

KANSAS CITY SOUTHERN  
Form DEF 14A  
April 11, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934**

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12.

**Kansas City Southern**

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(Name of Registrant as Specified in its Charter)

**Not Applicable**

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**427 West 12th Street  
Kansas City, Missouri 64105**

**KANSAS CITY SOUTHERN  
NOTICE AND PROXY STATEMENT  
for  
the Annual Meeting of Stockholders  
to be held  
May 4, 2006**

**YOUR VOTE IS IMPORTANT!**

Please mark, date and sign the enclosed proxy card and promptly return it in the enclosed envelope, or vote by telephone or through the Internet as described on the proxy card.

**Mailing of this Notice and Proxy Statement, the accompanying enclosed Proxy Card and the accompanying 2005 Annual Report commenced on or about April 11, 2006**

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**KANSAS CITY SOUTHERN**  
**427 West 12th Street**  
**Kansas City, Missouri 64105**  
April 11, 2006

To Our Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Kansas City Southern, at Union Station Kansas City, City Stage Theater, 30 West Pershing Road, Kansas City, Missouri, at 10:00 a.m., on Thursday, May 4, 2006. The purposes of this meeting are set forth in the accompanying Notice of Annual Meeting and Proxy Statement.

We urge you to read these proxy materials and the Annual Report and to participate in the Annual Meeting either in person or by proxy. ***Whether or not you plan to attend the meeting in person, please sign and return promptly the accompanying proxy card, in the envelope provided, to assure that your shares will be represented. Alternatively, you may cast your votes by telephone or through the Internet as described on the accompanying proxy card.***

Sincerely,

Michael R. Haverty  
*Chairman of the Board, President  
and Chief Executive Officer*

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**KANSAS CITY SOUTHERN  
427 West 12th Street  
Kansas City, Missouri 64105**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

The Annual Meeting of the Stockholders of Kansas City Southern, a Delaware corporation ( KCS or the Company ), will be held at Union Station Kansas City, City Stage Theater, 30 West Pershing Road, Kansas City, Missouri, at 10:00 a.m. on Thursday, May 4, 2006, to consider and vote upon:

(1) Election of Two Directors;

(2) Ratification of the Audit Committee s Selection of KPMG LLP as KCS s independent accountants for 2006; and

(3) Such other matters as may properly come before the Annual Meeting or any adjournment thereof.

Only stockholders of record at the close of business on March 6, 2006, are entitled to notice of and to vote at this meeting or any adjournment thereof.

By Order of the Board of Directors,

Michael R. Haverty  
*Chairman of the Board, President  
and Chief Executive Officer*

The date of this Notice is April 11, 2006.

**Please date, sign and promptly return the enclosed proxy card, regardless of the number of shares you may own and whether or not you plan to attend the meeting in person. Alternatively, you may cast your votes by telephone or through the Internet as described on the accompanying proxy card. You may revoke your proxy and vote your shares in person if revoked in accordance with the procedures described in this notice and proxy statement. Please also indicate on your proxy card whether you plan to attend the Annual Meeting.**

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**KANSAS CITY SOUTHERN**  
**427 West 12th Street**  
**Kansas City, Missouri 64105**  
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**INFORMATION ABOUT THE ANNUAL MEETING**

**Why Were KCS's Stockholders Sent this Proxy Statement?**

Kansas City Southern, a Delaware corporation ( KCS ), is mailing this Proxy Statement on or about April 11, 2006 to its stockholders of record on March 6, 2006 in connection with KCS's Board of Directors' solicitation of proxies for use at the 2006 Annual Meeting of Stockholders and any adjournment thereof (the Annual Meeting ). The Annual Meeting will be held at Union Station Kansas City, City Stage Theater, 30 West Pershing Road, Kansas City, Missouri, on Thursday, May 4, 2006 at 10:00 a.m. The Notice of Annual Meeting of Stockholders, KCS's 2005 Annual Report to Stockholders (the Annual Report ), and a proxy card accompany this Proxy Statement.

KCS will pay for the Annual Meeting, including the cost of mailing the proxy materials and any supplemental materials. Directors, officers and employees of KCS may, either in person, by telephone or otherwise, also solicit proxy cards. They have not been specifically engaged for that purpose, however, nor will they be compensated for their efforts. KCS has engaged The Proxy Advisory Group LLC, to assist in the solicitation of proxies and provide related informational support, for a services fee and the reimbursement of customary disbursements that are not expected to exceed \$10,000 in the aggregate. KCS will pay these fees and expenses. In addition, KCS may reimburse brokerage firms and other persons representing beneficial owners of KCS shares for their expenses in forwarding this Proxy Statement, the Annual Report and other soliciting materials to the beneficial owners.

Brokers, dealers, banks, voting trustees, other custodians and their nominees are asked to forward this Notice and Proxy Statement, the proxy card and the Annual Report to the beneficial owners of KCS's stock held of record by them. Upon request, KCS will reimburse them for their reasonable expenses in completing the mailing of the materials to beneficial owners of our stock.

**Who May Attend the Annual Meeting?**

Only KCS stockholders or their proxies and guests of KCS may attend the Annual Meeting. Any stockholder or stockholder's representative who, because of a disability, may need special assistance or accommodation to allow him or her to participate in the Annual Meeting may request reasonable assistance or accommodation from KCS by contacting the office of the Corporate Secretary at KCS's principal executive offices, (816) 983-1538. If written requests are made to the Corporate Secretary of KCS, they should be mailed to P.O. Box 219335, Kansas City, Missouri 64121-9335 (or if by United Parcel Service or other form of express delivery to 427 West 12th Street, Kansas City, Missouri 64105). To provide KCS sufficient time to arrange for reasonable assistance, please submit all requests by April 27, 2006.

**What Matters Will Be Considered at the Annual Meeting?**

At the Annual Meeting, stockholders will consider and vote upon: (1) the election of two directors; (2) ratification of the Audit Committee's selection of KPMG LLP as KCS's independent accountants for 2006; and (3) such other matters as may properly come before the Annual Meeting or any adjournment thereof. Stockholders do not have dissenters' rights of appraisal in connection with the matters set forth in (1) and (2) of the preceding sentence. These two matters have been proposed by the Board of Directors, and none of them is related to or contingent upon any of the others. The Board of Directors knows of no other matters that will be presented or voted on at the Annual Meeting.

**VOTING**

**Which Stockholders May Vote at the Annual Meeting?**

Only the holders of KCS's common stock, par value \$0.01 per share (the Common Stock ), and preferred stock, par value \$25.00 per share (the Preferred Stock ), of record at the close of business on March 6, 2006 (the Record Date ), are entitled to notice of and to vote at the Annual Meeting. On the



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Record Date, KCS had outstanding 242,170 shares of Preferred Stock (which does not include 407,566 shares held in treasury) and 73,781,804 shares of Common Stock (which does not include 17,587,312 shares held in treasury) for a total of 74,023,974 shares eligible to be voted at the Annual Meeting.

The Common Stock and the Preferred Stock (collectively, the Voting Stock ) constitute KCS's only voting securities and will vote together as a single class on all matters to be considered at the Annual Meeting. Each holder of Voting Stock is entitled to cast one vote for each share of Voting Stock held on the Record Date on all matters other than the election of directors. Stockholders may vote cumulatively for the election of directors. In other words, each stockholder has votes equal to the number of shares of Voting Stock held on the Record Date multiplied by the number of directors to be elected, and the stockholder may cast all votes for a single nominee or distribute the votes among the nominees as the stockholder chooses. Internet and telephone voting are also available, and the accompanying form of proxy contains the Internet address and toll-free telephone number. This Proxy Statement solicits discretionary authority to vote cumulatively for the election of directors, and the accompanying form of proxy or telephone or Internet vote grants that authority.

### **How Does KCS Decide Whether Its Stockholders Have Approved Any of the Proposals?**

Stockholders owning at least a majority of the shares of Voting Stock entitled to vote must be present in person or represented by proxy to constitute a quorum for the transaction of business at the Annual Meeting. The shares of a stockholder who is present and entitled to vote at the Annual Meeting, either in person or through a proxy, are counted for purposes of determining whether there is a quorum, regardless of whether the stockholder votes the shares. Abstentions and broker non-votes (defined below) are counted as present and entitled to vote for purposes of determining a quorum.

The directors are elected by an affirmative vote of the plurality of shares of Voting Stock present at the Annual Meeting that are entitled to vote, provided a quorum exists. A plurality means receiving the largest number of votes, and where, as here, there are two director vacancies, the two nominees with the highest number of affirmative votes are elected. On any proposal other than the election of directors, the percentage of shares required to be voted in the proposal depends on the proposal. In most proposals, including the second proposal herein (ratification of the Audit Committee's selection of KPMG LLP as KCS's independent accountants for 2006), the affirmative vote of a majority of the shares of Voting Stock present at the Annual Meeting in person or by proxy and entitled to vote on the subject matter, provided a quorum is present, is required for the adoption of the proposal.

Voting ceases when the chairman of the Annual Meeting closes the polls. The votes are counted and certified by three inspectors appointed by the Board of Directors of KCS in advance of the Annual Meeting. In determining whether a majority of shares have been affirmatively voted for a particular proposal, the affirmative votes for the proposal are measured against the votes for and against the proposal plus the abstentions from voting on the proposal. A stockholder may abstain from voting on any proposal other than the election of directors, and abstentions from voting are not considered to be votes affirmatively cast. Abstaining will, therefore, have the effect of a vote against a proposal. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect.

### **What if a Stockholder Holds Shares in a Brokerage Account?**

The Voting Stock is traded on the New York Stock Exchange, Inc. (the NYSE ). Under the rules of the NYSE, member stockbrokers who hold shares of Voting Stock in the broker's name for customers are required to get directions from the customers on how to vote their shares. NYSE rules also permit brokers to vote shares on certain proposals when they have not received any directions. The Staff of the NYSE, prior to the Annual Meeting, informs the brokers of those proposals upon which the brokers are entitled to vote the undirected shares.

