KANSAS CITY SOUTHERN
Form DEF 14A
September 05, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Kansas City Southern
(Name of Registrant as Specified In Its Charter)
Not Applicable
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o 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:

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

(3) Filing Party:

(4) Date Filed:

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427 West 12th Street
Kansas City, Missouri 64105

KANSAS CITY SOUTHERN

NOTICE AND PROXY STATEMENT
for
Special Meeting of Stockholders
to be held
October 7, 2008

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.

We commenced mailing of the Notice, Proxy Statement
and the enclosed proxy card
on or about September 5, 2008.

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

September 5, 2008

To Our Stockholders:

You are cordially invited to attend the Special Meeting of Stockholders of Kansas City Southern (the Company), at the Company headquarters at 427 West 12th Street, Kansas City, Missouri, at 10:00 a.m., Central Time, on Tuesday, October 7, 2008. The purpose of this meeting is described in the accompanying Notice of Special Meeting and Proxy Statement.

We urge you to read these proxy materials and to participate in the Special 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 ensure that your shares will be represented. Alternatively, you may cast your votes by telephone or through the Internet as described on the proxy card.***

Sincerely,

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

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

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

The Special Meeting of Stockholders of Kansas City Southern (the Company) will be held at the Company headquarters at 427 West 12th Street, Kansas City, Missouri, at 10:00 a.m., Central Time, on Tuesday, October 7, 2008. Stockholders will consider and vote on the approval of the Kansas City Southern 2008 Stock Option and Performance Award Plan.

Only stockholders of record at the close of business on August 13, 2008 are entitled to notice of and to vote at the Special Meeting or any adjournment thereof.

By Order of the Board of Directors,

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

The date of this Notice is September 5, 2008.

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 proxy card. You may revoke your proxy and vote your shares in person 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 Special Meeting.

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

PROXY STATEMENT

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INFORMATION ABOUT THE SPECIAL MEETING

Why were you sent this Proxy Statement?

On or about September 5, 2008, we began mailing this Proxy Statement to our stockholders of record on August 13, 2008 (the Record Date) in connection with our Board of Directors solicitation of proxies for use at a Special Meeting of Stockholders and any adjournment thereof (the Special Meeting). We will hold the Special Meeting at the headquarters of Kansas City Southern (KCS) at 427 West 12th Street, Kansas City, Missouri, on Tuesday, October 7, 2008, at 10:00 a.m., Central Time. The Notice of Special Meeting of Stockholders, and a proxy card with voting instructions accompany this Proxy Statement.

We will pay for the Special Meeting, including the cost of mailing the proxy materials and any supplemental materials requested to be mailed by stockholders. Directors, officers and employees of KCS may, either in person, by telephone or otherwise, solicit proxy cards. They have not been specifically engaged for that purpose, however, nor will they be compensated for their efforts. We have engaged Morrow & Co., Inc. to assist in the solicitation of proxies and provide related informational support, for a service fee and the reimbursement of customary disbursements that are not expected to exceed $15,000 in the aggregate. We will pay these fees and expenses. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of our shares for their expenses in forwarding this Proxy Statement, 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 to the beneficial owners of our stock held of record by them. Upon request, we will reimburse them for their reasonable expenses in mailing these materials to beneficial owners of our stock.

Who may attend the Special Meeting?

Only KCS stockholders or their proxies and guests of KCS may attend the Special 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 Special Meeting may request reasonable assistance or accommodation from us by contacting the office of the Corporate Secretary at our principal executive offices, (816) 983-1237. 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 by express delivery to 427 West 12th Street, Kansas City, Missouri 64105). To provide us sufficient time to arrange for reasonable assistance, please submit all requests by September 30, 2008.

What matters will be considered at the Special Meeting?

At the Special Meeting, stockholders will consider and vote upon the approval of the Kansas City Southern 2008 Stock Option and Performance Award Plan (the 2008 Plan). Stockholders do not have dissenters rights of appraisal in connection with this proposal. The proposal has been made by the Board of Directors and the Board of Directors unanimously recommends you vote for the approval of the 2008 Plan. The Board of Directors knows of no other matters that will be presented or voted on at the Special Meeting.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held on October 7, 2008.

The Proxy Statement is available at www.edocumentview.com/ksu.

For the date, time, location, information about attending the Special Meeting, an identification of the matter to be voted upon at the Special Meeting, and the recommendations of the Board of Directors regarding that matter, please see Information About the Special Meeting. For information on how to vote in person or by proxy at the Special Meeting, please see Voting.

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VOTING

Who may vote at the Special Meeting?

Only the holders of our common stock, par value $0.01 per share (the Common Stock), and our 4% Noncumulative Preferred Stock, par value $25.00 per share (the 4% Preferred Stock), of record at the close of business on the Record Date are entitled to notice of and to vote at the Special Meeting. On the Record Date, we had outstanding 242,170 shares of 4% Preferred Stock and 91,215,743 shares of Common Stock for a total of 91,457,913 shares eligible to vote at the Special Meeting.

How many votes does each Voting Share have?

The Common Stock and the 4% Preferred Stock (collectively, the Voting Stock) constitute our only voting securities and will vote together as a single class on the matter to be considered at the Special Meeting. Each holder of Voting Stock is entitled to cast one vote for each share of Voting Stock held on the Record Date on that matter.

How can you vote by proxy?

You can vote by proxy in three ways, each of which is valid under Delaware law:

By Internet: Access our Internet voting site at www.envisionreports.com/ksu and follow the instructions on the screen, prior to 5:00 a.m., Central Time, on October 7, 2008 (October 3, 2008 for participants in certain employee benefit plans discussed below).

By Telephone: Using a touch-tone telephone, call toll-free at 1-800-652-VOTE (8683) and follow the voice instructions, prior to 5:00 a.m., Central Time, on October 7, 2008 (October 3, 2008 for participants in certain employee benefit plans discussed below).

By Mail: Mark, sign, date and return the enclosed proxy card so it is received before the Special Meeting.

How do we decide whether our stockholders have approved 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 Special Meeting. The shares of a stockholder who is present and entitled to vote at the Special Meeting, either in person or by 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 affirmative vote of a majority of the shares of Voting Stock present at the Special 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 Special Meeting closes the polls. The votes are counted and certified by three inspectors appointed by the Board of Directors in advance of the Special 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 against the proposal, including any abstentions from voting on the proposal. You may abstain from voting on any proposal. Abstentions from voting are not considered as votes affirmatively cast. Abstaining will, therefore, have the effect of a vote against a proposal.

What if you hold 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 their name for customers are required to obtain directions from their customers on how to vote the shares. NYSE rules permit brokers to vote shares on certain proposals when they have not received any directions. The Staff of the NYSE, prior to the Special Meeting, informs brokers of those proposals on which they 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 authority for that proposal and has not received instructions from the beneficial owner (customer directed abstentions are not broker non-votes). For quorum purposes, broker non-votes are counted as present and entitled to vote at the Special Meeting. However, a broker non-vote will not be considered present and entitled to vote on non-discretionary items for voting purposes, and, thus, broker non-votes have no effect on the outcome of the vote.

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How are your shares voted if you submit a proxy?

If you return a properly executed proxy card or properly vote via the Internet or telephone, you are appointing the Proxy Committee to vote your shares of Voting Stock covered by the proxy. The Proxy Committee consists of the three directors of KCS whose names are listed on the proxy card. If you wish to name someone other than the Proxy Committee as your proxy, you 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 you to sign the proxy card and deliver it to the person so named and for that person to be present and vote at the Special Meeting. Proxy cards so marked should not be mailed directly to us.

The Proxy Committee will vote the shares of Voting Stock covered by a proxy in accordance with the instructions given by the stockholder(s) executing the proxy or authorizing the proxy and voting via the Internet or telephone. If a properly executed, or authorized, and unrevoked proxy does not specify how the shares represented thereby are to be voted, the Proxy Committee intends to vote the shares FOR the approval of the Kansas City Southern 2008 Stock Option and Performance Award Plan.

Can you revoke your proxy or voting instruction card?

At any time before the polls for the Special Meeting are closed, if you hold Voting Stock in your name, you may revoke a properly executed or authorized proxy by (a) an Internet or telephone vote subsequent to the date shown on the previously executed and delivered proxy or the date of a prior electronic or telephonic vote, or (b) with a later-dated, properly executed and delivered proxy, or (c) a written revocation delivered to our Corporate Secretary. If you hold Voting Stock in a brokerage account, you must contact the broker and comply with the broker s procedures if you want to revoke or change the instructions previously given to the broker. Participants in certain employee benefit plans, as discussed below, must contact the plan trustee and comply with its procedures if they wish to revoke or change their voting instructions. Attendance at the Special Meeting will not have the effect of revoking your properly executed or authorized proxy unless you deliver a written revocation to our Corporate Secretary before your proxy is voted.

How do participants in our Employee Stock Ownership Plan, 401(k) and Profit Sharing Plan, and Union 401(k) Plan vote?

If you participate in our employee stock ownership plan (ESOP), 401(k) and Profit Sharing Plan (401(k) Plan), or union 401(k) plan (Union Plan), you must complete a specific voting instruction card (or vote by Internet or telephone as described on that card) instructing the trustee of the ESOP, 401(k) Plan or Union Plan how to vote the shares of Common Stock held on your behalf. The trustee is required under the trust agreements to vote the shares in accordance with the instructions given on the voting instruction card.[1] If a voting instruction card is not returned by a 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 plan participants. Voting instructions by Internet or telephone must be given by 5:00 a.m., Central Time, on October 3, 2008. Unless you give voting instructions by Internet or telephone, the voting instruction card should be returned in the envelope provided to Proxy Services, c/o Computershare Investor Services, P.O. Box 43102, Providence, Rhode Island 02940-5068. The voting instruction card should not be returned to us. 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, 401(k) Plan, and Union Plan confidential?

Under the terms of the ESOP, 401(k) Plan, and Union Plan, 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.

[1] Voting instructions may also be given by Internet or telephone by participants in the ESOP, the 401(k) Plan, and the Union Plan. The accompanying voting instruction card relating to such plans contains the Internet address and toll-free number.

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BENEFICIAL OWNERSHIP

The following table contains information concerning the beneficial ownership of our Common Stock as of the Record Date by:

Beneficial owners of more than five percent of our Common Stock that have publicly disclosed their ownership in filings with the SEC;

The members of our Board of Directors;

Our Chief Executive Officer, our Chief Financial Officer and the other executive officers for whom information is provided in the Management Compensation Tables in this Proxy Statement (we call these persons the Named Executive Officers); and

All current executive officers and directors as a group.

We are not aware of any beneficial owner of more than five percent of the 4% Preferred Stock. None of our directors or executive officers owns any shares of 4% Preferred Stock or 5.125% Cumulative Convertible Perpetual Preferred Stock, Series D (Series D Preferred Stock). No officer or director of KCS owns any equity securities of any subsidiary of KCS. Holders of our Series D Preferred Stock do not have voting rights except under certain limited circumstances or as otherwise from time to time required by law, and do not currently have the right to vote at the Special Meeting. Beneficial ownership is generally defined as 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 their shares. We are not aware of any arrangement which would at a subsequent date result in a change in control of KCS.

Name and Address	**Common Stock(1)**	**Percent of Class(1)**
Bank of America Corporation	6,572,120(2)	7.21%
Neuberger Berman, Inc.	6,736,094(3)	7.38%
Daniel W. Avramovich Former Executive Vice President of Sales and Marketing	5,435(4)	[*]
Henry R. Davis Director	12,192(5)	[*]
Robert J. Druten Director	48,604(6)	[*]
Terrence P. Dunn Director	23,692(7)	[*]
Michael R. Haverty Chairman of the Board and Chief Executive Officer	2,527,602(8)	2.74%
James R. Jones Director	115,072(9)	[*]
Thomas A. McDonnell Director	647,499(10)	[*]
Patrick J. Ottensmeyer Executive Vice President and Chief Financial Officer	55,300(11)	[*]

Karen L. Pletz Director	47,192(12)	[*]
Arthur L. Shoener Former President and Chief Operating Officer	10,535(13)	[*]
Rodney E. Slater Director	17,192(14)	[*]
William J. Wochner Senior Vice President and Chief Legal Officer	164,528(15)	[*]
All Directors and Executive Officers as a Group (18 Persons)	4,300,388(16)	4.64%

* Less than one percent of the outstanding shares.

