Food Products	5,639	5,802	(2.8)%
5,970	6,681	(10.6)%	Ores and Minerals	3,228	3,397	(5.0)%
3,833	4,504	(14.9)%	Stone, Clay & Glass	2,853	3,335	(14.5)%
31,045	33,249	(6.6)%	Total	20,859	23,277	(10.4)%
Paper & Forest Products						
20,450	23,165	(11.7)%	Pulp/Paper	14,468	16,120	(10.2)%
1,772	1,701	4.2%	Scrap Paper	922	926	(0.4)%
9,062	8,821	2.7%	Pulpwood/Logs/Chips	3,768	3,550	6.1%
6,833	7,470	(8.5)%	Lumber/Plywood	5,953	6,705	(11.2)%
5,208	6,946	(25.0)%	Metal/Scrap	4,160	4,973	(16.3)%
2,379	1,602	48.5%	Military/Other carloads	2,829	1,494	89.4%
45,704	49,705	(8.0)%	Total	32,100	33,768	(4.9)%
Intermodal & Automotive						
12,198	4,826	152.8%	Automotive	7,583	2,791	171.7%
61,294	58,718	4.4%	Intermodal	10,395	12,742	(18.4)%
73,492	63,544	15.7%	Total	17,978	15,533	15.7%
TOTAL FOR BUSINESS UNITS						
234,765	231,453	1.4%	Haulage	3,265	2,657	22.9%
8,589	12,040	(28.7)%	Adjustments	(1,169)	(872)	34.1%
(2,833)	(1,730)	63.8%	TOTAL	131,783	132,737	(0.7)%

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Kansas City Southern Industries, Inc.

Consolidated Balance Sheets  
 Unaudited  
 (Dollars in Millions)

Preliminary

	June 30, 2001	December 31, 2000
<b>Assets</b>		
Cash	\$ 18.6	\$ 21.5
Accounts receivable	136.3	135.0
Inventories	29.7	34.0
Other current assets	21.6	25.9
	-----	-----
Total current assets	206.2	216.4
Investments held for operating purposes	375.3	358.2
Properties, net of depreciation	1,322.8	1,327.8
Other assets	41.9	42.1
	-----	-----
Total assets	\$ 1,946.2	\$ 1,944.5
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Current portion of long-term debt	\$ 40.3	\$ 36.2
Accounts payable	46.0	52.9
Accrued liabilities	142.7	159.9
	-----	-----
Total current liabilities	229.0	249.0
Long-term debt	646.2	638.4
Deferred income taxes	343.0	332.2
Other	72.7	81.5
Stockholders' equity	655.3	643.4
	-----	-----
Total liabilities and stockholders' equity	\$ 1,946.2	\$ 1,944.5
	=====	=====