A broker non-vote occurs when a broker holding shares of Voting Stock for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner (customer directed abstentions are not broker

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non-votes). Broker non-votes generally do not affect the determination of whether a quorum is present at the Annual Meeting because, in most cases, some of the shares held in the broker's name have been voted, and, therefore, all of those shares are considered present at the Annual Meeting. Under applicable law, a broker non-vote will not be considered present and entitled to vote on non-discretionary items and will have no effect on the vote.

### **How may a Stockholder Vote by Proxy?**

Stockholders may vote by proxy in three ways, each of which is valid under Delaware law.

*By Internet:* Access our Internet voting site at <http://www.eproxyvote.com/ksu> and follow the instructions on the screen, prior to 5:00 p.m., central time, May 3, 2006 (May 2, 2006 for participants in certain employee benefit plans discussed below).

*By Telephone:* Using a touch-tone telephone, call toll-free 1-800-758-6973 and follow the voice instructions, prior to 5:00 p.m., central time, May 3, 2006 (May 2, 2006 for participants in certain employee benefit plans discussed below).

*By Mail:* Mark, sign, date and return the enclosed proxy or instruction card.

### **How are a Stockholder's Shares Voted if the Stockholder Submits a Proxy?**

Stockholders who return a properly executed proxy card or properly vote via the Internet or telephone are appointing the Proxy Committee to vote their shares of Voting Stock covered by the Proxy. That Committee consists of the three directors of KCS whose names are listed on the related proxy card. A stockholder wishing to name as his, her or its proxy someone other than the Proxy Committee designated on the proxy card may do so by crossing out the names of the designated proxies and inserting the name of another person. In that case, it will be necessary for the stockholder to sign the proxy card and deliver it to the person so named and for that person to be present and vote at the Annual Meeting. Proxy cards so marked should *not* be mailed directly to KCS.

The Proxy Committee will vote the shares of Voting Stock covered by a proxy in accordance with the instructions given by the stockholders executing the proxy or authorizing the proxy and voting by Internet or telephone. If a properly executed, or authorized, and unrevoked proxy solicited hereunder does not specify how the shares represented thereby are to be voted, the Proxy Committee intends to vote the shares **FOR** the election of the persons nominated by management for directorships, **FOR** ratification of the Audit Committee's selection of KPMG LLP as KCS's independent accountants for 2006, and in accordance with their discretion upon such other matters as may properly come before the Annual Meeting. The Proxy Committee reserves the right to vote such proxies cumulatively and for the election of less than all of the nominees for director, but does not intend to do so unless other persons are nominated and such a vote appears necessary to assure the election of the maximum number of nominees recommended by the KCS Board of Directors' Nominating and Corporate Governance Committee.

### **May a Stockholder Revoke His or Her Proxy or Voting Instruction Card?**

At any time before the polls for the Annual Meeting are closed, a stockholder who holds stock in his or her name may revoke a properly executed or authorized proxy by (a) an Internet or telephone vote subsequent to the date shown on a previously executed and delivered proxy or to the date of a prior electronic vote or telephone vote, or (b) with a later-dated, properly executed and delivered proxy, or (c) a written revocation delivered to the Corporate Secretary of KCS. A stockholder who holds stock in a brokerage account must contact the broker and comply with the broker's procedures if he or she wants to revoke or change the instructions that the stockholder returned to the broker. Participants in certain employee benefit plans, as discussed below, must contact the plan trustee and comply with its procedures if the participant wishes to revoke or change his or her voting instructions. Attendance at the Annual Meeting will not have the effect of revoking a properly executed or authorized proxy unless the stockholder delivers a written revocation to the Corporate Secretary before the proxy is voted.

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**How do Participants in KCS's Employee Stock Ownership Plan, in KCS's 401(k) and Profit Sharing Plan, or in KCS's union 401(k) plans Vote?**

Participants in KCS's employee stock ownership plan ( ESOP ), in KCS's 401(k) and Profit Sharing Plan ( 401(k) Plan ) and in KCS's union 401(k) plans ( Union Plans ) are each provided a separate voting instruction card (accompanying this Proxy Statement) to instruct the respective trustees of these ESOP, 401(k) Plan and Union Plans how to vote the shares of Common Stock held on behalf of the participant.<sup>1</sup> The trustee is required under the trust agreements to vote the shares in accordance with the instructions indicated on the voting instruction card.<sup>1</sup> If voting instructions are not given by the participant, the trustee must vote those shares, as well as any unallocated shares, in the same proportions as the shares for which voting instructions were received from the plan participants. Unless giving voting instructions by Internet or telephone, the voting instruction card should be returned in the envelope provided to UMB Bank, n.a., Securities Transfer Division, P.O. Box 419064, Kansas City, Missouri 64141-6064. *The voting instruction card should not be returned to KCS.* ESOP participants, 401(k) Plan participants and Union Plan participants who wish to revoke their voting instructions must contact the trustee and follow its procedures.

**Are the Votes of Participants in the ESOP, the 401(k) Plan and the Union Plans Confidential?**

Under the terms of the ESOP, the 401(k) Plan and the Union Plans, the trustee is required to establish procedures to ensure that the instructions received from participants are held in confidence and not divulged, released or otherwise utilized in a manner that might influence the participants' free exercise of their voting rights.

<sup>1</sup> Voting instructions may also be given by Internet or telephone by participants in the KCS ESOP and the KCS 401(k) and Profit Sharing Plan, and the accompanying voting instruction card relating to such plans contains the Internet address and toll-free number.

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BY DIRECTORS AND CERTAIN EXECUTIVE OFFICERS**

The following table sets forth information as of the Record Date concerning the beneficial ownership of KCS's Common Stock by: (i) beneficial owners of more than five percent of any class of such stock that have publicly disclosed their ownership; (ii) the members of the Board of Directors, the Chief Executive Officer and the four other most highly compensated executive officers for 2005; and (iii) all executive officers and directors as a group. KCS is not aware of any beneficial owner of more than five percent of the Preferred Stock. None of the directors or executive officers own any shares of Preferred Stock. No officer or director of KCS owns any equity securities of any subsidiary of KCS. Holders of 4.25% Redeemable Cumulative Convertible Perpetual Preferred Stock, Series C ( Series C Preferred Stock ) do not have any voting rights except under certain limited circumstances or as otherwise from time to time required by law, and do not currently have rights to vote at the Annual Meeting. Holders of 5.125% Cumulative Convertible Perpetual Preferred Stock, Series D ( Series D Preferred Stock ) do not have any voting rights except under certain limited circumstances or as otherwise from time to time required by law, and do not currently have rights to vote at the Annual Meeting. No officer or director of KCS owns any shares of Series C Preferred Stock or shares of Series D Preferred Stock. Beneficial ownership is generally either the sole or shared power to vote or dispose of the shares. Except as otherwise noted, the beneficial owners have sole power to vote and dispose of the shares. KCS is not aware of any arrangement which would at a subsequent date result in a change of control of KCS.

<b>Name and Address</b>	<b>Common Stock(1)</b>	<b>Percent Of Class(1)</b>
Dimensional Fund Advisors Inc.	4,535,091(2)	6.15%
FMR Corp.	4,234,141(3)	5.74%
Highbridge Capital Management LLC	6,180,899(4)	8.38%
Glenn Dubin, Co-CEO of Highbridge Capital Management LLC		
Henry Swieca, Co-CEO of Highbridge Capital Management LLC		
Janus Capital Management LLC	4,342,243(5)	5.89%
Mac-Per-Wolf Company	4,414,050(6)	5.98%
PWMCO, LLC, Perkins, Wolf, McDonnell and Company, LLC		
A. Edward Allinson	115,033(7)	*
Director		
Robert J. Druten	36,412(8)	*
Director		
Michael G. Fitt	131,800(9)	*
Director		
Michael R. Haverty	2,755,485(10)	3.67%
Chairman of the Board, President and Chief Executive Officer		
James R. Jones	102,580(11)	*
Director		
Thomas A. McDonnell	635,000(12)	*
Director		
Karen L. Pletz	35,000(13)	*
Director		
Javier Rion	(14)	
Former CEO of KCSM		
Ronald G. Russ	133,839(15)	*

Executive Vice President and Chief Financial Officer

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<b>Name and Address</b>	<b>Common Stock(1)</b>	<b>Percent Of Class(1)</b>
Arthur L. Shoener Executive Vice President and Chief Operating Officer	67,731(16)	*
Rodney E. Slater Director	55,000(17)	*
Robert B. Terry Senior Vice President and General Counsel	79,356(18)	*
All Directors and Executive Officers as a Group (18 Persons)**	4,714,501(19)	6.20%

\* Less than one percent of the outstanding shares.

- (1) Under applicable law, shares that may be acquired upon the exercise of options or other convertible securities that are exercisable on the Record Date, or will become exercisable within 60 days of that date, are considered beneficially owned. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares subject to options held by that person that are exercisable on the Record Date, or exercisable within 60 days of the Record Date, are deemed outstanding. These shares are not, however, deemed outstanding for the purpose of computing the percentage ownership of any other person. In addition, under applicable law, shares that are held indirectly are considered beneficially owned. Directors and executive officers may also be deemed to own, beneficially, shares included in the amounts shown above which are held in other capacities. The holders may disclaim beneficial ownership of shares included under certain circumstances. Except as noted, the holders have sole voting and dispositive power over the shares. The list of executive officers of KCS is included in KCS's Annual Report on Form 10-K. See the last page of this proxy statement for instructions on how to obtain a copy of the Form 10-K.
- (2) The address of Dimensional Fund Advisors Inc. ( Dimensional ) is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401. Dimensional is a registered investment advisor that furnishes investment advice to four registered investment companies and serves as investment manager to certain other commingled group trusts and separate accounts (collectively, the Funds ). These securities are owned by advisory clients of Dimensional, no one of which, to the knowledge of Dimensional, owns more than 5% of the class. Dimensional disclaims beneficial ownership of all such securities. This information is based on Dimensional's Schedule 13G filed on February 6, 2006.
- (3) The address for FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109. The securities are beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR Corp. ( Fidelity ), Fidelity Management Trust Company, a wholly-owned subsidiary of FMR Corp. ( Fidelity Trust ), Edward C. Johnson III and FMR Corp. and Fidelity International Limited ( FIL ) (collectively, the Subsidiaries ). Indirect beneficial ownership is attributed to FMR Corp. as the parent company to the Subsidiaries solely because of its control relationship to the Subsidiaries. This information is based on FMR Corp.'s Schedule 13G filed on February 14, 2006
- (4) The address of Highbridge Capital Management LLC ( Highbridge Capital ) is 9 West 57th Street, 27th Floor, New York, New York 10019. Glenn Dubin and Henry Swieca are each Co-Chief Executive Officers of Highbridge Capital. The securities are beneficially owned by one or more affiliates of Highbridge Capital, including Highbridge International LLC, Highbridge Master L.P., Highbridge Capital Corporation, Highbridge Capital L.P., Highbridge GP, Ltd., Highbridge GP, LLC (2,747,171 shares or 3.74%), Highbridge Event Driven/

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Relative Value Fund, Ltd. (3,052,357 shares or 4.16%), Highbridge Event Driven/ Relative Value Fund, L.P. (381,371 shares or 0.52%) and by Highbridge Capital, Mr. Dubin and Mr. Swieca (6,180,899 shares or 8.42%). Each of Highbridge Master L.P., Highbridge Capital Corporation, Highbridge L.P., Highbridge GP, Ltd, Highbridge GP, LLC, Highbridge Capital Management, LLC Glenn Dubin and Henry Swieca disclaims beneficial ownership of shares owned by Highbridge International LLC, Highbridge Event Fund Driven/ Relative Value Fund, L.P. and Highbridge Event Driven/ Relative Value Fund, Ltd. This information is based on Highbridge Capital's Schedule 13G Amendment No. 1 filed on February 13, 2006.