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(1) This column includes Common Stock, including restricted shares, beneficially owned by officers, directors and beneficial owners of more than five percent of our Common Stock. In accordance with SEC rules, this column also includes shares that may be acquired upon the exercise of options or other convertible securities that are exercisable or convertible on the Record Date, or will become exercisable or convertible within 60 days of that date, which 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 or other convertible securities held by that person that are exercisable or convertible on the Record Date, or exercisable or convertible 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 our executive officers as of December 31, 2007 is included in our annual report on Form 10-K for the year ended December 31, 2007. 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 Bank of America Corporation. (BOA) is 100 North Tryon Street, Floor 25, Bank of America Corporate Center, Charlotte, North Carolina, 28255. BOA has shared voting and dispositive power for 6,572,120 shares of our Common Stock beneficially owned by one or more affiliates of BOA, including NB Holding Corporation (2,383,870 shares or 2.61%); Bank of America, NA (951,396 shares or 1.04%); United States Trust Company, NA (1,477,216 shares or 1.62%); BAC North America Holding Company, LaSalle Bank Corporation, LaSalle Bank, N.A. (2,175 shares or less than 1%); Banc of America Securities Holding Corp. Banc of America Securities LLC (50,807 shares or less than 1%); Columbia Management Group, LLC, Columbia Management Advisors, LLC (699,217 shares or less than 1%); and Banc of America Investment Advisors, Inc. (230,895 or less than 1%). NMS Services, Inc. and NMS Service (Cayman) Inc., affiliates of BOA, beneficially own 4,198,172 shares, or 5.17%, of our Common Stock issuable upon conversion of approximately 125,945 shares of our Series D Preferred Stock. Such Common Stock is not currently outstanding and the Series D Preferred Stock has no voting rights at the Special Meeting. This information is based on Amendment No. 1 to BOA s Schedule 13G filed on February 7, 2008.

(3) The address of Neuberger Berman, Inc. (Neuberger) is 605 Third Avenue, New York, New York 10158. Neuberger, a registered investment adviser, has shared voting and investment power for a portion of the shares with Neuberger Berman, LLC and Neuberger Berman Management, Inc, which serve as sub-adviser and investment manager, respectively, of Neuberger s various mutual funds. Neuberger owns 100% of Neuberger Berman, LLC and Neuberger Berman Management Inc. and is affiliated with Lehman Brothers Asset Management LLC, whose holdings are aggregated with Neuberger s. The shares are owned by advisory clients of Neuberger and its affiliates, and Neuberger has reported that it and its affiliates do not have an economic interest in the shares. This information is based on Amendment No. 3 to Schedule 13G filed by Neuberger, Neuberger Berman, LLC and Neuberger Berman Management Inc., acting together as a group, on August 8, 2008.

(4) As of April 2, 2008, the date Mr. Avramovich filed the final Form 4 reporting his ownership of KCS Common Stock, Mr. Avramovich s beneficial ownership included 5,435 shares directly owned by him.

(5) Mr. Davis s beneficial ownership includes 12,192 restricted shares.

(6)

Mr. Druten s beneficial ownership includes 2,192 restricted shares and 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.

(7) Mr. Dunn s beneficial ownership includes 21,500 shares held in a revocable trust for which he is the trustee with sole voting and dispositive power, and 2,192 restricted shares.

(8) Mr. Haverty s beneficial ownership includes 164,778 restricted shares, 1,099,160 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 ESOP, 11,033 shares allocated to his account in the 401(k) Plan, and 306,134 shares held by his spouse. As previously reported, in 2006, Mr. Haverty entered into a prepaid variable forward transaction which obligates him to deliver 350,000 shares or an equivalent amount of cash, at

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his election, in December 2009. Mr. Haverty pledged 350,000 shares to secure his obligations under that arrangement.

(9) Ambassador Jones s beneficial ownership includes 2,192 restricted shares, and 77,500 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.

(10) Mr. McDonnell s beneficial ownership includes 2,192 restricted shares, 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, 65,307 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 Systems, Inc. for which Mr. McDonnell disclaims beneficial ownership and 40,000 shares held by a charitable foundation for which Mr. McDonnell disclaims beneficial ownership.

(11) Mr. Ottensmeyer s beneficial ownership includes 54,875 restricted shares and 249 shares allocated to his account in the 401(k) Plan.

(12) Ms. Pletz s beneficial ownership includes 2,192 restricted shares, and 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.

(13) As of June 9, 2008, the date Mr. Shoener filed the final Form 4 reporting his ownership of KCS Common Stock, Mr. Shoener s beneficial ownership included 5,435 shares directly owned by him and 3,164 shares allocated to his account in the 401(k) Plan.

(14) Secretary Slater s beneficial ownership includes 2,192 restricted shares.

(15) Mr. Wochner s beneficial ownership includes 37,368 restricted shares, 17,161 shares allocated to account in the ESOP, and 24,940 share that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.

(16) The number includes 596,565 restricted shares, 1,553,663 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date and 935,941 shares otherwise held indirectly and it excludes shares and options beneficially owned by Daniel Avramovich and Arthur Shoener who are no longer employed by KCS. A director, Mr. McDonnell, disclaims beneficial ownership of 540,000 of the total shares listed.

PROPOSAL 1 APPROVAL OF THE KANSAS CITY SOUTHERN 2008 STOCK OPTION AND PERFORMANCE AWARD PLAN

On June 24, 2008, the Compensation and Organization Committee of the Board of Directors (the Compensation Committee) recommended that the Board of Directors approve and adopt the Kansas City Southern 2008 Stock Option and Performance Award Plan (the 2008 Plan), subject to shareholder approval. On July 1, 2008, the Executive Committee of the Board of Directors (the Executive Committee), acting on behalf of the Board of Directors, approved and adopted the 2008 Plan, subject to shareholder approval and subject to any revisions deemed necessary or reasonable by the officers of KCS to address comments and recommendations of advisory services who may be consulted by KCS.

To facilitate the shareholder approval process of the 2008 Plan, set forth below is information regarding the shares of our common stock that could be issued under the Kansas City Southern 1991 Amended and Restated Stock Option and Performance Award Plan (the 1991 Plan) as of June 30, 2008. The total number of shares of our common stock outstanding as of June 30, 2008, was 83,484,329.

The number of shares of our common stock to be issued upon exercise of outstanding options under the 1991 Plan as of June 30, 2008, was 2,277,442.

The weighted average exercise price of all outstanding options under the 1991 Plan as of June 30, 2008, was $9.52.

The weighted average remaining term for all outstanding options under the 1991 Plan as of June 30, 2008, was 3.23 years.

The total number of unvested full value awards (which for this purpose includes restricted shares and performance shares) outstanding under the 1991 Plan as of June 30, 2008, was 1,327,005.

KCS will grant no further awards under the 1991 Plan.

Summary of the 2008 Plan

The principal provisions of the 2008 Plan are summarized below. This summary is not a complete description of all of the 2008 Plan s provisions, and is qualified in its entirety by reference to the 2008 Plan which is attached to this Proxy Statement as Appendix A. Capitalized terms in this summary not defined in this Proxy Statement have the meanings set forth in the 2008 Plan.

Purpose. The 2008 Plan is intended to allow employees, directors and consultants of KCS and its Affiliates to acquire or increase their ownership of KCS Common Stock, thereby strengthening their commitment to the success of KCS and stimulating their efforts on behalf of KCS, and to assist KCS and its Affiliates in attracting new employees, directors and consultants and retaining existing ones. The 2008 Plan also is intended to optimize the profitability and growth of KCS through incentives that are consistent with KCS s goals, to provide an incentive for excellence in individual performance, and to promote teamwork.

Administration. The 2008 Plan will be administered by a committee appointed by the Board (the Plan Committee), which will consist of the full Board for purposes of Awards to non-employee directors. Subject to the express provisions of the 2008 Plan, the Plan Committee has the authority to: (i) determine when, to whom, and in what types and amounts Awards should be granted and the terms and conditions applicable to each Award (including Awards granted in conjunction with other Awards); (ii) determine the amount, if any, that a Grantee shall pay for Restricted Shares, and the terms related thereto; (iii) determine the terms and conditions of all Award Agreements and amend any Award Agreement at any time, with the consent of the Grantee under certain circumstances; (iv) cancel, with the consent of the Grantee, outstanding Awards and grant new Awards in substitution therefor; (v) accelerate the ability to exercise, and to accelerate or waive any or all of the terms and conditions applicable to, any Awards; (vi) make such adjustments or modifications to Awards to Grantees working outside the United States as are advisable to fulfill the purposes of the 2008 Plan or to comply with applicable local law; and (vii) impose such additional terms and conditions upon the grant, exercise or retention of Awards as the Plan Committee deems appropriate. The Plan Committee is authorized to construe and interpret the

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2008 Plan, to establish, amend and rescind any rules relating to the 2008 Plan and to make all other determinations which may be necessary or advisable for the administration of the 2008 Plan.

Additionally, if the Plan Committee determines that an adjustment of the 2008 Plan or outstanding Awards is necessary to prevent enlargement or dilution of the intended benefits under the 2008 Plan following any change affecting the Shares by reason of any dividend or other distribution to stockholders (whether in cash, Shares, other securities or other property), stock split, reverse stock split, recapitalization, subdivision, consolidation or reduction of capital, reorganization, merger, scheme of arrangement, split-up, spin-off, or combination involving KCS or repurchase or exchange of Shares or other rights to purchase Shares or other securities of KCS, or other similar corporate transaction, the Plan Committee will, in such manner as it deems equitable, adjust any or all of (i) the number or type of Shares (or other securities or properties) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award or the substitution of other property for Shares subject to an outstanding Award. Except in connection with circumstances described above, the Plan Committee does not have the authority to reduce the exercise price of outstanding Options or SARs or cancel outstanding Options or SARs in exchange for other Options or SARs with a lower exercise price.

All determinations on all matters relating to the 2008 Plan or any Award Agreement may be made in the sole and absolute discretion of the Plan Committee, and all such determinations of the Plan Committee shall be final, conclusive and binding. No member of the Plan Committee is liable for any action or determination made with respect to the 2008 Plan or any Award thereunder.

Eligibility. All directors and employees of and consultants to KCS and its Affiliates will be eligible to receive Awards under the 2008 Plan. As of the date of this Proxy Statement, approximately 6,703 such employees and 7 Non-Management Directors are eligible to participate in the 2008 Plan. KCS uses consultants from time to time, but cannot reasonably determine the number of consultants, if any, that would be eligible to participate in the 2008 Plan.

Power to Amend the 2008 Plan. Subject to the terms of the 2008 Plan, the Board may alter, amend, suspend or terminate the 2008 Plan in whole or in part at any time without the approval of the stockholders of KCS; provided, however, any amendment or alteration shall be subject to the approval of the stockholders of KCS if the Board determines to submit such amendment or alteration to stockholders for approval, or where such approval is required by any federal or state law or regulation or the rules of any stock exchange on which the Shares are then listed. The Board may delegate to the Plan Committee any or all of the authority of the Board to alter, amend, suspend or terminate the 2008 Plan.

Number of Shares. Subject to adjustment as described above, the aggregate number of Shares authorized for issuance under the 2008 Plan is 2,300,000. The total number of Shares for which Awards may be granted to any Grantee in any calendar year shall not exceed 2,000,000. Any Shares subject to an Award that are forfeited or are otherwise not delivered due to the termination of the Award are again available for grant under the 2008 Plan. Any Shares that are retained or delivered to pay an exercise price or withholding are not again available for grant under the 2008 Plan.

Types of Awards. The 2008 Plan permits the grant of any or all of the following types of Awards to employees, directors and consultants of KCS and its Affiliates: (i) Options (including non-qualified options and Incentive Stock Options); (ii) Restricted Shares and Restricted Share Units; (iii) Bonus Shares; (iv) Stock Appreciation Rights (SARs); (v) Limited Stock Appreciation Rights (LSARs); (vi) Performance Units (payable in cash or Shares) and Performance Shares (Performance Awards); (vii) Deferred Stock; (viii) Dividend Equivalents; and (ix) Other Stock-Based Awards.

Stock Options. The exercise price per Share purchasable under any Option will be determined by the Plan Committee, but cannot be less than 100% of the Fair Market Value of a Share on the date the Option is granted. The Plan Committee shall determine the term of each Option (subject to a maximum of 10 years) and the time or times when it may be exercised. The grant and the terms of ISOs shall be restricted to the extent required for qualification as ISOs by the Internal Revenue Code. In no event may an ISO be granted under the 2008 Plan on or after the date

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10 years following the earlier of (i) the date the 2008 Plan was adopted and (ii) the date the 2008 Plan was approved by KCS stockholders. Options may be exercised following notice to KCS by payment of the exercise price: (i) in cash, personal check or wire transfer; (ii) in certain instances, in Shares (including, at the discretion of the Plan Committee, Restricted Shares) with a Fair Market Value equal to the exercise price of the Option; or (iii) pursuant to a cashless exercise through a broker-dealer under an arrangement approved by the Plan Committee.

Restricted Shares and Restricted Share Units. Restricted Shares may not be disposed of by the Grantee until certain restrictions established by the Plan Committee lapse or certain conditions established by the Plan Committee are satisfied. Restricted Share Units will be payable in Shares after conditions established by the Plan Committee are satisfied or after restrictions established by the Plan Committee lapse. The Plan Committee may impose such conditions and/or restrictions on any Restricted Shares or Restricted share Units as it may deem advisable, including restrictions based upon the achievement of specific performance goals (company-wide, divisional, departmental, affiliate and/or individual), time-based restrictions on vesting, and/or restrictions under applicable securities laws. The Plan Committee shall determine the amount, if any, that a Grantee shall pay for Restricted Shares, which shall be (except with respect to Restricted Shares that are treasury shares) at least $.01 per Restricted Share or such other amount required by law. The Grantee shall have, with respect to Restricted Shares, all of the rights of a stockholder of KCS, including the right to vote the Shares and the right to receive any distributions, unless the Plan Committee shall otherwise determine. Restricted Shares and Restricted Share Units are subject to forfeiture if the conditions specified in the applicable Award Agreement are not satisfied.