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- (5) The address of Janus Capital Management LLC ( Janus Capital ) is 151 Detroit Street, Denver, Colorado 80206. Janus Capital has sole voting and dispositive power for 3,732 shares of KCS common stock and shared voting and dispositive power of 4,338,511 shares of KCS common stock as a result of its indirect ownership in Enhanced Investment Technologies LLC ( INTECH ) and Perkins, Wolf, McDonnell and Company, LLC ( Perkins Wolf ). Janus Capital, Perkins Wolf and INTECH are registered investment advisers, each furnishing investment advice to various registered investment companies and individual institutional clients (collectively the Managed Portfolios ). The 4,338,511 shares of KCS common stock with shared voting power (5.3% of the class) may be deemed to be beneficially owned by Perkins Wolf and are also aggregated within the beneficial ownership reported for the majority owner of Perkins Wolf, Mac-Per-Wolf Company. Janus Capital and Perkins Wolf do not have the right to receive any dividends from, or proceeds from the sale of, KCS common stock held in the Managed Portfolios for which they act as investment advisers or sub- advisers and each disclaims any ownership associated with such rights. This information is based on Janus Capital s Schedule 13G filed on February 14, 2006.
- (6) The address of Mac-Per-Wolf Company and its two subsidiaries, PWMCO, LLC and Perkins, Wolf, McDonnell and Company, LLC, is 310 S. Michigan Ave., Suite 2600, Chicago, IL 60604. Perkins, Wolf, McDonnell and Company, LLC, a registered investment adviser, furnishes investment advice to various registered investment companies and to individual and institutional clients (collectively referred to herein as Managed Portfolios ). The Managed Portfolios have the right to receive all dividends from, and the proceeds from the sale of, the securities held in their respective accounts. The interest of any one such person does not exceed 5% of the class of securities. PWMCO, LLC is a wholly-owned subsidiary of Mac-Per-Wolf Company and is both a registered broker dealer and a registered investment adviser. This information is based on Mac-Per-Wolf Company s Schedule 13G Amendment No. 2 filed on February 15, 2006.
- (7) Mr. Allinson s beneficial ownership includes 88,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date and 1,200 shares held in a Keogh plan.
- (8) Mr. Druten s beneficial ownership includes 20,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date and 3,000 shares held by a charitable foundation.
- (9) Mr. Fitt s beneficial ownership includes 76,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date and 50,800 shares held in trusts for which he is the trustee with sole voting and dispositive power.
- (10) Mr. Haverty s beneficial ownership includes 1,333,160 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date, 29,733 shares allocated to his account in the KCS ESOP, 11,033 shares allocated to his account in KCS s 401(k) and Profit Sharing Plan, 412 shares held by one of his children and 375,000 shares held in trusts for his children for which his brother acts as trustee.
- (11) Mr. Jones s beneficial ownership includes 82,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date. Mr. Jones and his wife jointly own 500 of the total shares listed.
- (12) Mr. McDonnell s beneficial ownership includes 40,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date, 50,000 shares held in a trust for which he is the trustee with sole voting and dispositive power. 500,000 shares held by a subsidiary of DST and for which Mr. McDonnell disclaims beneficial ownership, and 40,000 shares held by a charitable foundation



and for which Mr. McDonnell disclaims beneficial ownership.

- (13) Ms. Pletz's beneficial ownership includes 30,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.
- (14) Mr. Rion has no beneficial ownership in the securities. Mr. Rion's employment as Chief Executive Officer of KCSM terminated effective February 14, 2006. As Mr. Rion's termination from employment

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occurred prior to the Record Date, he is not counted in the total of directors and executive officers as a group.

- (15) Mr. Russ' beneficial ownership includes 79,937 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date and 1 share allocated to his account in the KCS ESOP.
- (16) Mr. Shoener's beneficial ownership includes 1,356 shares allocated to his account in the KCS 401(k) and Profit Sharing Plan.
- (17) Mr. Slater's beneficial ownership includes 30,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.
- (18) Mr. Terry's beneficial ownership includes 55,000 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.
- (19) The number includes 2,239,315 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date and 1,030,401 shares otherwise held indirectly. A director disclaims beneficial ownership of 540,000 of the total shares listed.

**PROPOSAL 1 ELECTION OF TWO DIRECTORS**

The Board of Directors of KCS is divided into three classes. The members of each class serve staggered three-year terms of office, which results in one class standing for election at each annual meeting of stockholders. The term of office for the directors elected at the Annual Meeting will expire in 2009 or when their successors are elected and qualified.

Two persons have been nominated by the Board of Directors, following recommendation by the Nominating and Corporate Governance Committee, for election as directors. All of these nominees are presently directors of KCS, all have indicated that they are willing and able to serve as directors if elected, and all have consented to being named as nominees in this Proxy Statement. If any nominee should become unable or unwilling to serve, the Proxy Committee intends to vote for one or more substitute nominees chosen by them in their sole discretion.

As explained further under "How Does KCS Decide Whether Its Stockholders Have Approved Any of the Proposals," directors are elected by the affirmative vote of the plurality of the shares of Voting Stock present at the Annual Meeting that are entitled to vote on the election of directors, assuming a quorum is present.

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**Nominees for Directors to Serve Until the Annual Meeting of Stockholders in 2009**

*Michael R. Haverty*, age 61, has been President and Chief Executive Officer of KCS since July 12, 2000 and a director since May 1995. Mr. Haverty has served as Chairman of the Board of KCS since January 1, 2001. Mr. Haverty served as Executive Vice President of KCS from May 1995 until July 12, 2000. He served as President and Chief Executive Officer from May 1995 until December 2005 of The Kansas City Southern Railway Company ( KCSR ), a subsidiary of KCS, and has been a director of KCSR since May 1995. He has served as Chairman of the Board of KCSR since November 1999. Mr. Haverty has served as a director of the Panama Canal Railway Company, an affiliate of KCS, since October 1996 and as Co-Chairman of the Board of Directors of that company since May 1999. Mr. Haverty has served as Co-Chairman of Panarail Tourism Company, an affiliate of KCS, since October 2000. He is also Chairman of the Board of Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (the corporate parent of KCSM) and KCSM, subsidiaries of KCS, since April 1, 2005. Mr. Haverty previously served as Chairman and Chief Executive Officer of Haverty Corporation from 1993 to May 1995, acted as an independent executive transportation advisor from 1991 to 1993 and was President and Chief Operating Officer of The Atchison, Topeka and Santa Fe Railway Company from 1989 to 1991.

*Thomas A. McDonnell*, age 60, has served as director of KCS since March 18, 2003. Mr. McDonnell has served as a director of DST since 1971, as Chief Executive Officer of DST since October 1984, and as President of DST since January 1973 (except for a 30-month period from October 1984 to April 1987). DST provides information processing and computer software services and products to the financial services industry (primarily mutual funds, corporations and investment managers), video/broadband/satellite TV industry, communications industry and other service industries. He is a director of Blue Valley Ban Corp., Commerce Bancshares, Inc., Euronet Worldwide, Inc. and Garmin Ltd. and serves on the audit committees of each of these public companies, with the exception of Blue Valley Ban Corp. Mr. McDonnell previously served as a director of KCS from 1983 until October 1995. Mr. McDonnell also served as an officer and director of The Kansas City Southern Railway Company, resigning both positions in October 1995 when DST was spun off from KCS.

**YOUR BOARD RECOMMENDS THAT YOU VOTE  
FOR  
THE ELECTION OF THE BOARD'S NOMINEES  
TO THE BOARD OF DIRECTORS**

The Board of Directors met four times in 2005. The Board meets regularly to review significant developments affecting KCS and to act on matters requiring Board approval. The Board reserves certain powers and functions to itself; in addition, it has requested that the Chief Executive Officer refer certain matters to it. During 2005, all directors attended at least 75% of the aggregate of (1) the total number of meetings of the Board and (2) the total number of meetings held by all committees of the Board on which they served.

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**Directors Serving Until the Annual Meeting of Stockholders in 2007**

*A. Edward Allinson*, age 71, has been a director of KCS since 1990. He served as the Chief Executive Officer and Chairman of the Board of EquiServe LP (now EquiServe, Inc., EquiServe ) from December 1999 through October 2000. EquiServe provides stock transfer and related services to publicly listed corporations. Mr. Allinson was Executive Vice President of State Street Bank and Trust Company, Chairman of the Board of Directors of Boston Financial Data Services, Inc. ( BFDS ), and Executive Vice President of State Street Corporation from March 1990 through December 1999. BFDS provides full service share owner accounting and recordkeeping services to mutual funds, selected services to certain retirement plans and certain securities transfer services. DST owns 50% of BFDS. Mr. Allinson is also a director of DST.

*James R. Jones*, age 66, has been a director of KCS since November 1997. Mr. Jones is also a director of Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (the corporate parent of KCSM) and KCSM, subsidiaries of KCS. He has been Senior Counsel to the firm of Manatt, Phelps & Phillips since March 1, 1999. Mr. Jones is also Co-Chairman of Manatt Jones Global Strategies. He is also Chairman of Globe Ranger Corp. Mr. Jones was President of Warnaco Inc. International Division, 1997 through 1998; U.S. Ambassador to Mexico, 1993 through 1997; and Chairman and Chief Executive Officer of the American Stock Exchange, 1989 through 1993. Mr. Jones served as a member of the U.S. Congress representing Oklahoma for 14 years. He was White House Special Assistant and Appointments Secretary to President Lyndon Johnson. Mr. Jones is also a director of Anheuser-Busch; Grupo Modelo, S.A. de C.V.; San Luis Corporacion; TV Azteca; and Keyspan Energy Corporation.

*Karen L. Pletz*, age 58, has been a director of KCS since March 1, 2004. Ms. Pletz has been the President and Chief Executive Officer of The Kansas City University of Medicine and Biosciences (formerly The University of Health Sciences) since 1995. From 1978 to 1995, Ms. Pletz served as a Senior Vice President and Attorney for Central Bank, Jefferson City, Missouri and Division Manager of the Financial Management and Trust Services Division, Retail Bank Division and Marketing and Public Relations of Central Bank. In addition, from 1983 to 1984, Ms. Pletz was a partner at the law firm of Cook, Vetter, Doerhoff and Pletz, specializing in business and estate planning.

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**Directors Serving Until the Annual Meeting of Stockholders in 2008**

*Robert J. Druten*, age 58, has been a director of KCS since July 26, 2004. Mr. Druten has been the Executive Vice President and Chief Financial Officer at Hallmark Cards, Inc. since September 1994. From 1991 until 1994, he served as Executive Vice President and Chief Financial Officer of Crown Media, Inc., a cable communications subsidiary of Hallmark. He served as Vice President of Corporate Development and Planning of Hallmark Cards, Inc. from 1989 until 1991. Prior to joining Hallmark in 1986, Mr. Druten held a variety of executive positions with Pioneer Western Corporation from 1983 to 1986. Mr. Druten also is a member of Crown Media Holdings, Inc. and the Hallmark United Kingdom Holdings board of directors. Mr. Druten is a trustee and Chairman of the Board of Entertainment Properties Trust, a real estate investment trust.

*Rodney E. Slater*, age 51, has been a director of KCS since June 5, 2001. Mr. Slater is a partner in the public policy practice group of the firm Patton Boggs LLP and has served as head of the firm's transportation practice group in Washington, D.C. since April 1, 2001. He served as U.S. Secretary of Transportation from 1997 to January 2001 and head of the Federal Highway Administration from 1993 to 1996. Mr. Slater is also a director of Southern Development Bancorporation, Spear Technologies, Inc., Northwest Airlines and ICX Technologies.

**Policy on Director Attendance at Annual Stockholder Meetings.**

KCS directors are expected to attend annual stockholder meetings. All directors serving at the time of the 2005 annual stockholder meeting attended that meeting.

**Director Qualifications, Qualities and Skills.**

The Corporate Governance Guidelines of Kansas City Southern (the "Guidelines"), available at [www.kcsi.com](http://www.kcsi.com), set forth certain qualifications, qualities and skills that directors and nominees must meet to be directors or to be considered as director-nominees. Under the Guidelines, the KCS directors and nominees must be committed to representing the long-term interests of stockholders and must meet, at a minimum, the following qualifications:

Highest personal and professional ethics, integrity and values;

Independence, in accordance with the requirements of the NYSE, unless their lack of independence would not prevent two-thirds of the Board from meeting such requirements;

No current service on boards of companies that, in the judgment of the Nominating and Corporate Governance Committee, are in competition with, or opposed to the best interests of, the Company;

No current service on more than three Boards of public companies other than the KCS Board and any board of a company of which the director serves as CEO, unless the Board determines affirmatively that such service will not prevent the nominees from fully discharging their responsibilities as directors of KCS; and

Below the age of 72 years as of the date of the meeting at which their election would occur.

Additionally, it is considered desirable that directors and nominees possess the following qualities and skills:

Significant experience at policy making levels in business, government or education;

Significant experience or relationships in, or knowledge about, geographic markets served by KCS or industries that are relevant to KCS's business;

Willingness to devote sufficient time to carrying out their duties and responsibilities effectively, including service on appropriate committees of the Board.

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KCS's Bylaws also provide that no one who is 72 years old shall be eligible to be nominated or to serve as a member of the Board of Directors, but any person who shall attain the age of 72 during the term of directorship to which he was elected shall be eligible to serve the remainder of such term. Michael G. Fitt, a director of KCS since 1986, attained the age of 72 years old during his most recent term as a director of KCS. Mr. Fitt's term expires at the annual meeting to be held May 4, 2006. KCS's Certificate of Incorporation and Bylaws do not have any other eligibility requirements for directors.

**Non-Management Director Independence.**

The Non-Management Directors constitute a majority of the Board of Directors, and the Board has determined each of them, other than Ambassador James Jones, is independent under NYSE standards. In determining the independence of each Non-Management Director, the Board of Directors applied categorical standards of independence contained in the Guidelines. The standards assist the Board in determining that a director has no material relationship with KCS, either directly or as a partner, shareholder or officer of an organization that has a relationship with KCS. Under the standards, to be considered independent, no member of the Board may have, during the three-year period prior to the determination: (a) had a material relationship with KCS (directly or as a partner, shareholder or officer of an organization that has such a relationship); provided, a material relationship shall not be inferred merely because (i) the director is a director, officer, shareholder, partner or principal of, or advisor to, another company that does business with KCS and the annual sales to, or purchases from, KCS are less than 1% of the annual revenues of the other company if the director does not receive any compensation as a direct result of such business with KCS or (ii) the director is an officer, director or trustee of a charitable organization, and KCS's discretionary charitable contributions to that organization are less than \$100,000 or 1% of that organization's annual charitable receipts; (b) been an employee, or have had an immediate family member who was an executive officer, of KCS; (c) been affiliated with or employed by, or have any immediate family member who was affiliated with or employed in a professional capacity by, a present or former internal or external auditor of KCS; (d) been employed, or have had an immediate family member who was employed, as an executive officer of another company where any of KCS's present executives serve on that company's compensation committee; (e) received, or have an immediate family member who received, more than \$100,000 per year in direct compensation from KCS, other than director and committee fees, pension or other forms of deferred compensation for prior service (provided such deferred compensation is not contingent in any way on future service); (f) been an executive officer or an employee, or have an immediate family member who was an executive officer, of a company that makes payments to, or receives payments from, KCS for property or services in an amount which, in any single fiscal year, exceeded the greater of \$1 million or 2% of such other company's consolidated gross revenues. In determining independence, the Board of Directors concluded that each of the Non-Management Directors, other than Ambassador James Jones, has no material relationship with KCS under these standards.

**Committees of the Board of Directors.**

The Board of Directors has established the following standing committees: an Executive Committee; an Audit Committee; a Compensation and Organization Committee; and a Nominating and Corporate Governance Committee. The members of the committees are elected at the Board's annual meeting immediately following KCS's annual meeting of stockholders. During 2005, there were 7 meetings of the Executive Committee, 5 of which were by telephone, 13 meetings of the Audit Committee, 3 of which were by telephone, 5 meetings of the Compensation and Organization Committee, 2 of which were by telephone and 3 meetings of the Nominating and Corporate Governance Committee.

***The Executive Committee.***

The Executive Committee consists of KCS's Chairman of the Board and Chief Executive Officer and two non-officer directors elected by the Board to serve one-year terms. When the Board is not in session, the Executive Committee has all the powers of the Board for management of KCS in all cases in which specific directions have not been given by the Board.

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The members of the Executive Committee are: Michael G. Fitt (Chairman), Michael R. Haverty and Thomas A. McDonnell.

***The Audit Committee.***

The Audit Committee consists of three non-management directors elected by the Board of Directors to serve staggered three-year terms. The members of the Audit Committee are independent (as independence is defined in the NYSE's listing standards). In determining independence, the Board of Directors concluded that each of these non-management directors has no material relationship with KCS under the standards set forth in the Guidelines. The Board of Directors has determined that Robert J. Druten and Thomas A. McDonnell are each an audit committee financial expert as that term is defined in applicable securities laws and regulations. The Board of Directors determined that Mr. Druten qualifies as an audit committee financial expert based on his experience as Executive Vice President and Chief Financial Officer at Hallmark Cards, Inc. and previously at Crown Media, Inc., as well as his experience as a certified public accountant with Arthur Young & Co. The Board of Directors determined that Mr. McDonnell qualifies as an audit committee financial expert based on his experience as the Chief Executive Officer of DST Systems, Inc., his accounting and financial education, his experience actively supervising others performing accounting or auditing functions and his past and current memberships on audit committees of other public companies. Functions performed by the Audit Committee include appointing and pre-approving the fees of the independent auditor and pre-approving fees for other non-audit services to be provided by the independent accountants, reviewing with management and the independent auditor KCS's annual audited financial statements and quarterly financial statements, reviewing certain other public disclosures, and assisting the Board of Directors in oversight of the internal audit function, legal and regulatory compliance, and integrity of financial statements and certain internal controls. Under the NYSE Listing Standards, no member of the Audit Committee may serve on more than three audit committees of public companies (including the KCS Audit Committee), unless the KCS Board determines affirmatively that such simultaneous service will not impair such member's service on KCS's Audit Committee. The Board of Directors affirmatively determined that Mr. McDonnell's simultaneous service on more than three audit committees of public companies (including the KCS Audit Committee) will not impair his service on KCS's Audit Committee. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is available at [www.kcsi.com](http://www.kcsi.com).

The members of the Audit Committee are: Robert J. Druten (Chairman), Thomas A. McDonnell and Karen L. Pletz.

The report of the Audit Committee is set forth in the section under Audit Matters.