Bonus Shares. Bonus Shares can be awarded to a Grantee without cost and without restrictions in recognition of past performance (whether determined by reference to another employee benefit plan of KCS or otherwise) or as an incentive to become an employee, director or consultant of KCS or an Affiliate.

Stock Appreciation Rights/Limited Stock Appreciation Rights. An SAR may be granted freestanding or in tandem with the grant of Options. Upon exercise of an SAR, the holder thereof is entitled to receive the excess of the Fair Market Value of the Shares for which the SAR is exercised over the Fair Market Value of the Shares on the Grant Date (or such higher strike price as specified in the Award Agreement), payable in cash or, at the discretion of the Plan Committee, in Shares with a Fair Market Value equal to such excess. The SAR strike price (which, in the case of freestanding SARs, shall not be less than 100% of the Fair Market Value of the Shares on the Grant Date and, in the case of tandem SARs, will equal the Option Price of the related Options) and other provisions of the SAR shall be determined by the Plan Committee (except that the term of an SAR may not exceed 10 years). An LSAR is an SAR that automatically is exercised upon a Change of Control (defined below).

Performance Awards. From time to time, the Plan Committee may select a period during which one or more performance criteria designated by the Plan Committee are measured for the purpose of determining the extent to which a Performance Award has been earned. Performance Awards may be in the form of Performance Shares (with an initial value equal to the Fair Market Value of a Share on the date of grant), or Performance Units (with an initial cash value established by the Plan Committee at the time of grant). Performance Awards may be paid in cash or in Shares, or a combination thereof. Grantees of Performance Awards are not required to provide consideration other than the rendering of services and any minimum exercise price required by applicable law.

The performance measure or measures to be used for purposes of Performance Awards shall be chosen from among the following:

(a) Earnings (either in the aggregate or on a per-share basis);

(b) Net income (before or after taxes);

(c) Operating income;

(d) Cash flow;

(e) Return measures (including return on assets, equity or sales);

(f) Earnings before or after either, or any combination of, taxes, interest or depreciation and amortization;

(g) Gross revenues;

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(h) Share price (including growth measures and stockholder return or attainment by the Shares of a specified value for a specified period of time);

(i) Reductions in expense levels in each case, where applicable, determined either on a Company-wide basis or in respect of any one or more business units;

(j) Net economic value;

(k) Market share;

(l) Operating profit;

(m) Costs;

(n) Operating and maintenance cost management and employee productivity;

(o) Stockholder returns (including return on assets, investments, equity, or gross sales);

(p) Economic value added;

(q) Aggregate product unit and pricing targets;

(r) Strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market share, market penetration, geographic business expansion goals, objectively identified project milestones, production volume levels, cost targets and goals relating to acquisitions or divestitures;

(s) Achievement of business or operational goals such as market share and/or business development;

(t) Results of customer satisfaction surveys;

(u) Safety record;

(v) Network and service reliability;

(w) Debt ratings, debt leverage and debt service; and

(x) Operating ratio.

Any of these performance measures may be applied, as determined by the Plan Committee, on the basis of KCS as a whole, or in respect of any one or more Affiliates, departments or divisions of KCS or any part of an Affiliate, department or division of KCS that is specified by the Plan Committee. The Plan Committee may adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Awards which are designed to qualify for the performance-based exception from the tax deductibility limitations of Internal Revenue Code Section 162(m) (the Performance-Based Exception) may not be adjusted upward without the approval of KCS stockholders. The Plan Committee may adjust such Awards downward.

The Plan Committee may propose for stockholder vote and approval changes in the general performance measures set forth above. In the event that applicable tax and/or securities laws change to permit Plan Committee discretion to alter the governing performance measures without obtaining stockholder approval of such changes, and still qualify for the

Performance-Based Exception, the Plan Committee will have the sole discretion to make such changes without obtaining stockholder approval.

Deferred Stock, Dividend Equivalents and Other Stock-Based Awards. Deferred Stock can be awarded to a Grantee without cost and without restrictions as an incentive. Dividend Equivalents may be granted alone or in conjunction with other Awards. The Committee is authorized to grant such other Awards that are payable in, or valued by reference to, or otherwise related to, Shares, if determined by the Committee to be consistent with the purposes of the Plan.

Change of Control. Unless otherwise defined in an Award Agreement, a Change of Control is deemed to occur if: (i) a majority of the Board is replaced during any 12-month period with directors whose appointment or election was not endorsed by directors constituting a majority of the Board immediately prior to such appointment or election; (ii) an acquisition by a person or group during a 12-month period of KCS Common Stock possessing 30% or more of the total voting power of all outstanding KCS Common Stock; (iii) any person or group has acquired

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stock that constitutes more than 50% of the total fair market value or total voting power of the outstanding stock of the Company; or (iv) an acquisition by a person or group during a 12-month period of more than 40% of the total gross fair market value of assets of the Company. In the event of a Change of Control of the Company, or a Grantee s Termination of Affiliation on account of a Change of Control, Awards may automatically become fully vested or fully exercisable.

Elective Share Withholding. A Grantee may, subject to certain conditions, elect to have KCS withhold a portion of the Shares that would otherwise be issued to the Grantee under an Award to satisfy the Grantee s income tax liabilities related to the Award.

Other. The 2008 Plan will terminate upon the earlier of (i) October 14, 2018, or (ii) the date all Shares of KCS Common Stock subject to the Plan have been acquired and restrictions on all Restricted Stock have lapsed, unless earlier terminated by the Plan Committee or the Board. Awards, and any rights under an Award, may not be transferred other than by will or by the law of descent and distribution or, with the consent of the Plan Committee, to members of a Grantee s immediate family and related trusts, partnerships and other entities with respect to which the Grantee or such family members are owners or beneficiaries. The extent to which the Grantee will receive the benefits of an Award following Termination of Affiliation will be determined in accordance with the provisions of the 2008 Plan and the Award Agreement, which benefits may extend beyond the date of Termination of Affiliation. The Plan Committee may permit or require a Grantee to defer receipt of payment or delivery of Shares upon the exercise or vesting of an Award.

Federal Income Tax Consequences. The following is a brief summary of the federal income tax consequences to Grantees and KCS of certain Awards granted under the 2008 Plan. This summary is based on the federal income tax laws in effect as of the date of this Proxy Statement and could be affected by future changes in the tax laws. This summary is not intended to be complete and does not address, among other things, state, local or foreign tax consequences. This summary is not intended to constitute tax advice.

The grant of an Option will have no immediate tax consequences for the Grantee. In general, the Grantee will have no taxable income upon the exercise of an ISO or upon the disposition of Shares acquired upon the exercise of an ISO if the applicable ISO holding period is satisfied (except that the alternative minimum tax may apply). Upon exercising a non-qualified option, the Grantee will recognize ordinary income in an amount equal to the difference between the Fair Market Value of the Shares acquired on the date of exercise and the Option exercise price.

A Grantee who receives an Award of Restricted Shares without payment by the Grantee for the Restricted Shares will recognize ordinary income equal to the fair market value of the Restricted Shares at the time they become vested or non-forfeitable, whichever occurs first, whether or not the Grantee actually receives the Shares at that time. The Grantee may be allowed to make an election under section 83(b) of the Code within 30 days of the Grant Date to recognize ordinary income on the fair market value of the Restricted Shares on the Grant Date instead of upon vesting or forfeiture.

A Grantee who receives an Award of Restricted Share Units, Performance Shares or Performance Units will recognize ordinary income at the time payment is made equal to the amount of cash, or the Fair Market Value of Shares, paid. If the Plan Committee, pursuant to authority given to it under the 2008 Plan, establishes a deferral policy for payment and the Grantee makes a valid deferral election, then the Grantee s recognition of ordinary income will be deferred until payment is made pursuant to the election.

KCS generally is entitled to a tax deduction in the same year as the Grantee recognizes ordinary income equal to the amount of income recognized by the Grantee. Section 162(m) of the Code limits to $1,000,000 per person the amount KCS may deduct for compensation paid to its most highly compensated officers in any year unless certain requirements are satisfied. Compensation received through the exercise of an Option and compensation received through the award of Performance Shares or Performance Units generally will not be subject to the $1,000,000 limit if the Awards qualify as performance-based compensation. KCS intends that such Awards under the 2008 Plan will qualify as performance-based compensation such that the Company will receive its full deduction. KCS will be limited to the $1,000,000 deduction limit under the Plan with respect to Restricted Share Awards and Restricted Share Unit Awards that have time-based vesting provisions.

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To the extent that Section 409A of the Code is applicable, KCS intends to administer the 2008 Plan and any Awards granted under the 2008 Plan in a manner consistent with the requirements of Section 409A and applicable regulations. All Awards under the Plan are intended either (i) to be exempt from Section 409A or (ii) to comply with Section 409A, and will be administered in a manner consistent with that intent.

Required Vote and Board of Directors   Recommendation

In the absence of instructions to the contrary, votes will be cast FOR the approval of the 2008 Plan. A majority of the shares present and voting at the Special Meeting must be cast in favor of the adoption of the 2008 Plan in order for the proposal to be adopted.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE
FOR
THE APPROVAL OF THE KANSAS CITY SOUTHERN 2008 STOCK OPTION AND PERFORMANCE AWARD PLAN.

THE COMPENSATION COMMITTEE

The Compensation Committee consists of four Non-Management Directors elected by the Board, taking into consideration the recommendations of the Nominating Committee, to serve one-year terms. The current members of the Compensation Committee are Secretary Slater (Chairman), Ms. Pletz, Mr. Dunn and Mr. Davis.

Compensation Committee Processes and Procedures

Executive Compensation Practices

The Compensation Committee follows the processes and procedures established in its charter with respect to the determination of executive compensation.

The Compensation Committee has sole authority to set the compensation of our CEO, to set the compensation of the members of senior management of the Company and its subsidiaries based on recommendations from the CEO and outside compensation consultants, and to recommend for Board approval the compensation provided to our Non-Management Directors. The Compensation Committee does not share this authority with, or delegate this authority to, any other person. The Compensation Committee recommends each component of Non-Management Director compensation to our Board. The Compensation Committee assists the Board in fulfilling its responsibility to maximize long-term stockholder value by ensuring that officers, directors and employees are compensated in accordance with our compensation philosophy, objectives and policies; competitive practice; and the requirements of applicable laws, rules and regulations.

In fulfilling its responsibilities, the Compensation Committee has direct access to our officers and employees and consults with our CEO, our CFO, our personnel officers and other members of senior management as the Chairman of the Committee deems necessary. The Compensation Committee may retain at the Company s expense a compensation consultant, which is selected, engaged and instructed by the Compensation Committee, to advise the Compensation Committee on executive compensation practices and trends. The Compensation Committee engaged Towers Perrin, an independent compensation consultant, to advise the Compensation Committee on its executive compensation policies and to assist the Compensation Committee in making executive compensation decisions in 2006 and 2007.

The Compensation Committee reviews executive officer compensation on an annual basis. For each review, the Compensation Committee may consider, and decide the weight it will give to, the following factors:

- competition in the market for executive employees;
- executive compensation provided by peer group companies selected by the Compensation Committee with the assistance of Towers Perrin;
- executive officer performance;
- our financial performance and compensation expenses;
- the accounting impact of executive compensation decisions;
- company and individual tax issues;

executive officer retention;

executive officer health and welfare;

executive officer retirement planning;

executive officer responsibilities; and

executive officer risk of termination without cause.

NYSE listing standards require the Compensation Committee, in determining the long-term incentive component of our CEO s compensation, to consider:

company performance and relative stockholder return;

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value of similar incentive awards to chief executive officers at comparable companies; and

awards given to our CEO in past years.

The Compensation Committee may request that management recommend compensation package components, discuss hiring and retention concerns and personnel requirements, and provide information with respect to such matters as executive, Company and business unit performance; market analysis; benefit plan terms and conditions; financial, accounting and tax considerations; legal requirements; and value of outstanding awards. The Compensation Committee may rely on our CEO and other executives for these purposes.

The Compensation Committee develops the criteria for evaluating the performance of our CEO and privately reviews his performance against these criteria on at least an annual basis. The CEO periodically discusses the performance of other executive officers with the Compensation Committee. The Compensation Committee may review human resources and business unit records. The Compensation Committee may discuss with the Audit Committee the executive officers compliance with our Code of Ethics.

Non-Management Director Compensation Practices

The Compensation Committee recommends each component of Non-Management Director compensation to the Board. The Committee seeks to recommend competitive compensation packages that include both short-term cash and long-term stock components. The Board of Directors does not delegate its authority for determining Non-Management Director compensation to any other person.

In recommending Non-Management Director compensation, the Compensation Committee may consider, and determine the weight it will give to, any combination of the following:

market competition for directors;

securities law and NYSE independence, expertise and qualification requirements;

director compensation provided by peer group companies selected by the Compensation Committee with the assistance of Towers Perrin;

directors duties and responsibilities; and

director retention.

Compensation Committee Interlocks and Insider Participation

During 2007:

no member of the Compensation Committee was an officer or employee of KCS or was formerly an officer of KCS;

no member of the Compensation Committee had any material relationship with KCS other than service on the Board and Board committees and the receipt of compensation for that service, except as described below in Insider Disclosures Certain Relationships and Related Transactions;

no executive officer of KCS served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee; and

no executive officer of KCS served as a member of the compensation committee (or other board committee performing equivalent functions or, if the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director of KCS.

NON-MANAGEMENT DIRECTOR COMPENSATION

This section describes the compensation paid to our Non-Management Directors. Michael R. Haverty, our Chairman and CEO, serves on our Board of Directors but is not paid any compensation for his service on the Board. His compensation is described in the Summary Compensation Table included in this Proxy Statement.

Director Fees

Non-Management Director Compensation Program

On February 28, 2008, the Board of Directors approved a revised Non-Management Director compensation program (the Non-Management Director Compensation Program) recommended to it by the Compensation Committee. Under this revised program, which became effective May 1, 2008, each Non-Management Director receives the following compensation for his or her service as a member of the Board:

Annual Retainers for Board and Committee Membership

Type	Amount
Annual Board retainer	$ 50,000
Presiding Director additional retainer	$ 15,000
Audit Committee Chair	$ 10,000
Compensation Committee Chair	$ 7,000
Executive Committee Chair	$ 7,000
Finance Committee Chair	$ 7,000
Nominating Committee Chair	$ 7,000
Audit Committee Membership	$ 5,000

Fees per Meeting Attended

Type	Amount
Board (in person)	$ 4,000
Board (by telephone)	$ 3,000
Committee (in person)	$ 2,000
Committee (by telephone)	$ 1,500

In addition, under the Non-Management Director Compensation Program, each Non-Management Director was to be awarded a grant of restricted Common Stock on the date of each annual meeting. This grant was for a number of shares equal to $90,000 in value based on the average closing price of the Company s stock for the 30 days prior to the grant date. Under the Non-Management Director Compensation Program, newly appointed directors do not receive a special award of restricted Common Stock upon joining the Board. Each Non-Management Director was awarded 2,192 shares of restricted Common Stock on the date of the 2008 annual meeting of stockholders. If the 2008 Plan is approved by the stockholders, each Non-Management Director will be awarded a grant of Restricted Shares (as defined in the 2008 Plan) under the 2008 Plan as determined by the Board of Directors at the time of the award.

Non-Management Director Stock Awards

Restricted shares awarded to Non-Management Directors vest upon the earlier of (a) one year from the date of grant or (b) the day prior to the next annual meeting of stockholders. The restricted shares that have not vested are forfeited if there is a termination of affiliation for any reason other than death, disability or change in control of KCS. The restricted shares vest automatically upon termination of affiliation due to death, disability or change in control of KCS. If the 2008 Plan is approved by the stockholders, the Non-Management Directors may be granted awards under the 2008 Plan, as determined by the Board of Directors.

Director Stock Ownership Guidelines

The Board has adopted stock ownership guidelines for Non-Management Directors. These guidelines provide that each Non-Management Director is required to beneficially own at least 20,000 shares of our Common Stock within eight 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. The permitted period for compliance with our stock ownership guidelines was extended from five years to eight years in connection with the adoption of the Non-Management Director Compensation Program, which to date has resulted in fewer shares being awarded annually to our Non-Management Directors.

Non-Management Director Expense Reimbursement

In addition to compensating the Non-Management Directors as discussed above, we also reimburse the Non-Management Directors for their expenses in attending Board and Committee meetings.

Directors Deferred Fee Plan

Non-Management Directors are permitted to defer receipt of directors fees under an unfunded Directors Deferred Fee Plan (which we refer to as the 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 one percentage point less than the prime rate in effect at Chemical Bank on the last day of each 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; however, 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. Earnings on the amount credited to a director s account as of May 31, 2002, 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 us from time to time for the Deferred Fee Plan. An underlying investment rate determined from time to time by the Board (currently the rate on 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. A director s account value will be paid after the director ceases to be a director of KCS. Amounts deferred, including related earnings, will be paid either in installments or a lump sum, as elected by the director. Distributions under the Deferred Fee Plan are allowed prior to cessation as a director in certain instances as approved by the Board. The Board may designate a plan administrator, but in the absence of such designation, the Corporate Secretary of KCS will administer the Deferred Fee Plan.

The following table shows the balance in each Non-Management Director s account in the Deferred Fee Plan as of December 31, 2007.

Name	Deferred Fee Plan Account Balance as of 12/31/07	
A. Edward Allinson*	**$**	0
Robert J. Druten	**$**	0
Terrence P. Dunn	**$**	0
James R. Jones	**$**	55,775

Thomas A. McDonnell	**$**	0
Karen L. Pletz	**$**	0
Rodney E. Slater	**$**	0

* Mr. Allinson retired from our Board on the date of our 2007 annual meeting of stockholders. Accordingly, the balance of his Deferred Fee Plan Account was paid to Mr. Allinson in a lump sum cash distribution in July 2007.

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2007 Compensation

The following table shows the compensation paid to our Non-Management Directors in 2007.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($) (2)	All Other Compensation ($) (3)	Total ($)
A. Edward Allinson*	$ 27,500	$ 45,717	$ 0	$ 1,287,582	$ 1,360,799
Robert J. Druten	$ 77,500	$ 173,317	$ 0	$ 30,470	$ 281,287
Terrence P. Dunn	$ 24,000	$ 382,800	$ 0	$ 30,193	$ 436,993
James R. Jones	$ 39,000(4)	$ 173,317	$ 0	$ 24,100	$ 236,417
Thomas A. McDonnell	$ 94,000	$ 173,317	$ 0	$ 30,470	$ 297,787
Karen L. Pletz	$ 77,000	$ 173,317	$ 0	$ 470	$ 250,787
Rodney E. Slater	$ 61,500	$ 173,317	$ 0	$ 290	$ 235,107

* Mr. Allinson retired from our Board on the date of our 2007 annual meeting of stockholders.

(1) This column represents the dollar amount recognized for financial reporting purposes with respect to the 2007 fiscal year for the fair value of restricted shares granted in 2007 as well as prior fiscal years. The grant date fair value was computed in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Fair value is calculated using the average trading price of our Common Stock on the date of grant. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named directors. The restricted shares were awarded under our 1991 Plan. Each Non-Management Director received a grant of 5,000 restricted shares of Common Stock on the date of the 2007 annual meeting of Stockholders. Mr. Dunn also received an initial grant of 10,000 restricted shares on the date of the 2007 annual meeting of stockholders for his election to the Board. Please see Note 9. Share-Based Compensation Nonvested Stock in the Notes to the Consolidated Financial Statements in the Company s Form 10-K for the fiscal year ended December 31, 2007 for the assumptions made in the valuation of these awards.

As of December 31, 2007, each Non-Management Director held the number of unvested restricted shares of Common Stock listed in the table below:

Name	Number of Unvested Restricted Shares at 12/31/07	Fair Value at Grant Date (5/3/2007)
A. Edward Allinson*	0	$ 0

Robert J. Druten	5,000	$	191,400
Terrence P. Dunn	15,000	$	574,200
James R. Jones	5,000	$	191,400
Thomas A. McDonnell	5,000	$	191,400
Karen L. Pletz	5,000	$	191,400
Rodney E. Slater	5,000	$	191,400

* Mr. Allinson retired from our Board on the date of our 2007 annual meeting of stockholders

(2) No options were granted to any Non-Management Director in or for 2007. Certain Non-Management Directors have unexercised stock options granted prior to January 2007 when Non-Management Director compensation included stock options as opposed to restricted stock grants. As of December 31, 2007, each of Mr. Allinson and Ambassador Jones also had unexercised options to purchase 12,000 shares of the common stock of Janus Capital Group, Inc. (Janus), which were initially granted as options to purchase common stock in Stilwell in exchange for KCS non-qualified stock options issued as compensation and subsequently converted to options to purchase Janus common stock in connection with the 2003 merger of Janus into

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Stilwell. Further information regarding the Janus transaction is set forth under Compensation Discussion and Analysis Option Exercises and Stock Vested Options Granted in Connection with the Stilwell Spin-off below.

As of December 31, 2007, each Non-Management Director held the options listed in the table below:

Name	Number of Exercisable Options at 12/31/07	Number of Unexercisable Options at 12/31/07
A. Edward Allinson*	79,000(a)	0
Robert J. Druten	20,000	0
Terrence P. Dunn	0	0
James R. Jones(a)	79,000(a)	0
Thomas A. McDonnell	40,000	0
Karen L. Pletz	30,000	0
Rodney E. Slater	0	0

* Mr. Allinson retired from our Board on the date of our 2007 annual meeting of stockholders.

(a) Does not include 12,000 options for the purchase of Janus common stock that were outstanding at December 31, 2007.

(3) All Other Compensation for the Non-Management Directors consists of:

Name	Group Term Life Premiums	AD&D Premiums	Charitable Matching Gifts(a)	Other	Total
A. Edward Allinson*	$ 450	$ 8	$ 30,000	$ 1,257,124	$ 1,287,582
Robert J. Druten	$ 450	$ 20	$ 30,000	$ 0	$ 30,470
Terrence P. Dunn	$ 180	$ 13	$ 30,000	$ 0	$ 30,193
James R. Jones	$ 1,080	$ 20	$ 23,000	$ 0	$ 24,100
Thomas A. McDonnell	$ 450	$ 20	$ 30,000	$ 0	$ 30,470
Karen L. Pletz	$ 450	$ 20	$ 0	$ 0	$ 470
Rodney E. Slater	$ 270	$ 20	$ 0	$ 0	$ 290

* Other for Mr. Allinson consists of $1,257,124 paid to Mr. Allinson in respect of his Deferred Fee Plan account as a result of his retirement from our Board on the date of our 2007 annual meeting of stockholders.

(a) We provide a two-for-one Company match of eligible charitable contributions made by our Non-Management Directors. The maximum amount of contributions we will match in any calendar year for any director is $15,000. Of this $15,000 maximum, only half may be contributed to one organization.

(4) Does not include consulting fees paid to Manatt Jones Global Strategies, as described in Insider Disclosures Certain Relationships and Related Transactions.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has received and discussed with management the disclosures contained in Compensation Discussion and Analysis in this Proxy Statement. Based on that review and analysis, we recommended to the Board of Directors that the Compensation Discussion and Analysis section be included in this Proxy Statement.

The Compensation Committee

Rodney E. Slater, *Chairman*
Karen L. Pletz
Terrence P. Dunn
Henry R. Davis

This Compensation Committee Report is not deemed soliciting material and is not deemed filed with the SEC or subject to Regulation 14A or the liabilities under Section 18 of the Exchange Act.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The Compensation Committee is responsible for establishing our executive compensation policies and overseeing our executive compensation practices. The Compensation Committee is comprised solely of Non-Management Directors, all of whom meet the independence requirements of the NYSE.

The creation of stockholder value is the most important responsibility of our Board of Directors and executive officers. With our acquisition of the controlling interest in KCSM on April 1, 2005, we now own and operate a coordinated end-to-end railway linking vital commercial and industrial centers in the United States and Mexico. We believe we are well-positioned to operate a rapidly growing, highly profitable, long-haul, cross-border railway network. To achieve this goal, our executives will be required to execute consistently, efficiently, and well. Our Compensation Committee believes our compensation practices and programs are appropriately designed to incent our executives to meet this goal and to hold them accountable for our performance, with the ultimate objective of promoting long-term stockholder value and enhancing the strength and leadership position of our Company in the North American surface transportation industry.

Except where otherwise noted, all references to Named Executive Officers refers to the Named Executive Officers for whom compensation information was presented in our definitive proxy statement for the 2008 annual meetings of stockholders, including Daniel W. Avramovich, our former Executive Vice President of Sales and Marketing, and Arthur L. Shoener, our former President and Chief Operating Officer.

Role of Compensation Consultant

For assistance in fulfilling its responsibilities, the Compensation Committee retained Towers Perrin, an independent compensation consulting firm, to review and independently assess various aspects of our compensation programs, and to advise the Compensation Committee in making its executive compensation decisions in 2006 and 2007. Towers Perrin is engaged by and reports directly to the Compensation Committee. Towers Perrin s role in 2007 was to provide market data, including market trend data, to the Compensation Committee, to advise the Compensation Committee regarding the Company s executive compensation relative to the market data, and to make recommendations to the Compensation Committee regarding compensation structure and components. The Compensation Committee may or may not adopt Towers Perrin s recommendations. Typically, the Compensation Committee considers internal factors, such as individual performance and Company strategy, and then adopts a version of Towers Perrin s recommendations, modified to reflect its own analysis of the foregoing internal factors.

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Specifically, in 2007, Towers Perrin:

- analyzed the competitiveness of compensation provided to KCS Non-Management Directors;
- analyzed the competitiveness of compensation provided to KCS executives;
- assisted with developing a peer group of companies to facilitate benchmarking and appropriate comparisons (as detailed below);
- assisted with finalizing the 2007-2009 long-term incentive program and grant guidelines;
- estimated the compensation cost of a change in control;
- provided detail regarding current executive compensation trends;
- reviewed and provided comments to the Compensation Discussion and Analysis included in our definitive proxy statement for the 2008 annual meetings of stockholders;
- assisted with developing the compensation and other tables included in the 2007 Compensation Discussion and Analysis;
- reviewed and provided feedback to the Company s response to comment letters received from the SEC concerning the 2006 Compensation Discussion and Analysis; and
- assisted with determining appropriate compensation for newly hired and promoted executives.