***The Compensation and Organization Committee.***

The Compensation and Organization Committee (the Compensation Committee) consists of three non-management directors each of whom are independent (as independence is defined in the NYSE's listing standards), considered non-employee directors under Section 162(m) of the Internal Revenue Code and considered non-management directors under Rule 16b-3 of the Securities Exchange Act of 1934, as amended. Compensation Committee members are elected annually by the Board, taking into consideration any recommendations of the Nominating and Corporate Governance Committee, to serve one-year terms. The Compensation Committee has the following duties and responsibilities: (a) review and approve periodically guidelines for base, annual incentive and long-term compensation programs for management employees of KCS and, as prescribed by resolution of the Board, subsidiaries, consistent with the compensation philosophy of the Compensation Committee; (b) review and approve corporate goals and objectives relevant to Chief Executive Officer (CEO) compensation, evaluate and review with the CEO the CEO's performance in light of those goals and objectives, and set the CEO's compensation level based on this evaluation; (c) review and approve the CEO's recommendations concerning the compensation of the senior management of KCS; (d) in consultation with the CEO, the Chief Financial Officer, the Vice President of Human Resources and, if deemed appropriate by the Chairperson of the Compensation Committee, an independent outside consultant, review and recommend to the Board compensation for directors, including equity awards, fees, and benefits; (e) establish and communicate to the senior management the Board's expectations concerning KCS stock





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ownership, with the goal of promoting long-term ownership of KCS stock and further aligning the interests of senior management with KCS's shareholders; (f) administer the compensation plans of KCS and certain subsidiaries under which the Compensation Committee has been granted administrative responsibility in accordance with the terms of those plans, including, as applicable, approving all stock option and restricted stock grants and pools, establishing performance goals and targets under incentive plans, and determining whether or not such goals have been attained (the Compensation Committee has the authority to delegate responsibility in accordance with the terms of the applicable plan); (g) review and recommend for approval by the Board new plans or material changes in existing compensation and benefit plans, and monitor the appropriateness and effectiveness of such plans; (h) review succession planning for key officers at KCS and KCSR; (i) review and approve the contents of KCS's disclosures concerning compensation matters in Securities and Exchange Commission (SEC) and other regulatory filings, including the disclosure of executive compensation in KCS's annual proxy statement; (j) retain and terminate any compensation consultant to be used to assist in the evaluation of the compensation of directors, CEO or executive officers of KCS, including the sole authority to select the consultant and to approve the consultant's fees and the other material terms of the engagement; (k) obtain advice and assistance from internal or external legal, accounting or other advisors as required for the performance of its duties; (l) monitor compliance with legal prohibitions on loans to directors and executive officers of KCS; (m) annually participate in a self-assessment of performance and, in conjunction with the Nominating and Corporate Governance Committee, undertake an annual evaluation of the qualifications of the members of the Compensation Committee; (n) prepare an annual report on compensation of senior management for inclusion in KCS's proxy statement in accordance with applicable laws, rules and regulations; and (o) perform such other duties and exercise such other powers as directed by resolution of the Board not inconsistent with the Compensation Committee Charter or as required by applicable laws, rules, regulations and NYSE listing standards. The Board of Directors has adopted a written Charter for the Compensation Committee, a copy of which is available at [www.kcsi.com](http://www.kcsi.com).

The members of the Compensation and Organization Committee are: A. Edward Allinson (Chairman), Michael G. Fitt and Rodney E. Slater.

The Compensation Committee's report on executive compensation is set forth in the section under Management Compensation.

***The Nominating and Corporate Governance Committee.***

The Nominating and Corporate Governance Committee (the Nominating Committee) consists of three non-management directors elected by the Board of Directors to serve staggered three year terms. The members of the Nominating Committee are independent (as independence is defined in the NYSE's listing standards). The Nominating Committee recommends to the Board of Directors suitable nominees for election to the Board of Directors or to fill newly created directorships or vacancies on the Board of Directors. The Nominating Committee may form and delegate authority to subcommittees when appropriate in its judgment. The Nominating Committee shall: (a) develop and apply criteria to the selection of director nominees; (b) establish and publish on the Company's website a policy concerning the treatment of shareholder recommended nominees to the Board; (c) develop and implement a procedure to periodically evaluate the performance of management, all of the committees of the Board (including the Nominating Committee) and the Board and compliance with corporate governance procedures at KCS; (d) establish and maintain an orientation program for new directors and a continuing education program for all directors; (e) annually review and reassess the adequacy of the Nominating Committee charter and recommend any proposed changes to the Board of Directors for approval; (f) make recommendations to the Board with respect to the selection of members of committees of the Board; and (g) perform any other activities consistent with its charter, KCS's By-laws and governing law as the Nominating Committee or the Board of Directors deems appropriate. The Nominating Committee has the authority to obtain advice and seek assistance from internal or external legal, accounting or other advisors, and has the sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve such search firm's fees and other terms of the engagement. The Board of Directors has adopted a written charter for the Nominating Committee, a copy of which is available at [www.kcsi.com](http://www.kcsi.com)



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The Nominating Committee generally will consider director nominees recommended by stockholders. Nominees recommended by stockholders in compliance with the Bylaws of the Company will be evaluated on the same basis as other nominees considered by the Nominating and Corporate Governance Committee. Stockholders should see Stockholder Proposals and Other Matters below for information relating to the submission by stockholders of nominees and matters for consideration at a meeting of KCS stockholders.

The members of the Nominating and Corporate Governance Committee are: A. Edward Allinson, Thomas A. McDonnell (Chairman) and Rodney E. Slater.

**Compensation of Directors.**

Directors who are officers or employees of KCS or its subsidiaries do not receive any fees or other compensation for service on the Board or its committees. No fees were paid during 2005 to any director or Named Executive Officer (as defined herein) of KCS for service on any board of directors of any subsidiary of KCS.

The Non-Management Directors (those directors who are not employees of KCS or its subsidiaries) are paid an annual retainer of \$10,000 (paid following the Annual Meeting of Stockholders) for Board membership. In 2005, the Non-Management Directors were paid \$4,000 for each Board meeting attended in person or \$2,000 for telephone meetings and \$2,000 for each committee meeting attended in person or \$1,000 for telephone meetings. The chairperson of the Executive Committee and the chairperson of the Audit Committee received an additional \$1,000 for each meeting of the respective committee they chair. The chairperson of the Compensation Committee and the chairperson of the Nominating Committee received an additional \$500 for each meeting of the respective committee they chair.

Beginning January 1, 2006, the additional per meeting fee for the chairperson of a Committee was eliminated. In lieu of these fees, the Chairperson of the Audit Committee receives an additional annual cash retainer of \$10,000 and all other Audit Committee members receive an additional annual cash retainer of \$5,000. The Chairpersons of the other standing committees receive an additional annual cash retainer of \$7,000. The Presiding Director receives an additional annual retainer of \$15,000, which, at the election of the Presiding Director, may be paid in cash or shares. All retainers are paid following the Annual Meeting of Stockholders.

On May 4, 2005, the Board adopted stock ownership guidelines for Non-Management Directors providing that each Non-Management Director will be required to beneficially own at least 20,000 shares of KCS common stock within five years from the later of May 4, 2005 or the date on which the Non-Management Director first joined the Board. Restricted stock granted to a Non-Management Director will count toward this requirement. Each Non-Management Director is awarded 5,000 shares of restricted stock each year immediately following the annual meeting of shareholders. Newly appointed Non-Management Directors are awarded 10,000 shares of restricted stock upon their appointment to the Board. The Non-Management Directors may also be granted awards, including among others, restricted stock, pursuant to the 1991 Amended and Restated Stock Option and Performance Award Plan (the 1991 Plan ), as determined by the Compensation Committee (as defined in such plan).

Directors of KCS are permitted to defer receipt of directors' fees under an unfunded directors' deferred fee plan adopted by the Board of Directors. Earnings for time periods prior to June 1, 2002 accrue interest on deferred fees from the date the fees are credited to the director's account, and on the earnings on deferred fees from the date the earnings are credited to the account. The rate of earnings is determined annually and is at a rate one percentage point less than the prime rate in effect at Chemical Bank on the last day of the calendar year. A director may request that the rate of earnings be determined pursuant to a formula based on the performance of certain mutual funds advised by Janus Capital Management LLC, provided that the plan administrator is not obligated to follow such request and may at its sole discretion continue to determine earnings by reference to the prime rate of Chemical Bank as discussed above. Earnings on the amount credited to a director's account as of May 31, 2002 and earnings on deferred fees and earnings credited to the director's account on and after June 1, 2002, are determined by the hypothetical investment of deferred fees based on the director's election among investment options designated by KCS from time to time for the deferred fee

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plan. An underlying investment rate determined from time to time by the Board (currently U.S. Treasury securities with a maturity of 10 years plus one percentage point, adjusted annually on July 1) is used to credit with interest any part of a director's account for which a mutual fund has not been designated as the hypothetical investment. Upon a director ceasing to be a director of KCS, the KCS Board has the sole discretion to elect to distribute the director's account value in annual installments over a ten-year period or in a single lump sum payment. Distributions under the plan are allowed prior to cessation as a director in certain instances as approved by the Board of Directors. The Board may designate a plan administrator, but in the absence of such designation, the Secretary of KCS will administer the plan.

At the request of KCS, each of Messrs. Allinson and Fitt entered into certain agreements with KCS to forego certain compensation due to them by KCS and to have loans made by KCS, in the amount of compensation foregone by Messrs. Allinson and Fitt, respectively, to trusts established by each of them, with the principal amount of such loans to be used to pay premiums on life insurance policies. See the discussion below in **Compensation Committee Interlocks and Insider Participation; Certain Relationships and Related Transactions.**

**Stockholders/ Interested Persons Communications with the Board.**

Any stockholder or interested person may communicate with the Non-Management Directors of the Board or the Presiding Director by sending such communication in writing to the office of the Corporate Secretary, Kansas City Southern, P.O. Box 219335, Kansas City, Missouri, 64121-9335, or by express carrier to Corporate Secretary, Kansas City Southern, 427 West 12th Street, Kansas City, Missouri 64105. In its capacity as the agent for the Non-Management Directors and Presiding Director, the office of the Corporate Secretary may review, sort and summarize the communications and, in accordance with the directors provided by and procedures established by the Non-Management Directors, forward on such communications to the Non-Management Directors and the Presiding Director, as appropriate. The Non-Management Directors or the Presiding Director shall review such communication with the Board or group addressed in the communication for determining the response or other action the Board or group shall deem appropriate. Any communications received may be shared with the management of the Company on the instruction of the Non-Management Directors or the Presiding Director.