Among other things, in 2007, Towers Perrin assisted the Compensation Committee in identifying the primary competitive market for the purpose of enabling the Compensation Committee to perform a benchmarking analysis of our executives base salaries, annual incentive compensation, and long-term incentive compensation. In connection with this analysis and prior benchmarking analyses, we have defined our primary competitive market as transportation and mature, capital-intensive companies with annual revenues of less than $3 billion that participate in Towers Perrin s Executive Compensation Database. In 2007, this group was comprised of the following companies, all of which had revenues in 2007 between $700 million and $3 billion:

Alexander & Baldwin Inc.	Ferrellgas Partners	Milacron
A.O. Smith	Fleetwood Enterprises	Mine Safety Appliances
American Greetings	GATX Corp.	Monaco Coach
Arctic Cat Inc.	Great Plains Energy	MSC Industrial Direct Co. Inc.
Brady	Greif Bros	NorthWestern Energy
Callaway Golf	Hayes Lemmerz	Plum Creek Timber Co
Carpenter Technology Corp.	Herman Miller	Revlon Inc
Chesapeake Corp.	Hexel	Springs Global USA
CLARCOR Inc.	HNI	Thomas & Betts
Comair	IDACORP	Toro
Constar International Inc.	IDEX Corporation	Tower Automotive
Cooper Tire & Rubber	Kaman Corp.	Tupperware
Dollar Thrifty Automotive Group	Kennametal	UniSource Energy
Donaldson Co Inc.	La-Z-Boy	Valmont Industries, Inc.

Dresser-Rand Group Inc.	Lousiana-Pacific Corp.	Warnaco
El Paso Electric	Martin Marietta Materials	Winnebago Industries

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Philosophy

The Compensation Committee has adopted an executive compensation philosophy consisting of the following elements:

Market competitive positioning

Base salary   On average, we seek to pay executives a base salary that is at about the market 50th percentile, subject to incumbent-specific and internal equity/value considerations.

Target incentive award opportunities   Due to the impact of our acquisition of KCSM in 2005 on our consolidated revenues and income, we transitioned our executives   target annual and long-term incentive award opportunities to approximate market median practices by 2007, and have basically achieved that objective.

Role of incentive compensation

Annual Incentives   The purpose of our annual cash incentive awards is to motivate and reward the achievement of predetermined goals. In 2007, annual incentive program awards for Named Executive Officers were based on the achievement of predetermined Company performance goals, department performance goals, and individual performance goals, but for 2008 will be awarded based only on achievement of Company performance measures.

Long-Term Incentives   Our long-term incentives are designed to encourage executive retention, align the interests of our executives with those of our stockholders, facilitate executive stock ownership and reward the achievement of long-term financial goals.

The Compensation Committee believes our executive compensation philosophy will achieve the following objectives:

Facilitate the attraction and retention of highly-qualified executives;

Motivate our executives to achieve our operating and strategic goals;

Align our executives   interests with those of our stockholders by rewarding the creation of stockholder value; and

Deliver executive compensation in a responsible and cost-effective manner.

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Elements Of Compensation

The primary elements of our executive officer compensation package are described below.

Compensation Element	***Purpose***	***Characteristic***
Base Salary	To provide a fixed element of pay for an individual s primary duties and responsibilities.	Base salaries are reviewed annually and are set based on competitiveness versus the external market, and internal equity considerations.
Annual Incentive	To encourage and reward the achievement of specified financial goals.	Performance-based cash award opportunity; amount earned is based on actual results relative to pre-determined goals. Target incentive award payouts are set at approximately the market 50th percentile.
Restricted Stock	To align the executives interests with those of investors (via creation of stockholder value), to encourage stock ownership, and to provide an incentive for retention.	Service-based long-term incentive opportunity; award value depends on share price.
Performance Stock	To reward performance related to achievement of pre-determined financial goals, to align the executives interests with those of investors (via creation of stockholder value), to encourage stock ownership, and to provide an incentive for retention.	Performance shares are earned on a pro rata basis, conditioned upon achievement of predetermined one-, two- and three-year performance goals. The earned performance share awards will not vest or be delivered until the end of the three-year program period. Award value depends on share price.
Stock Options	To facilitate the attraction and stockholder alignment of new hires and promoted executives.	Performance based long-term incentive opportunity; amounts realized are dependent upon share price appreciation.
Perquisites		

	To provide, on a conservative basis, perquisites typically provided at companies against which KCS competes for executive talent.	KCS pays for country club initiation fees (but not membership dues), an annual physical exam (provided through KCS s medical plan), financial planning services and other limited perquisites as described below.

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Compensation Element	*Purpose*	*Characteristic*
Benefits	To provide for basic life and disability insurance, medical coverage, and retirement income.	KCS matches employee 401(k) contributions (100% match up to 5% of compensation up to the statutory limit) and also pays premiums for medical, disability, AD&D, and group life insurance. Additionally, KCS provides all employees with the opportunity to annually purchase a specified number of shares of KCS Common Stock at a discount, subject to Board of Director approval. For executives, KCS has an Executive Plan that provides a benefit equal to 10% of the excess of (a) an executive s base salary times the percentage specified in his or her employment agreement over (b) the maximum compensation that can be considered for benefit purposes in a qualified retirement plan.

Details regarding these elements, as well as other components and considerations of our executive compensation strategy, are set forth below.

Compensation Determination and Implementation

The Compensation Committee may use tally sheets, benchmark analyses by a peer group of companies selected by the Compensation Committee with the assistance of Towers Perrin, wealth accumulation analyses, internal pay equity analyses and other tools in setting the compensation of senior management. The Compensation Committee has used in the past, and may use in the future (with respect to the currently Named Executive Officers and those who become Named Executive Officers in the future), tally sheets to obtain an estimated value of such Named Executive Officers overall compensation packages; assess the appropriateness of each of the pay components provided to the Named Executive Officers; understand the relative magnitude of all components of total compensation provided to these executives; and assess the appropriateness of overall compensation paid to each Named Executive Officer. Tally sheets were not prepared by Towers Perrin or utilized by the Compensation Committee in 2007. The Compensation Committee uses executive compensation analyses prepared by Towers Perrin to confirm that the compensation packages for our Named Executive Officers are in line with the compensation philosophy adopted by the Compensation Committee.

Pay packages for the top executives are recommended by our CEO to the Compensation Committee early each year. The CEO and the Compensation Committee consider competitive market data on salaries, target annual incentives and long-term incentives, as well as internal equity and each executive s individual responsibility, salary grade, experience, and overall performance. The analysis of these factors is qualitative in nature, and the Compensation Committee does not give any specific weighting to any of these factors. The Compensation Committee reserves the right to materially change compensation for situations such as a material change in an executive s responsibilities. The amount of compensation realized or potentially realizable by our executives does not directly impact the level at which future pay opportunities are set or the programs in which they participate.

The targeted total direct compensation levels for our executives are, generally, at the 50th percentile of observed market practices as determined by compensation surveys. Please see the Compensation Committee Review of our Executive Compensation Program for disclosure regarding where actual payments fall within targeted compensation levels.

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A one-time award of restricted stock and performance stock intended to cover a three-year period was issued to the Named Executive Officers under the Company s long-term incentive program in January 2007 (see Long-Term Incentives for a more detailed discussion of this program).

Special one-time equity awards, generally in the form of stock options and/or restricted stock, are granted to newly-hired executives and executives receiving promotions. The number of awards granted to newly-hired or promoted executives are recommended by management and set by the Compensation Committee based on consideration of the competitive market and on similar factors used in determining awards to existing management. In addition, each newly hired and promoted executive receives a pro rata grant of restricted stock and performance stock under the Company s long-term incentive program (see Long-Term Incentives for a more detailed discussion of this program).

We do not time stock option grants or other equity awards to our executives with the release of material non-public information.

Base Salary

Named Executive Officers are paid a base salary to provide a basic level of regular income for services rendered during the year. The Compensation Committee, based on recommendations from the CEO, determines the level of base salaries and annual adjustments, if any, for the Named Executive Officers and other senior executives for whom the Compensation Committee has responsibility. Although the Company generally targets the 50th percentile of the primary comparative market in setting base salary levels, actual executive salaries may vary from the targeted 50th percentile positioning as the Compensation Committee considers each Named Executive Officer s level of responsibility, experience, our performance, and internal equity considerations, as well as whether a Named Executive Officer s individual performance was strong or weak, in considering the salary adjustment recommendations. The Compensation Committee exercises subjective judgment and varies the weightings of these factors with respect to each Named Executive Officer.

In 2007, Towers Perrin recommended a salary adjustment budget increase of four percent over 2007 salaries for our United States management employees, including the Named Executive Officers, based on market data in our benchmark group. The CEO recommended salary adjustments for the Named Executive Officers up to this rate based on his subjective evaluation of each Named Executive Officer s performance, responsibility, salary grade and tenure with the Company. In accordance with the Company s philosophy of providing compensation at approximately the market median, the Compensation Committee approved such increases, with specific adjustments based on the recommendations of the CEO and its review and analysis of his performance evaluations of each of the Named Executive Officers.

Annual Incentive Awards

The Compensation Committee utilized an annual cash incentive program (the AIP) for 2007, with Named Executive Officer payment amounts based on achievement of Company-wide financial goals, department performance goals and individual performance goals in order to link a substantial portion of each Named Executive s compensation to performance. In order for there to be any payout under the AIP in 2007, our consolidated operating ratio was required to be 79.9% or lower, our consolidated cash flows, after taking into account certain adjustments pursuant to the terms of the 2007 AIP model, were required to be $50 million or higher and our cash flows in the United States and Mexico, after taking into account certain adjustments pursuant to the terms of the 2007 AIP model, were required to be positive. For the year ended December 31, 2007, our consolidated operating ratio was 79.2% and our consolidated cash flows, after taking into account certain adjustments described below pursuant to the terms of the 2007 AIP model, were $83.1 million. Our individual U.S. and Mexico cash flows, after taking into account certain adjustments pursuant to the terms of the 2007 AIP model, were positive. The adjustments to U.S. and Mexico cash flows were related to the following: (i) certain intercompany transactions; (ii) the allocation of interest expense from the United States entities to the Mexico entities for debt issued by the United States entities to fund the acquisition of our Mexico entities; (iii) cash capital expenditures for our consolidated subsidiary, Meridian Speedway, LLC, which were funded by cash contributions by our partner in the venture; (iv) the cash payment for our settlement with Grupo TMM, which was originally expected to be paid in

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Common Stock of the Company; and (v) cash spent by our Mexico subsidiary to purchase locomotives that were originally planned to be leased.

The 2007 AIP model contained three performance goals: (i) Company financial performance goals (50% weighting); (ii) department performance goals (20% weighting); and (iii) individual performance goals (30% weighting). Each executive was assigned incentive targets at the threshold, target and maximum incentive performance levels that were a percentage of the executive s 2007 base salary. The percentage assigned for each performance level depends on the executive s salary grade and, in keeping consistent with the Compensation Committee s compensation philosophy, are set such that the target payment amount would approximate the market 50th percentile amount for comparable executive positions in the Company s benchmark group. The threshold, target and maximum dollar amounts that could have been earned under our 2007 AIP are set forth in the column captioned Estimated Future Payouts Under Non-Equity Incentive Plan Awards in the Grants of Plan-Based Awards table below.

Company Financial Performance Targets. The weighting of the Company financial goals under the 2007 AIP was split equally between our consolidated operating income for the year ending December 31, 2007, and our consolidated operating ratio for the year ended December 31, 2007. Following are the 2007 Company financial performance targets for each of these metrics, as well as the percentage payout of the executive s total incentive target for these metrics:

Performance Level		**Consolidated Operating Income**	**Consolidated Operating Ratio**	**Percentage Payout of Total Incentive Target**
Threshold	$	338 million	79.9%	50%
Target	$	369 million	79.5%	100%
Maximum	$	400 million	78.5%	200%

For the year ending December 31, 2007, our consolidated operating income was $362 million and our consolidated operating ratio was 79.2%.

Department Performance Goals. For our Named Executive Officers, the weighting of the department goals was split equally among the following three sub-categories that were measured in determining 2007 AIP payouts:

We were required to meet specific United States and Mexico operating ratios;

Our marketing department was required to meet its department revenue and corporate financial goals; and

Each department was required to meet its budget and corporate financial goals.

The Compensation Committee has determined that disclosure of the specific goals for each of these items could cause the Company competitive harm as it would give our competitors insight into the operational performance of our operating subsidiaries and internal expense controls. Competitors could use this information to price their competitive rail services in such a manner as to make our services less attractive to mutual customers. The specific targets were set at a level that would be difficult for management to achieve without effectively leading the operations of the Company in a manner that would result in the Company achieving target financial performance. The objective departmental performance goals were all quantitative in nature, allowing the Compensation Committee to objectively determine whether, and to what extent, such goals were met.