**Compensation Committee Interlocks and Insider Participation; Certain Relationships and Related Transactions.**

On September 29, 2000, KCS and Manatt, Phelps & Phillips entered into an agreement commencing October 1, 2000 and ending October 31, 2002, but extended to October 31, 2004. Beginning November 1, 2004, the agreement may be extended on a month-to-month basis. Under the agreement, the law firm of Manatt, Phelps & Phillips and James R. Jones agreed to provide KCS with advice and assistance with reference to issues and transactions in Mexico and other international venues. In consideration of the services provided, KCS agreed to pay Manatt, Phelps & Phillips the sum of \$10,000 per month. Mr. Jones, a director of KCS, acts as Senior Counsel to Manatt, Phelps & Phillips and receives a salary from such law firm for his services as Senior Counsel. The fees paid by KCS to such law firm did not exceed 5% of the law firm's gross revenues for that firm's last full fiscal year.

At the request of KCS, Mr. Allinson entered into an Agreement to Forego Compensation and a loan agreement as described in this paragraph. Pursuant to the Agreement to Forego Compensation between Mr. Allinson and KCS, in which Mr. Allinson agreed to forego all of the balance payable to him under his retirement plan account in the KCS Directors' Deferred Fee Plan, and the loan agreement between Mr. Allinson and KCS, KCS agreed to loan \$523,662 (the amount of compensation foregone by Mr. Allinson) to The A. Edward Allinson Irrevocable Trust Agreement, Courtney Ann Arnot, A. Edward Allinson III and Bradford J. Allinson, Trustees (the Allinson Trust) with interest, and with the loan principal amount to be used by the Allinson Trust to pay a premium on a life insurance policy on the life of Mr. Allinson. KCS made the loan to the Allinson Trust and the Allinson Trust, as Maker, executed a promissory note in favor of KCS, as Holder, in the principal amount of \$523,662 plus interest at the rate of 5.49% compounded semi-annually. Pursuant to the terms of the promissory note, the Trust is designated as

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beneficiary to receive the policy death benefit or any benefit paid at policy maturity. The entire principal sum of the promissory note plus accrued interest thereon is due and payable to KCS within 90 days following the death of Mr. Allinson (or immediately due and payable upon the occurrence of any of certain specific events). Under the terms of the promissory note, the Trust may elect to reset the interest rate equal to the Applicable Federal Rate provided for under Internal Revenue Code Section 7872(f)(2)(A) in effect on the reset date. Only one reset of the interest rate is allowed. The loan was made prior to the enactment of the Sarbanes-Oxley Act of 2002 and no reset of the interest rate has occurred. The trustees and beneficiaries of the Trust are members of Mr. Allinson's immediate family.

At the request of KCS, Mr. Fitt entered into an Agreement to Forego Compensation and a loan agreement as described in this paragraph. Pursuant to the Agreement to Forego Compensation between Mr. Fitt and KCS, in which Mr. Fitt agreed to forego all of the balance payable to him under his retirement plan account in the KCS Directors Deferred Fee Plan, and the loan agreement between Mr. Fitt and KCS, KCS agreed to loan \$975,346 (the amount of compensation foregone by Mr. Fitt) to The Michael G. Fitt and Doreen E. Fitt Irrevocable Insurance Trust, Anne E. Sykes, Colin M-D. Fitt and Ian D.G. Fitt, Trustees (the Fitt Trust) with interest, and with the loan principal amount to be used by the Fitt Trust to pay a premium on a life insurance policy on the lives of Mr. Fitt and his wife. KCS made the loan to the Fitt Trust and the Fitt Trust, as Maker, executed a promissory note in favor of KCS, as Holder, in the principal amount of \$975,346 plus interest at the rate of 5.49% compounded semi-annually. Pursuant to the terms of the promissory note, the Trust is designated as beneficiary to receive the policy death benefit or any benefit paid at policy maturity. The entire principal sum of the promissory note plus accrued interest thereon is due and payable to KCS within 90 days following the death of the last survivor of Mr. Fitt or his wife (or immediately due and payable upon the occurrence of any of certain specific events). The loan was made prior to the enactment of the Sarbanes-Oxley Act of 2002. The trustees and beneficiaries of the Trust are members of Mr. Fitt's immediate family.

A 50% owned affiliate of a wholly-owned subsidiary of DST leases to KCSR the headquarters building occupied by KCS and KCSR, and leases to a subsidiary of KCSR, a floor in another building. Thomas A. McDonnell, a director of KCS, is the President, Chief Executive Officer and a Director of DST and Chairman of the board of directors of the subsidiary. Rent paid by KCSR under these leases in 2005 aggregated \$3.4 million. DST's indirect 50% interest in those lease payments amounted to less than 1% of its consolidated gross revenues in 2005. Mr. McDonnell does not receive any salary from the subsidiary or the affiliate, owns no stock in either entity, owns less than 1% of the outstanding common stock of DST and receives no other direct financial benefit from these lease payments.

**Table of Contents****AUDIT MATTERS****Report of the Audit Committee.**

April 11, 2006

In accordance with the Audit Committee's written charter duly adopted by the Board of Directors, we have reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2005.

Management is responsible for the Company's internal controls and the financial reporting process. KPMG LLP, the Company's independent accountants, is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Committee's responsibility is to monitor and oversee these processes on behalf of the Board of Directors.

We have discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee discussed with the Company's independent auditors the overall scope and plans for their audit. The Audit Committee met with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors' independence.

Based on the reviews and discussions referred to above, we recommended to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC.

The Audit Committee

Robert J. Druten, *Chairman*

Thomas A. McDonnell

Karen L. Pletz

**Principal Accounting Firm Fees.**

The following table sets forth the aggregate fees billed to KCS for the fiscal years ended December 31, 2004 and December 31, 2005 by KPMG LLP:

**KPMG LLP**

	<b>2004</b>	<b>2005</b>
Audit Fees(b)(c)	\$ 1,448,465*	\$ 2,897,052*
Audit Related Fees(a)	\$ 47,178	\$ 167,821*
Tax Fees(a)	\$ 5,670	\$ 3,335*
All Other Fees(a)(d)	\$ 58,086	\$ 0*

\* Audit fees in 2004 include \$278,853 in additional fees paid subsequent to publication of the proxy statement for the annual meeting of stockholders in 2005. Audit fees in 2005 include approximately \$884,364 of estimated fees because final terms and fees for certain audit services have not been finalized.

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- (a) The Audit Committee has considered whether the provision of these services is compatible with maintaining the principal accountant's independence.
- (b) Includes fees for review of private offering documents and SEC filings as well as review of accounting treatment of KCSM acquisition and the VAT settlement in 2005 and a depreciation study in 2004.
- (c) Includes fees for review of tax opinions on VAT settlement and additional year-end reviews.
- (d) Includes fees for agreed upon procedures related to executive compensation and comisario fees related to Grupo TFM in both 2004 and 2005.

The Audit Committee's pre-approval policies and procedures, as set forth in the Audit Committee charter, provide that the Audit Committee will approve all fees for audit and non-audit services prior to engagement. Fees that are reasonably expected to fall below \$100,000 may be approved by the Chairman of the Audit Committee. Fees that are reasonably expected to equal or exceed \$100,000 will be approved by the Audit Committee.

**Independent Public Accountants.**

The Audit Committee has selected the firm of KPMG LLP as KCS's independent accountants to examine KCS's 2006 consolidated financial statements.

One or more representatives of KPMG LLP are expected to be present at the Annual Meeting and, if so, will have the opportunity, if desired, to make a statement and are expected to be available to respond to appropriate questions by stockholders.

On July 26, 2005, each of KCSM and Grupo TFM dismissed PricewaterhouseCoopers (PwC) as principal accountant to audit the financial statements of KCSM and Grupo TFM. PwC will continue to perform services on behalf of KCSM and Grupo TFM, but such services will not involve auditing financial statements covering periods subsequent to December 31, 2004. On the same date, KCSM and Grupo TFM engaged KPMG Cardenas Dosal, S.C. (KPMG) as the principal accountant to audit the financial statements of KCSM and Grupo TFM.

PwC's report on the financial statements of each of KCSM and Grupo TFM for either of the past two years did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. Each of the audit committee of KCSM and the board of directors of Grupo TFM approved the change in principal accountant to audit the respective financial statements of KCSM and Grupo TFM.

During the two most recent fiscal years ended December 31, 2004, and the subsequent period to and including July 26, 2005, there have been no disagreements between PwC and either of KCSM or Grupo TFM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to the satisfaction of PwC, would have caused it to make a reference to the subject matter of any such disagreement in this proxy statement. No reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K, occurred within the two most recent fiscal years ended December 31, 2004 and the subsequent period to and including July 26, 2005 for KCSM or Grupo TFM.

**PROPOSAL 2 RATIFICATION OF THE AUDIT COMMITTEE'S  
SELECTION OF INDEPENDENT ACCOUNTANTS**

The Audit Committee has selected the firm of KPMG LLP as KCS's independent accountants to examine KCS's 2006 consolidated financial statements. KPMG LLP served as KCS's independent accountants for 2005. No relationship exists between KCS and KPMG LLP other than that of independent accountant and client. KCS seeks its stockholders' ratification of the Audit Committee's selection of KCS's independent accountants even though KCS is not legally required to do so. If KCS's stockholders ratify the Audit Committee's selection, the Audit Committee nonetheless may, in their discretion, retain another independent accounting firm at any time during the year if the Audit Committee feels that such change would be in the best interest of KCS and its stockholders. Alternatively, in the event that this proposal is not



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approved by stockholders, the Audit Committee will re-evaluate its decision. One or more representatives of KPMG LLP are expected to be present at the Annual Meeting and, if so, will have the opportunity, if desired, to make a statement and are expected to be available to respond to appropriate questions by stockholders. As explained further under How does KCS Decide Whether its Stockholders Have Approved any of the Proposals, approval of this proposal requires the affirmative vote of a majority of the shares of Voting Stock present at the Annual Meeting that are entitled to vote on the proposal, assuming a quorum is present.