Individual Performance Goals. The 2007 AIP model required the Named Executive Officers to meet individual safety, financial, strategic project, quality of service/customer service and leadership performance goals. The Compensation Committee recognized the following achievements with respect to our Named Executive Officers in approving the satisfaction of these goals:

> *Safety:* In 2007, our United States employee lost work days were reduced 32% over the prior year. Overall, our United States grade crossing collisions were reduced 23% in 2007 over the prior year, and we experienced the fewest grade collisions in the United States over a decade. We have been consistently recognized for our employee safety record by the E.H. Harriman Memorial Awards Institute. Our 2007 safety performance resulted in us receiving the distinguished honor of a Gold Harriman Award in May 2008, which signifies that we had the best safety performance among our peer group of companies in 2007. In

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Mexico, we reduced our grade crossing accidents by approximately 20% in 2007 over 2006. In addition, our reportable injuries in Mexico decreased by approximately 22% in 2007 over 2006.

Financial: In 2007, we achieved, collectively, over 100% of our AIP financial performance targets. In addition, we achieved record annual revenues of $1.74 billion, a 5% increase over 2006; record operating income of $362.4 million, a 19.1% increase over 2006; a consolidated operating ratio of 79.2% as compared to 81.7% in 2006; and diluted earnings per share for 2007 of $1.57, which was a 45% improvement over 2006.

Strategic Projects: Following the approval of the 2007 AIP model, our CEO determined based on his leadership experience that the most important individual performance measure of our Named Executive Officers was the commencement and substantial progress during 2007 on three strategic projects described below:

Begin preparation for the construction of the Victoria, Texas to Rosenberg, Texas rail line;

Begin construction of support facilities at the Port of Lázaro Cárdenas, Mexico; and

Begin the selection process of development partners in preparation for the construction of our planned intermodal terminal facility near Mexico City, Mexico, to be called MegaMEX.

Our CEO tasked each of the Named Executive Officers with leading their respective business units in taking the steps necessary to commence and substantially progress on these strategic projects in 2007. In addition, he required that this element of individual performance be given a 50% weighting. The Compensation Committee agreed that these strategic projects were key to the Company meeting its long-term financial performance goals and concurred with the recommendation of the CEO. Based on a summary of the project status from the CEO and consideration of the completion of certain specific tasks achieved during 2007 with respect to these strategic projects, the Compensation Committee determined that it was satisfied that each project had been commenced and that sufficient progress with respect to each project was attained in 2007 for purposes of satisfying this element of the 2007 AIP individual performance goals for the Named Executive Officers.

Quality of Service and Customer Service: The Compensation Committee recognized our continuing goal to consistently improve our customer service. Our customer retention level exceeds 90%. During 2007, due in part to the quality of our customer service, we generated new business with existing and new customers valued at approximately $100 million, which will come on line over the next couple of years.

We continue to expand and strengthen our relationship with short line railroads in meeting many of our customers freight railroad needs. A 2007 UBS Securities Investment Research survey of short line railroads indicates that our overall performance and interaction with these short line railroads has improved in recent years. In particular, the short line railroads have expressed a significant increase in satisfaction with the quality of our sales and marketing team the same team that interacts directly with our customers. Given the relationship between many of our customers and the short line railroads who serve these customers for us, it is important to us that we continually improve the quality of our relationships with the short line railroads.

Also in 2007, we sought to simplify the ability of our customers to interact with us through the introduction of a variety of enhancements to our My KCS customer webpage on our internet site, www.kcsouthern.com. These enhancements included a tool that allows customers to track and trace their shipments, including shipments that are being moved by other carriers on the shipping route. We encourage our customers to interact with us through this webpage as we believe it allows customer transactions to be processed more quickly through the elimination of the need to re-enter data received from a customer by facsimile or telephone call. Further, accuracy of the entry of customer data is increased through the elimination of the need to re-enter data submitted by a customer via facsimile or telephone.

Leadership: As demonstrated by our improvements in safety, our financial performance, the progress on our important strategic projects and our continuous improvement in customer service, the Compensation Committee determined that our Named Executive Officers provided strong leadership to the Company in 2007. Further, the Compensation Committee noted that the leadership of our Named Executive Officers has

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been publicly recognized by multiple invitations received by our Named Executive Officers to speak at public forums as industry experts, which has resulted in a raised awareness of and interest in us and our performance.

2007 AIP Payments. The Compensation Committee determined that based on the Company s achievement of its financial performance targets in 2007, the substantial achievement of the department goals discussed above, and the determination that the Named Executive Officers had effectively satisfied the individual performance goals, which determination took into account both qualitative and quantitative factors, the Named Executive Officers were eligible to receive the 2007 AIP payment amounts that are set forth in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

If our financial results are restated after the payment of incentive awards to executives, the Compensation Committee will review any repayment actions to be taken on a case-by-case basis.

Each year, the Compensation 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, considering general market practices and its own subjective assessment of the effectiveness of such program in meeting its goals of motivating and rewarding the Company s executives. See 2008 Annual Incentive Plan for a discussion of the AIP model adopted for 2008.

Long-Term Incentives

1991 Amended and Restated Stock Option and Performance Award Plan (the 1991 Plan). The purpose of the 1991 Plan is to allow employees, directors and consultants of KCS and its subsidiaries to acquire or increase equity ownership in the Company. The 1991 Plan provides for the award of stock options (including incentive stock options), restricted shares, bonus shares, stock appreciation rights (SARs), limited stock appreciation rights (LSARs), performance units and/or performance shares to officers, directors and employees. Awards under the 1991 Plan are made in the discretion of the Compensation Committee, which is empowered to determine the terms and conditions of each award. Specific awards may be granted singly or in combination with other awards. The stock options and restricted share awards described in the Non-Management Director Compensation Table and Summary Compensation Table were awarded under the 1991 Plan.

The 1991 Plan will terminate on October 14, 2008 unless it is terminated sooner by the Board of Directors of KCS. The 2008 Plan is intended to replace the 1991 Plan and will become effective on October 14, 2008, subject to approval of the stockholders of KCS. No further awards will be granted under the 1991 Plan. For a description of the 2008 Plan, see the 2008 Plan Summary under the caption Proposal 1 Approval of Kansas City Southern 2008 Stock Option and Performance Award Plan above.

2007-2009 Executive Long-Term Incentive Program

Prior to March 2005, we relied on stock option grants as the primary long-term incentive award vehicle for our executives. Starting with the March 2005 long-term incentive grants to executives, we adopted a strategy of awarding service-based restricted shares as our sole long-term incentive award vehicle in an effort to enhance executive retention and increase executive stock ownership. These awards vest at the completion of five years of service by the executive following the award grant.

In 2006, our Board of Directors and Compensation Committee expressed an interest in linking our long-term incentive stock awards more closely to our performance in order to provide an incentive to executives to meet or exceed our long-term performance goals. We believe that stock-based long-term incentives serve to motivate executive officers to focus their efforts on activities that will enhance stockholder value over the long term, thus aligning their interests with those of the Company s stockholders.

Accordingly, on September 19, 2006, the Compensation Committee adopted a new Executive Long-Term Incentive Grant program (the LTI Program) under the 1991 Plan. On January 17, 2007, pursuant to the terms of the LTI Program, the Compensation Committee granted our executives a one-time stock grant comprised of performance shares (60% weighting) and restricted shares (40% weighting) to cover the performance period of 2007 through 2009. Performance shares may be earned yearly over the three-year period on a pro rata basis,

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conditioned upon achievement of predetermined one-, two- and three-year performance goals. The earned performance share awards and restricted stock awards will not vest until the end of the three-year program period. The performance metrics in the LTI Program are operating ratio (50% weighting), earnings before interest, taxes, depreciation and amortization (EBITDA) (25% weighting), and return on capital employed (ROCE) (25% weighting).

Based on the recommendation of our senior management, which based its recommendations on performance metrics contained in our long-term financial performance plan, the Compensation Committee adopted the following performance goals as the performance metrics for the 2007-2009 performance periods:

Performance Level	Operating Ratio (50%)	EBITDA (25%)	ROCE (25%)	Earned Percentage of Incentive Target
2007				
Threshold	79.99%	$500 million	7.9%	50%
Target	79.8%	$549 million	8.6%	100%
Maximum	78.5%	$649 million	10.1%	200%
2008				
Threshold	Better of 2007 Operating Ratio Target (79.8%) or 2007 Actual Operating Ratio	Better of 2007 EBITDA Target ($549 million) or 2007 Actual EBITDA	Better of 2007 ROCE Target (8.6%) or 2007 Actual ROCE	0%
Target	78.5%	$649 million	10.1%	100%
Maximum	76.8%	$776 million	11.7%	200%
2009				
Threshold	Better of 2008 Operating Ratio Target (78.5%) or 2008 Actual Operating Ratio	Better of 2008 EBITDA Target ($649 million) or 2008 Actual EBITDA	Better of 2008 ROCE Target (10.1%) or 2008 Actual ROCE	0%
Target	76.8%	$776 million	11.7%	100%
Maximum	75.4%	$921 million	13.4%	200%

In 2007, our operating ratio was 79.2%, our EBITDA was $533.2 million and our ROCE was 8.7%. As such, each Named Executive Officer earned 120.20% of the 2007 tranche of their performance share awards. As a result of this performance, the 2008 threshold performance goals are an operating ratio of 79.2%, EBITDA of $549.0 million and ROCE of 8.7%.

In 2008 and 2009, we must exceed the performance goals for the threshold performance level in order for our executives to earn any percentage of the second third or final third of their performance share awards, respectively. If we meet or exceed performance goals for the target or maximum performance levels in 2008 or 2009, the executives may earn 100% to 200% of the second third or final third of their performance share awards, respectively. If our actual performance is between performance levels, the percentage of the performance share awards earned by the executives will be prorated between such performance levels.

Perquisites

Minimal perquisites are provided to the Named Executive Officers. Specifically, we have historically paid and continue to pay country club initiation fees (with monthly dues paid by the executive) and provide an annual physical exam through our medical plan. In addition, all employees are given the opportunity to use our stadium and arena suites to the extent the suites are not being used for business purposes. Also, spouses of our executives may at times travel with the executives on chartered or commercial flights to the extent the spouse s presence is required and/or requested for a business event. Executives may also use the services of their administrative assistants for limited personal matters. Our charitable matching gift program may also be considered a perquisite.

In 2007, the Compensation Committee determined that it would be appropriate to add a financial counseling expense reimbursement program as an additional perquisite for our Named Executive Officers given the recent performance of the Company and the otherwise limited perquisites provided to the Named Executive Officers. The purpose of this program is to encourage and support financial, estate, retirement, tax and education planning by the Named Executive Officers by providing to them reimbursement for certain expenses of such planning. The maximum amount of the annual reimbursement under this program for our CEO is $8,000. The maximum amount of the annual reimbursement under this program for our other Named Executive Officers is $5,000.

The Compensation Committee believes these perquisites are conservative, but reasonable and consistent with our overall compensation program and industry practice, and better enable the Company to attract and retain high-performing employees for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to our Named Executive Officers. The Compensation Committee does not plan to materially increase the perquisites currently provided.

Benefits

We provide certain benefit programs that are designed to be competitive within the marketplace from which we recruit our employees. The majority of employee benefits provided to our Named Executive Officers are offered through broad-based plans available to our management employees generally.

KCS 401(k) and Profit Sharing Plan (the 401(k) Plan). Our 401(k) Plan is a qualified defined contribution plan. Eligible employees may elect to make pre-tax deferral contributions, called 401(k) contributions, to the 401(k) Plan of up to 75% of Compensation (as defined in the 401(k) Plan) (10% maximum deferred percentage for such contributions with respect to Compensation paid prior to July 1, 2002, unless the employee elects catch-up contributions in accordance with the 401(k) Plan) subject to certain limits under the Code. We will make matching contributions to the 401(k) Plan equal to 100% of a participant s 401(k) contributions up to a maximum of 5% of a participant s compensation. Our matching contributions for the 401(k) Plan vest over five years as follows:

- 0% for less than two years of service;
- 20% upon two years of service;
- 40% upon three years of service;
- 60% upon four years of service; and
- 100% upon five years of service.

We may, in our discretion, make special contributions on behalf of participants to satisfy certain nondiscrimination requirements imposed by the Code. These contributions are 100% vested when made.

We may also make, in our discretion, annual profit sharing contributions to the 401(k) Plan in an amount not to exceed the maximum allowable deduction for federal income tax purposes and certain limits under the Code. Only employees who have met certain standards as to hours of service are eligible to receive profit sharing contributions. No minimum contribution is required. Each eligible participant, subject to maximum allocation limitations under the Code, is allocated the same percentage of the total contribution as the participant s Compensation bears to the total

Compensation of all participants. Profit sharing contributions are 100% vested when made.

Participants may direct the investment of their accounts in the 401(k) Plan by selecting from one or more of the diversified investment funds available under the 401(k) Plan, including a fund consisting of our Common Stock.

Employee Stock Ownership Plan (ESOP). The ESOP is designed to be a qualified employee stock ownership plan under the Code for purposes of investing in shares of our Common Stock and, as of January 1, 2001, a qualified stock bonus plan with respect to the remainder of the ESOP not invested in our Common Stock. Allocations of contributions and forfeitures, if any, to participant accounts in the ESOP for any plan year are based upon each participant s proportionate share of the total eligible compensation paid during the plan year to all participants in the ESOP, subject to Code-prescribed maximum allocation limitations. For this purpose, compensation includes only compensation received during the period the individual was actually a participant in the ESOP.