**YOUR BOARD RECOMMENDS THAT YOU VOTE  
FOR  
RATIFICATION OF THE AUDIT COMMITTEE S  
SELECTION OF KPMG LLP**

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**MANAGEMENT COMPENSATION**

**Compensation and Organization Committee Report on Executive Compensation.**

***Introduction.***

The Board of Directors believes that increasing the value of KCS to its stockholders is its most important objective. In support of this objective, the Board charges the Compensation and Organization Committee (the Committee ) with the responsibility of designing compensation packages for KCS's executives that provide incentives to increase stockholder value while enabling KCS to attract and retain exceptionally qualified executives. The Board emphasizes its overall objective by also relating the Non-Management Directors' compensation to stockholder value through restricted stock awards.

The Committee seeks to align the interests of KCS's executives with the Board's overall objective through a compensation strategy that emphasizes long-term stock ownership and closely links executive compensation with KCS's operating performance and changes in stockholder value. In designing those compensation packages, the Committee believes KCS's compensation packages should provide executives with market competitive base salaries and the opportunity to earn additional compensation if KCS's operating performance meets certain performance goals. The Committee also believes that KCS's executives should maintain a significant equity interest in KCS.

To assist the Committee with its responsibilities, the Committee utilizes the expertise of independent compensation consultants. In addition to advising the Committee, the compensation consultants provide the Committee with surveys of compensation practices of selected industries and companies. The compensation surveys used to determine competitive market pay ranges for KCS's executives focus on transportation-based companies and general industrial companies engaged in mature, capital intensive businesses and having annual revenues comparable to KCS. These compensation surveys include some of the companies comprising the Dow Jones US Transportation Average (the peer group used in the stock performance graph below), as well as other companies in other industries. The Committee believes using a broad sample of companies better represents the market for executives. Where appropriate, compensation data from these surveys are adjusted through regression analysis to estimate compensation levels at companies similar in size to KCS or its operating units. The next section of this report details the 2005 compensation program for these executives.

**Compensation Package Components in 2005.**

*Base Salary.* The Committee determines the level of base salaries for the Named Executive Officers and other senior executives for whom the Committee has responsibility. The Committee generally targets the 50th percentile of the observed competitive market practice in setting base salary levels. Actual executive salaries vary from this targeted positioning based on individual contribution and performance, level of responsibility, experience and KCS's corporate performance. The Committee does not give any specific weighting to any of these factors.

*Annual Cash Incentive Award Opportunity.* The Committee implemented an annual cash incentive program for 2005 with bonus amounts based on two performance categories consisting of company-wide performance goals and individual performance goals for 2005. The Committee approved individual incentive award opportunities at target levels for safety, customer service, strategic projects and leadership/teamwork and company-wide performance goals at target levels corresponding to operating income of the Company for 2005.

Each year, the Committee will determine whether an annual cash incentive program will be adopted for that year and will establish participation, award opportunities and corresponding performance measures and goals.

*Long Term Incentives (Stock Compensation).* The Committee's strategy is to emphasize stock-based incentives as a portion of the executives' total compensation package. In prior years, long-term incentive award opportunities were delivered, primarily through stock options. In 2005, based upon the Committee's consideration of the unique challenges resulting from the acquisition of KCSM, the Company provided long-

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term incentive opportunities to executives through restricted stock grants. The restricted stock cliff vests after five years, providing a strong retention incentive to our executive team and facilitating a long-term stock ownership commitment. It is the Committee's intent to periodically review its grant strategy to ensure the long-term incentive awards granted best balance the objectives of increasing shareholder value, motivating and retaining key employees and facilitating stock ownership/retention in a cost effective manner.

The total number of shares of restricted stock granted were based on consideration of each individual's targeted total direct compensation (salary, target award incentive opportunity and long-term incentive opportunity) for 2005. Targeted total direct compensation levels for KCS's executives are generally somewhat below the median of observed market practices as determined by compensation surveys. The Committee's intent is to transition to market median levels for total direct compensation over time. The survey-derived amounts may be adjusted by the Committee to take into account the individual's contribution and performance, level of responsibility, experience and KCS's corporate performance. The Committee does not give any specific weighting to any of these factors.

*Additional Cash Compensation/ Incentive Award.* Under the KCS Executive Plan certain executives received for 2005 either (a) an annual benefit of restricted stock awarded under the 1991 Plan or, upon the election of the executive, (b) a cash payment. The restricted shares awarded vest over 5 years and had an aggregate value on the award date, using the binomial valuation method, equal to 125% of the alternative cash payment amount. The cash payment amount was determined under the Executive Plan formula which is an amount equal to 10% of the difference between X and Y, where X equals the executive's base salary as approved by the Committee multiplied by the percentage set in the executive's employment agreement to be taken into account for purposes of compensation plans, and Y equals the maximum amount of compensation that may be considered for retirement benefit purposes under the Internal Revenue Code qualified retirement plan provisions.

*Other Compensation.* The Company also provided the executives with benefits commensurate with those provided to all salaried employees. In addition, the Named Executive Officers are covered by employment and change in control agreements (see, Employment Agreements and Termination of Employment and Change in Control Arrangements with Name Executive Officers ).

**Compensation of the Chief Executive Officer.**

The compensation package for Mr. Haverty, the Chief Executive Officer of KCS, is based upon the same compensation strategy, factors, criteria and compensation surveys considered for the other executives of KCS, KCSR and KCSM as discussed above. For the 2005 performance year, Mr. Haverty's annualized year-end base salary was \$665,000. This amount reflects a 2.5% increase over his 2004 year end annualized salary. Mr. Haverty earned an annual incentive award of \$50,000, based on the Company's adjusted operating income relative to the threshold target and the Committee's assessment of the attainment of individual performance goals and a restricted stock award covering 40,000 shares. In addition, Mr. Haverty was granted shares of restricted stock in 2005 under the 1991 Plan related to his annual benefit under the KCS Executive Plan. See the Summary Compensation Table for a complete description of Mr. Haverty's restricted stock awards.

**Deductibility of Compensation.**

Section 162(m) of the Internal Revenue Code generally limits the deduction by publicly held corporations for federal income tax purposes of compensation in excess of \$1 million paid to any of the executive officers listed in the summary compensation table (the Named Executive Officers ) unless it is performance-based.

Except as otherwise set forth, the Committee intends to qualify compensation expense as deductible for federal income tax purposes. The compensation packages of the Named Executive Officers for 2005 included base salary and, subject to the limitations under the compensation package discussed above, stock. The highest total base salary is within the \$1 million limit. The stock compensation was awarded under the provisions of the 1991 Plan in the form of restricted shares. As described above, the restricted shares cliff vest after five years to provide a strong retention incentive and a long-term stock ownership commitment.

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These restricted stock awards do not qualify as performance-based compensation under Section 162(m), because the vesting of the awards is time-based. The restricted shares awarded to those officers have the potential to result in total compensation in excess of the \$1 million limit under Section 162(m).

In prior years KCS has awarded Executives stock options under the 1991 Plan. These stock options may result in taxable compensation upon exercise. Except with respect to certain stock options granted in 2000 to Mr. Haverty as part of his executive compensation package, KCS believes it has taken all steps necessary, including obtaining stockholder approval, so that any compensation expense that KCS may incur as a result of awards of stock options under the 1991 Plan, with respect to those Named Executive Officers whose total compensation might exceed the \$1 million limit, qualifies as performance-based compensation for purposes of Section 162(m) so that any portion of this component of the executive compensation packages will be deductible for federal income tax purposes. Mr. Haverty has indicated that he intends to manage the exercise of his options granted in 2000 so that the number of any options he exercises in any given year will not result in his total compensation exceeding the \$1 million limit of Section 162(m).

The Committee will review from time to time in the future the potential impact of Section 162(m) on the deductibility of executive compensation. However, the Committee intends to maintain the flexibility to take actions that it considers to be in the best interests of the Company and its stockholders and which may be based on considerations in addition to tax deductibility.

The Compensation and Organization Committee.

A. Edward Allinson, *Chairman*

Michael G. Fitt

Rodney E. Slater

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**Table of Contents****Stock Performance Graph.**

The following graph shows the changes in value over the five years ending December 31, 2005 of an assumed investment of \$100 in: (i) KCS's Common Stock; (ii) the stocks that comprise the Dow Jones US Transportation Average Index<sup>1</sup>; and (iii) the stocks that comprise the S&P 500 Index<sup>2</sup>. The table following the graph shows the value of those investments as of December 31 of each of the years indicated. The value for the assumed investments depicted on the graph and in the table has been calculated assuming that cash dividends are reinvested. The 2000 dividend includes the Stilwell Financial Inc. (now Janus Capital Group Inc.) stock dividend distributed on July 12, 2000, which for purposes of this graph and table was treated as a cash dividend and as reinvested.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*  
AMONG KANSAS CITY SOUTHERN, THE S & P 500 INDEX  
AND THE DOW JONES US INDUSTRIAL TRANSPORTATION INDEX**

	2000	2001	2002	2003	2004	2005
Kansas City Southern	100.00	139.56	118.52	141.43	175.11	241.28
S&P 500	100.00	88.12	68.64	88.33	97.94	102.75
Dow Jones Industrial Transportation	100.00	112.85	115.85	149.38	192.23	213.88

<sup>1</sup> The Dow Jones US Industrial Transportation Average (formerly known as The Dow Jones US Transportation Average) is an index prepared by Dow Jones & Co., Inc., an independent company.

<sup>2</sup> The S&P 500 is an index prepared by Standard and Poor's Corporation, an independent company. The S&P 500 Index reflects the change in weighted average market value for 500 companies whose shares are traded on the New York Stock Exchange, American Stock Exchange and in the over-the-counter market. Information concerning Standard and Poor's Corporation and the S&P 500 Index is available on the Internet at [www.stockinfo.standardpoor.com](http://www.stockinfo.standardpoor.com).