Executive Plan. In order to provide executives with competitive retirement and savings plans, we maintain a supplemental benefit plan for those executives who have an employment agreement with the Company. Our Executive Plan provides a benefit equal to 10% of the excess of (a) an executive s base salary times the percentage specified in his or her employment agreement (ranging from 145% to 175%) over (b) the maximum compensation that can be considered for benefit purposes in a qualified retirement plan. Payments are generally made annually under this plan and executives may elect to receive such payments in cash or restricted stock with 5-year graded vesting.

Other Benefits. We also pay premiums for medical, disability, AD&D and group life insurance for our employees. Additionally, we provide employees with the opportunity to purchase KCS Common Stock at a discount, subject to annual Board of Director approval. These benefits are provided to all management employees in the United States.

Pay Mix

The percentage of a Named Executive Officer s total compensation that is comprised by each of the compensation elements is not specifically determined, but instead is a result of the targeted competitive positioning for each element (i.e., market 50th percentile for base salaries, annual incentives, and long-term incentives and below market median for perquisites and benefits). Generally, long-term incentives comprise a significant portion of a Named Executive Officer s total compensation. This is consistent with the Compensation Committee s desire to reward long-term performance in a way that is aligned with stockholders interests. In 2007, pay mix for each of the Named Executive Officers was as follows:

Named Executive Officer	Base Salary (%)	Annual Incentive (%)	Long-Term Incentive (%)
Michael R. Haverty	25%	22%	53%
Patrick J. Ottensmeyer	35%	19%	46%
Arthur L. Shoener	35%	21%	44%
Daniel W. Avramovich	35%	19%	46%
William J. Wochner	41%	20%	39%

Executive Stock Ownership Guidelines

In 2006, we implemented stock ownership guidelines for our Named Executive Officers and other members of senior management. A fixed share approach is used, with the number of shares based on the salary multiples shown in the table below and a specified constant share price used for the divisor.

	Multiple of Salary
CEO	5
COO	4
EVPs	3

SVPs and VPs	1

The Compensation Committee will periodically review the continued appropriateness of the fixed share ownership guidelines.

Executives are given five years, commencing on the later of the date the guidelines were implemented or their start date, to meet the required share holdings. If an executive fails to timely comply with the ownership guidelines, then not less than 50% of any future annual incentives will be paid in restricted shares until compliance is achieved.

Shares that count in determining compliance with the stock ownership guidelines are shares beneficially owned by the executive, shares held by the executive in any KCS benefit plan, restricted shares at the time of grant (even if not yet vested), performance shares when earned (even if not yet vested), and shares issued and retained on exercise of stock options.

Change in Control Benefits

Purpose. Various compensation arrangements provide for award and account vesting and separation pay upon a change in control (see the discussion of change in control triggers below) or the occurrence of certain events after a change in control. Please see the Potential Payments upon Termination of Employment or Change in Control for a discussion of why the Compensation Committee believes the current levels of post-employment termination compensation and benefits are appropriate and consistent with our compensation objectives. These arrangements are designed to:

- preserve our ability to compete for executive talent;
- provide stability during a change in control by encouraging executives to cooperate with and achieve a change in control approved by the Board, without being distracted by the possibility of termination of employment or demotion after the change in control; and
- encourage an acquirer to evaluate whether to retain our executives by making it more expensive to dismiss our executives rather than its own.

Summary of Benefits. In the event of a termination of employment by the Company without cause or a resignation by the executive for good reason (as defined below) within a three-year period after a change in control, Named Executive Officers who are currently employed receive the following benefits:

Cash Severance (paid in a lump sum)	Haverty: Salary x 3 x 1.6767 Ottensmeyer: Salary x 3 x 1.75 Wochner: Salary x 2 x 1.60
Unvested Equity Awards	Become immediately vested
Health and Welfare Benefits	Medical, prescription and dental continue for 3 years at the cost of the Company. Each executive may continue (i) medical, prescription and dental coverage until age 60 and (ii) medical and prescription coverage following the attainment of age 60, each at the cost of the executive, which cost may be no more than the cost of such benefits to active or retired peer executives at the Company immediately prior to the change in control.
Excise-Tax Protection and Tax Gross-Up	Each Named Executive Officer is eligible to receive payment for excise taxes incurred as a result of any excess parachute payments, as well as a tax gross-up for income taxes payable as a result of the excise tax reimbursement. Any Named Executive Officer hired in the future will not be eligible to receive payment for excise taxes incurred as a result of any excess parachute payments or any tax gross-up as described above.

In May 2007, the Compensation Committee approved amendments to the employment agreement of Mr. Ottensmeyer to modify the change in control health and welfare benefits provision contained in his employment agreement, and to add an excise tax and tax gross-up provision to his employment agreement, in order to conform his employment agreement to the employment agreement of another executive hired at approximately the same time as Mr. Ottensmeyer. The Compensation Committee determined that as a matter of equity it was appropriate to approve these amendments in order to provide Mr. Ottensmeyer with the same benefits as the other executive hired at approximately the same time as Mr. Ottensmeyer. Going forward, the Compensation Committee has directed that no employment agreements contain the excise tax protection or the tax gross-up provision. In addition, as of December 31, 2007, the health and welfare benefits contained in the Company s executive employment agreements had been modified to limit this benefit to three years of medical and dental coverage paid for by the Company following a change in control.

Definition of cause and good reason. Our currently employed Named Executive Officers employment agreements generally define cause in the context of a termination of employment prior to a change in control to include:

- breach of the executive s employment agreement by the executive;
- dishonesty involving the Company;
- gross negligence or willful misconduct in the performance of his duties;
- failure to substantially perform his duties and responsibilities, including willful failure to follow reasonable instructions of the Board, President or other officer to whom he reports;
- breach of an express employment policy;
- fraud or criminal activity;
- embezzlement or misappropriation; or
- breach of fiduciary duty to the Company.

The employment agreements generally define cause in the context of a termination of employment after a change in control to mean commission of a felony or a willful breach of duty, but excluding:

- bad judgment or negligence;
- an act or omission believed by the executive in good faith to be in or not opposed to the interest of the Company, without intent to gain a profit to which he is not entitled;
- an act or omission with respect to which a determination could be made by the Board that the executive met the standard of conduct entitling him to indemnification by the Company; or
- an act or omission occurring more than 12 months after the date on which any member of the Board knew or should have known about it.

The employment agreements generally define good reason in the context of a resignation by the executive after a change in control to include:

- assignment to the executive of duties inconsistent with his position, authority or duties that result in a diminution or other material adverse change in his position, authority or duties;
- a failure by the Company to comply with the change in control provisions in the agreement;

requiring the executive to be based more than 40 miles away from the location where he was previously employed;

any other material adverse change in the executive s terms and conditions of employment; or

any purported termination of the executive s employment for reasons other than as permitted in the agreement.

Triggering Events. Our currently Named Executive Officers employment agreements generally provide that the following events (which we refer to as triggering events) constitute a change in control :

for any reason at any time less than 75% of the members of our Board shall be incumbent directors, as defined in the agreement; or

any person (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) other than us shall have become after September 18, 1997, according to a public announcement or filing, the beneficial owner

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(as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of KCS or KCSR representing 30% (or, with respect to certain payments to be made to the Named Executive Officer under his or her employment agreement, 40%) or more (calculated in accordance with Rule 13d-3) of the combined voting power of our or KCSR s then outstanding voting securities; or

the stockholders of KCS or KCSR shall have approved a merger, consolidation or dissolution of KCS or KCSR or a sale, lease, exchange or disposition of all or substantially all of our or KCSR s assets, if persons who were the beneficial owners of the combined voting power of our or KCSR s voting securities immediately before any such merger, consolidation, dissolution, sale, lease, exchange or disposition do not immediately thereafter beneficially own, directly or indirectly, in substantially the same proportions, more than 60% of the combined voting power of any corporation or other entity resulting from any such transaction.

Severance benefits (other than accelerated vesting of awards under the 1991 Plan) do not become due upon a mere change in control. Requiring that a termination of employment without cause or a resignation for good reason occur within a three year period after a change in control before certain compensation and benefits are available is called a double trigger. We believe a double trigger is in the best interest of our stockholders because it:

prevents a long-term grant from becoming a short-term windfall to executives upon a mere change in control;

encourages executives to help transition through a change in control; and

protects executives from termination of employment without cause or an adverse change in position following a change in control.

Severance Compensation

Each currently employed Named Executive Officer s employment agreement provides that in the event of termination of employment without cause for any reason other than a change in control, death, disability or retirement, such Named Executive Officer will receive one year of salary at the rate in effect immediately prior to the termination of his or her employment. Additionally, Messrs. Haverty and Wochner receive reimbursement of health and life insurance costs for fifteen months and Mr. Ottensmeyer receives reimbursement of health and life insurance costs for twelve months. Executives must waive any claims against us in return for receiving these severance benefits.

Reasonableness of Severance Payments

The post-employment termination compensation and benefits described above are required under the terms of employment agreements with the Named Executive Officers who are currently employed. These benefits may be amended only with the consent of the executive and cannot be changed unilaterally. The forms of these agreements were adopted several years ago and pre-date the service of the current members of the Compensation Committee. In 2006, the Compensation Committee tasked Towers Perrin with performing a competitive analysis of these agreements. Based on the results of this analysis, which was presented to the Compensation Committee in January 2007, the Compensation Committee determined that the benefits included and amounts paid under these agreements were within competitive ranges for the Company s peer group and were consistent with the compensation philosophy adopted by the Compensation Committee. Specifically, Towers Perrin calculated that, based on an assumed change in control transaction valued at approximately $2.79 billion (based on, among other things, our stock price and number of shares of our common stock outstanding), the aggregate after-tax cost to us for our change in control severance payments would be approximately 1.2% of the transaction value. Towers Perrin advised that the potential financial impact of change in control severance arrangements in the general marketplace was approximately 1-3% of the transaction value. Thus, the value of our change in control severance benefits is at the low end of this range and was determined to be reasonable by the Compensation Committee.

The Compensation Committee has determined it appropriate to modify two elements in future employment agreements with respect to change in control severance arrangements: (a) a revision of the health and welfare benefits provided to executives following a change in control to limit the benefit to three years of medical and dental

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coverage paid for by the Company and (b) the elimination of the excise tax protection and tax gross-up provisions. In addition, the Compensation Committee has limited the number of future employment agreements that may contain change in control severance provisions. These changes will result in the value of the Company s change in control severance payments decreasing in the future as severance benefits provided to new executives joining us or being promoted into our executive ranks will have a lower cost to the Company than those provided to our current executives.

Other compensatory plans that provide benefits on retirement or termination of employment

Described below are the portions of our compensation plans in which the accounts of Named Executive Officers who are currently employed become vested as a result of (a) their retirement, death, disability or termination of employment, (b) a change in control of us, or (c) a change in the Named Executive Officer s responsibilities following a change in control.

ESOP. A participant with less than five years of service is not vested in the ESOP s contributions or earnings. However, a participant becomes 100% vested upon completion of five years of service. In addition, a participant becomes 100% vested at his or her retirement at age 65, death or disability or upon a change in control (as defined in the ESOP). Distributions of benefits under the ESOP may be made in connection with a participant s death, disability, retirement or other termination of employment. A participant in the ESOP has the right to select whether payment of his or her benefit will take the form of whole shares of our Common Stock or a combination of cash and whole shares of our Common Stock. Any remaining balance in a participant s account will be paid in cash, except that the participant may elect to have such balance applied to provide whole shares of our Common Stock for distribution at the then fair market value. In addition to these distribution options, a participant may elect to receive a distribution in the form of whole Janus shares (to the extent Janus shares are held in the participant s account). If no election is made, the plan provides that the payment shall be made in cash. A participant may further opt to receive payment in a lump sum or in installments.

1991 Plan. Subject to the terms of the specific award agreements, under the 1991 Plan, the death or disability, retirement or other Termination of Affiliation (as such terms are defined in the 1991 Plan) of a grantee of an award or a change in control of KCS (as defined in the 1991 Plan) may accelerate the ability to exercise an award.

Death or Disability

Upon the death or disability of a grantee of an award under the 1991 Plan,

(i) the grantee s restricted shares, if any, that were forfeitable will become nonforfeitable unless otherwise provided in the specific award agreement,

(ii) any options or stock appreciation rights (SARs) not exercisable at that time become exercisable and the grantee (or his or her personal representative or transferee under a will or the laws of descent and distribution) may exercise such options or SARs up to the earlier of the expiration of the option or SAR term or 12 months, and

(iii) the benefits payable with respect to any performance share or performance unit for which the performance period has not ended will be determined based upon a formula described in the 1991 Plan or the applicable award agreement.