**Table of Contents****Summary Compensation Table.**

The Summary Compensation Table shows certain information concerning the compensation earned in the fiscal years ended December 31, 2005, 2004 and 2003 by the Chief Executive Officer of KCS and the four other most highly compensated executive officers during 2005 (collectively, the Named Executive Officers). The table shows amounts earned by such persons for all services rendered in all capacities to KCS and its subsidiaries during the past three years.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			All Other Compensation
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)(1)	Securities Underlying		
						Options/SARs (#)(2)		
Michael R. Haverty Chairman of the Board, President and Chief Executive Officer	2005	665,004	50,000		908,160(3)		126,276(4)	
	2004	649,104				103,689	100,962	
	2003	630,108				105,901(4)	92,621(4)	
Arthur L. Shoener Executive Vice President and Chief Operating Officer	2005	475,008	30,000	160,525(5)	584,700(6)	60,000	90,532(7)	
	2004							
	2003							
Ronald G. Russ Executive Vice President and Chief Financial Officer	2005	297,923			429,503(8)		37,595(9)	
	2004	273,000				44,539	29,649	
	2003	265,008				48,686(9)	62,321(9)	
Javier Rion Former CEO of KCSM(10)	2005	219,850	18,510		896,000(11)		2,583(12)	
	2004							
	2003							
Robert B. Terry Senior Vice President and General Counsel	2005	242,563	15,000		194,900(13)		25,345(14)	
	2004	53,751			275	60,000	594	
	2003							

- (1) The dollar value of restricted stock awards (net of any consideration paid by the Named Executive Officer) is calculated by multiplying the closing market price of KCS Common Stock on the date of grant by the number of shares awarded. If such calculation results in a negative amount, the dollar value shown is \$0. The number and value of the aggregate restricted stock holdings of each of the Named Executive Officers at the end of fiscal year

2005 are as follows: Mr. Haverty 46,897 shares with a value of \$1,145,694; Mr. Shoener 35,000 shares with a value of \$770,500; Mr. Russ 32,130 shares with a value of \$638,936; Mr. Rion 40,000 shares with a value of \$977,200; and Mr. Terry 12,500 shares with a value of \$267,025. The value (net of any consideration paid by such Named Executive Officers) of these restricted shares is based on the closing market price of KCS Common Stock on December 30, 2005. Dividends will only be paid on the restricted stock when, as and if declared and paid on KCS Common Stock.

- (2) For a discussion of options to purchase Stilwell common stock granted by Stilwell in 2000 in connection with the Spin-off, as part of an equitable adjustment of KCS options granted prior to the Spin-off, see Stilwell Options Granted in Connection with the Spin-off below.
- (3) 6,897 shares were granted on February 3, 2005 and vest 1/5 per year from the date of grant over 5 years. 40,000 shares were granted on March 14, 2005 and vest 5 years from the date of grant.
- (4) All other compensation for Mr. Haverty for 2005 is comprised of: (a) a contribution to his account under KCS's 401(k) plan of \$10,500; (b) premiums on group term life insurance of \$1,920, accidental death and dismemberment insurance of \$240 and long-term disability insurance of \$216; and (c) an accrual of \$113,400 related to KCS's Executive Plan which was paid in restricted shares granted in 2006 under the 1991 Plan. Restricted shares granted under the 1991 Plan in 2005 represent the payment of his annual benefit for 2004 related to KCS's Executive Plan, which is reflected as an accrual of \$88,336 in all other compensation for Mr. Haverty in 2004. (The options for 13,689 shares granted in 2004 under the 1991 Plan represented the payment of his annual benefit for 2003 related to KCS's Executive Plan).

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- (5) Other annual compensation for Mr. Shoener is comprised of relocation allowance/expenses totaling \$160,525, of which \$77,500 constitutes a commission paid to Mr. Shoener on the sale of his home prior to his relocation, \$8,734 constitutes a reimbursement for closing costs upon relocation, \$43,931 constitutes moving expenses paid for the shipment of household goods, and \$30,360 constitutes reimbursement for temporary lodging.
- (6) 5,000 shares were granted on January 4, 2005 and will vest 5 years from the date of grant. 30,000 shares were granted on March 14, 2005 and will vest 5 years from the date of grant.
- (7) All other compensation for Mr. Shoener for 2005 is comprised of: (a) a contribution to his account under KCS's 401(k) plan of \$10,500; (b) premiums on group term life insurance of \$1,920, accidental death and dismemberment insurance of \$240 and long-term disability insurance of \$216; and (c) an accrual of \$77,656 related to KCS's Executive Plan which was paid in restricted shares in 2006 under the 1991 Plan.
- (8) 2,130 shares were granted on February 3, 2005 and will vest 1/5 per year from the date of grant over 5 years. 20,000 shares were granted March 14, 2005 and will vest 5 years from the date of grant.
- (9) All other compensation for Mr. Russ for 2005 is comprised of: (a) premiums on group term life insurance of \$1,920, accidental death and dismemberment insurance of \$240 and long-term disability insurance of \$216; and (b) an accrual of \$35,219 related to KCS's Executive Plan which was paid in restricted shares granted in 2006 under the 1991 Plan. 2,130 restricted shares granted under the 1991 Plan in 2005 represent payment of his annual benefit for 2004 related to KCS's Executive Plan, which is reflected as an accrual of \$27,273 in all other compensation for Mr. Russ in 2004. (The options for 4,539 shares granted in 2004 under the 1991 Plan represented the payment of his annual benefit for 2003 related to KCS's Executive Plan.)
- (10) Mr. Rion's employment as the Chief Executive Officer of KCS's subsidiary, Kansas City Southern de Mexico, S.A. de C.V. ( KCSM ), terminated effective February 14, 2006.
- (11) 40,000 shares were granted on September 27, 2005 and will vest 5 years from the date of grant. These shares were forfeited back to the Company on February 14, 2006 due to Mr. Rion's termination of employment.
- (12) All other compensation for Mr. Rion for 2005 is comprised of premiums on group term life insurance of \$2,583.
- (13) 10,000 shares were granted on March 14, 2005 and will vest 5 years from the date of grant.
- (14) All other compensation for Mr. Terry for 2005 is comprised of: (a) premiums on group term life insurance of \$1,920, accidental death and dismemberment insurance of \$240 and long-term disability insurance of \$216; and (b) an accrual of \$22,969 related to KCS's Executive Plan which was paid in restricted shares in 2006 under the 1991 Plan.

**KCS Option/ SAR Grants in Last Fiscal Year.**

Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(3)
Number of Securities Underlying Options/SARs	% of Total Options/SARs Granted to	Exercise Or Base Price (\$ Per Expiration	



Name	Granted (#)	Employees in Fiscal Year(1)		Share)(2)	Date	5% (\$)	10% (\$)
Michael R. Haverty				\$		\$	\$
Arthur L. Shoener	60,000(4)	57.6%		\$ 16.91	1-4-2015	\$ 638,076	\$ 1,617,011
Ronald G. Russ		%		\$		\$	\$
Javier Rion		%		\$		\$	\$
Robert B. Terry		%		\$		\$	\$

(1) Total options granted in 2005 to eligible employees of KCS and its subsidiaries covered a total of 104,200 shares of KCS Common Stock.

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- (2) Average of the high and low prices of the KCS Common Stock on the date of grant as reported on the New York Stock Exchange.
- (3) The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the SEC and do not represent our estimate or projection of future prices of KCS's Common Stock. The actual value realized may be greater or less than the potential realizable values set forth in the table.
- (4) 60,000 options were granted on January 4, 2005 under KCS's 1991 Plan and are exercisable five years after the date of grant.

**2005 Aggregated KCS Option Exercises and Year-End Option Values.**

The following table sets forth information with respect to the aggregate KCS option exercises during 2005 by the Named Executive Officers and the number and value of options held by such officers as of December 31, 2005.

Name	Shares		Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End \$(2)	
	Acquired on Exercise (#)	Value Realized \$(1)	Exercisable	Unexercisable	Exercisable	Unexercisable
Michael R. Haverty	0	0	1,333,160	90,000	23,671,117	1,069,200
Arthur L. Shoener	0	0		60,000		451,200
Ronald G. Russ	0	0	79,937	183,288	731,708	2,092,615
Javier Rion	0	0				
Robert B. Terry	0	0	55,000	5,000	468,700	45,450

- (1) The dollar values in this column are calculated by multiplying (a) the difference between the fair market value of the shares of KCS Common Stock underlying the options on the date of exercise and the exercise price of the options by (b) the number of options exercised.
- (2) The dollar values in this column are calculated by multiplying (a) the difference between the fair market value of the shares of KCS Common Stock underlying the options on December 30, 2005 (the last trading day of the year) and the exercise price of the options by (b) the number of options held at year-end.

**Stilwell Options Granted in Connection with the Spin-off.**

In connection with the Spin-off and as part of an equitable adjustment of KCS non-qualified stock options previously granted and outstanding as of June 28, 2000 (the record date for the Spin-off), the exercise price of such options was adjusted as allowed by the 1991 Plan and holders of such options received separately exercisable options to purchase Stilwell common stock (Stilwell options) in the proportion of two Stilwell options for each KCS non-qualified stock option held.

With respect to the Named Executive Officers, such Stilwell options were granted in the amount of 1,888,106 shares to Mr. Haverty. These Stilwell options relate to KCS non-qualified stock options granted to the Named Executive Officers in 2000 prior to the Spin-off and in years prior to 2000. Mr. Russ, Mr. Shoener, Mr. Rion and Mr. Terry, did not join KCS until after the Spin-off, and therefore, did not receive any Stilwell options.

On December 31, 2002, Janus Capital Corporation merged into Stilwell and effective January 1, 2003, Stilwell was renamed Janus Capital Group Inc. Effective as of January 1, 2003, the Stilwell options are now options to purchase Janus Capital Group Inc. common stock.

**2005 Aggregated Stilwell Option Exercises and Year-End Option Values.**

The following table sets forth information regarding the shares of Janus common stock received upon exercise of Stilwell options, which were granted in 2000 as discussed above, by the Named Executive Officers

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in 2005, the aggregate dollar value realized upon exercise and the value of unexercised options to purchase Janus common stock held by the Named Executive Officers as of December 31, 2005.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options/ SARs at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End (\$)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Michael R. Haverty	500,000	3,537,200	190,106		0	
Arthur L. Shoener						
Ronald G. Russ						