Retirement

Upon the retirement of a grantee of an award under the 1991 Plan,

(i) the grantee s restricted shares, if any, that were forfeitable will become nonforfeitable unless otherwise provided in the specific award agreement,

(ii) any options or SARs not exercisable at that time become exercisable and the grantee (or his or her personal representative or transferee under a will or the laws of descent and distribution) may exercise such options or SARs up to the earlier of the expiration of the option or SAR term or five years from the date of retirement, and

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(iii) the benefits payable with respect to any performance share or performance unit for which the performance period has not ended will be determined based upon a formula described in the 1991 Plan or the applicable award agreement.

Termination of Affiliation

If a grantee has a Termination of Affiliation (as defined in the 1991 Plan) for any reason other than for Cause (as defined in the 1991 Plan), death, disability or retirement, then

(i) the grantee s restricted shares, if any, to the extent forfeitable on the date of the grantee s Termination of Affiliation, are forfeited on that date,

(ii) any unexercised options or SARs, to the extent exercisable immediately before the grantee s Termination of Affiliation, may be exercised in whole or in part, up to the earlier of the expiration of the option or SAR term or three months after the Termination of Affiliation, and

(iii) any performance shares or performance units for which the performance period has not ended as of the Termination of Affiliation will terminate immediately upon that date.

Change in Control

Upon a change in control of us (as defined in the 1991 Plan),

(i) a grantee s restricted shares, if any, that were forfeitable become nonforfeitable,

(ii) any options or SARs not exercisable at that time become immediately exercisable,

(iii) we will pay to the grantee, for any performance share or performance unit for which the performance period has not ended as of the date of the change in control, a cash payment based on a formula described in the 1991 Plan or the applicable award agreement, and

(iv) all LSARs (which may be granted in tandem with options awarded under the 1991 Plan) are automatically exercised upon a change in control that is not approved by our incumbent board (as such terms are defined in the 1991 Plan). Upon exercise of an LSAR, the grantee may receive a cash payment based upon the difference between the fair market value on the date of the change in control or other specified date and the per share exercise price of the related option.

2008 Plan. The 2008 Plan, which is intended to replace the 1991 Plan upon approval of the 2008 Plan by the stockholders, will provide certain benefits upon the retirement, death, disability or termination of employment of a Named Executive Officer, a change in control of us, or a change in the Named Executive Officer s responsibilities following a change in control. Please see the summary of the 2008 Plan under the heading Proposal 1 Approval of the Kansas City Southern 2008 Stock Option and Performance Award Plan above or see the copy of the plan attached to this Proxy Statement as Appendix A for more information on these benefits.

401(k) Plan. A participant becomes 100% vested upon retirement at age 65, death or disability or upon a change in control of us (as defined in the 401(k) Plan). Distribution of benefits under the 401(k) Plan will be made in connection with a participant s death, disability, retirement or other termination of employment. Subject to certain restrictions, a participant may elect whether payment of his or her benefits will be in a lump sum or installments. A participant may elect to receive distributions of benefits under the 401(k) Plan in whole shares of our Common Stock, or in a combination of cash and whole shares of our Common Stock, to the extent of whole shares of our Common Stock allocated to such participant s account. Absent such election, distributions of benefits will be made in cash.

Tax and Accounting Considerations

Section 162(m) of the 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 named executive officers listed in the Summary Compensation Table, unless it is performance-based.

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Except as otherwise described in this section, the Compensation Committee intends to qualify compensation expense as deductible for federal income tax purposes.

The compensation packages of the Named Executive Officers for 2007 included base salary, annual cash incentives, and restricted and performance shares. The highest total base salary was within the $1 million limit. The annual incentive payment was determined based upon the achievement of performance measures established at the beginning of the year. The annual incentive arrangement permits the Compensation Committee to exercise discretion in the determination of the award amounts and is not intended to be a performance-based plan under Section 162(m) of the Code. The restricted shares were awarded under the provisions of the 1991 Plan. These restricted stock awards do not qualify as performance-based compensation under Section 162(m) since the vesting of the awards is time-based. The restricted shares awarded to the Named Executive Officers in 2007 have the potential to result in total compensation in excess of the $1 million limit under Section 162(m). The performance shares were awarded under the provisions of the 1991 Plan and are intended to qualify as performance based compensation under Section 162(m) since the awards are earned based on our performance.

Prior to 2005, we awarded our 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, we believe we have taken all steps necessary, including obtaining stockholder approval, so that any compensation expense we 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 our 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 Compensation 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 Compensation Committee intends to maintain the flexibility to take actions it considers to be in the best interests of KCS and our stockholders and which may be based on considerations in addition to tax deductibility.

The Compensation Committee reviews projections of the estimated accounting (pro forma expense) and tax impact of all material elements of the executive compensation program. Generally, an accounting expense is accrued over the requisite service period of the particular pay element and we realize a tax deduction upon the payment to/realization by the executive.

The Compensation Committee intends to complete its review of our executive employment agreements and benefit plans in 2008 in accordance with the final regulations adopted under Section 409A of the Code (Section 409A) and to make any changes it considers necessary to comply with Section 409A and such regulations, to the extent such changes are agreeable to the executives and do not adversely affect the Company.

Compensation Committee Review of our Executive Compensation Program

In 2007, at the direction of the Compensation Committee, Towers Perrin performed a competitive executive compensation analysis to assess the competitiveness of the compensation of the executives of the Company, including the Named Executive Officers then currently employed. Towers Perrin analyzed the market competitiveness of the following elements for each of the covered executive position:

Base salary;

Target annual incentive award opportunity (award that may earned for achieving pre-determined performance goals);

Target total cash compensation (salary plus target annual incentive award opportunity);

Annualized expected value of long-term incentive grants/awards (estimated value on date of grant); and

Target total direct compensation (target total cash compensation plus the annualized expected value of long-term incentive awards).

In performing the study, the Company s executive positions were initially matched, based on Towers Perrin s understanding of the positions primary duties and responsibilities, to similar positions in Towers Perrin s 2007 Executive Compensation Data Bank. At the request of the Company, a premium was applied to the market compensation data for certain benchmark survey position matches to reflect the differences between the responsibilities of the Company s positions and those of the benchmark survey job matches. Of the Named Executive Officers, the only premium applied was to the position of the Chief Financial Officer. A 10% premium was applied to this position given the Chief Financial Officer s ultimate responsibility for operations of our purchasing department and the day-to-day administrative supervision of the internal audit department.

As stated above, our Compensation Committee seeks to provide base salaries, target annual and long-term incentive awards that are, on average consistent with median market (i.e., comparably sized transportation and mature capital intensive companies) practices, recognizing internal equity and incumbent-specific considerations such as performance, future potential, and tenure with the Company. Based on the findings of the study described above, the Compensation Committee believes that our executive compensation levels are competitive on average, within a +/- 15% of the target market 50th percentile (i.e., 85% to 115% of target market 50th percentile).

The results of this study found that (i) our base salaries are, on average, at approximately market 50th percentile levels; (ii) our target total cash compensation levels are on average within a competitive range around the market median; (iii) our target annual incentive award opportunities, expressed as a percentage of salary, are, on average, at the market 50th percentile level; and (iv) our target long-term incentive long-term incentive award opportunities, and resulting target total direct compensation levels, are, on average, consistent with market median practices. Based on 2007 compensation information, each Named Executive Officer, other than our former Executive Vice President Sales and Marketing, was within 15% on a target direct total compensation basis. Specifically, the analysis performed by Towers Perrin concluded that 2007 compensation for the Named Executive Officers compared to market median practice as follows:

Named Executive Officer	**Base Salary**	**Target Total Direct Compensation**
Haverty	−5%	−3%
Ottensmeyer	−20%	−13%
Shoener	+4%	−7%
Avramovich	+6%	+25%
Wochner	−13%	−1%

* Base salary + target annual incentive + target long-term incentives

Based on the results of this study, Towers Perrin made the following recommendations to the Compensation Committee in order to maintain market 50th percentile compensation in 2008 for each of our Named Executive Officers (assuming continued employment): (i) Mr. Ottensmeyer should be elevated one salary grade (which resulted in Mr. Ottensmeyer s target AIP award percentage increasing from 55% of base salary to 60% of base salary) and given a salary increase in order to competitively compensate him for his services as Chief Financial Officer and the other responsibilities with which he has been tasked, including ultimate responsibility for operations of our purchasing department and the day-to-day administrative supervision of the internal audit department; (ii) the target percentage for the AIP award for Mr. Haverty should be increased from 90% of base salary to 100% of base salary; and (iii) the target percentage for the AIP award for Mr. Shoener should be increased from 60% of base salary to 70% of base salary. Each of these recommendations results in maintaining a market median level of compensation for each of these executives. The Compensation Committee agreed with these recommendations and believed they were necessary to continue to comply with its executive compensation philosophy. In addition, the conclusion that each Named Executive Officer was being compensated at or near market median for his position satisfied the Compensation Committee that the ratio of compensation between the CEO, the COO and the other Named Executive Officers was acceptable and reasonable, particularly when taking into consideration the differences in responsibilities of each of them. The policies or decisions relating to the compensation of the CEO and COO are not materially different than the other Named Executive Officers.

2008 Annual Incentive Plan

In February 2008, the Compensation Committee approved the 2008 AIP model for our Named Executive Officers. In order for there to be any payout to our Named Executive Officers under the 2008 AIP, our consolidated operating ratio must be 79.2% or lower. The 2008 AIP model approved by the Compensation Committee for our Named Executive Officers differs from the 2007 model in that AIP payments to our Named Executive Officers in 2008 will depend solely on the financial performance goals of the Company set forth below and will not include department and individual performance goals. The Compensation Committee determined that focusing our 2008 Named Executive Officers on the Company s financial performance will result in executive management working to lead management and operations personnel in a manner to seek to maximize Company performance to achieve target levels or better. As with the 2007 AIP model, each currently Named Executive Officer has been assigned incentive targets at the threshold, target and maximum incentive performance levels that are a percentage of the Named Executive Officer s 2008 base salary. The percentage assigned for each performance level depends on the executive s salary grade and is set such that the amount of the potential payment would maintain the Named Executive Officer s target total direct compensation at the approximate market 50th percentile level.

Following are the 2008 financial performance incentive targets, as well as the percentage payout of the executive s total incentive target for these metrics:

Performance Level	Consolidated Operating Income (30% weight)	Consolidated Operating Ratio (30% weight)	EBITDA (20% weight)	ROCE (20% weight)	Percentage Payout of Total Incentive Target
Threshold	$ 362 million	79.2%	$ 549 million	8.7%	50%
Target	$ 422 million	78.0%	$ 649 million	10.10%	100%
Maximum	$ 492 million	76.8%	$ 776 million	11.7%	200%

2008 Named Executive Officer Salaries

The base salaries for each of our Named Executive Officers for the 2008 fiscal year are as follows:

Named Executive Officer	Amount
Michael R. Haverty	$ 759,533
Arthur L. Shoener*	$ 537,314
Patrick J. Ottensmeyer	$ 379,600
Daniel W. Avramovich*	$ 323,448
William J. Wochner	$ 278,711

*

Mr. Shoener s employment with KCS ended on June 6, 2008 and Mr. Avramovich s employment with KCS ended on March 31, 2008.

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MANAGEMENT COMPENSATION TABLES
SUMMARY COMPENSATION TABLE

The following table and narrative disclose compensation earned in 2007 by 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 2007.

Name and Principal Position	Year	Salary ($)(1)	Stock Awards ($)(6)	Option Awards ($)(7)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(8)	Total ($)
Michael R. Haverty,	2007	$ 727,794	$ 2,839,746	$ 104,220	$ 679,302	$ 50,494	$ 4,401,556
Chairman of the Board and Chief Executive Officer	2006	$ 700,008	$ 576,081	$ 104,220	$ 892,027	$ 43,016	2,315,352
Patrick J. Ottensmeyer,	2007	$ 314,526	$ 453,360	$ 107,680	$ 183,854	$ 28,648	$ 1,088,068
Executive Vice President and Chief Financial Officer(2)	2006	$ 190,000	$ 55,900	$ 62,813	$ 233,623	$ 18,191	560,527
Arthur L. Shoener,	2007	$ 519,859	$ 857,971	$ 74,040	$ 323,481	$ 47,156	$ 1,822,507
President and Chief Operating Officer(3)	2006	$ 500,004	$ 304,202	$ 74,040	$ 424,773	$ 40,987	1,344,006
Daniel W. Avramovich,	2007	$ 322,328	$ 450,341	$ 110,171	$ 183,854	$ 9,438	$ 1,076,132
Executive Vice President Sales & Marketing(2)(4)	2006	$ 196,338	$ 65,450	$ 68,857	$ 241,417	$ 45,522	617,584
William J. Wochner, Senior Vice President and Chief Legal Officer(5)	2007	$ 254,567	$ 465,788	$ 78,270	$ 128,987	$ 12,594	$ 940,206

(1) Reflects actual salary received.

(2) Mr. Ottensmeyer and Mr. Avramovich were hired on May 15, 2006.

(3) Mr. Shoener s employment with KCS ended on June 6, 2008.

(4) Mr. Avromovich s employment with KCS ended on March 31, 2008.

(5) Mr. Wochner was not a Named Executive Officer in 2006; accordingly only 2007 compensation is reflected in the above table.

(6) This column presents the dollar amount recognized for financial reporting purposes with respect to the 2007 fiscal year for the fair value of restricted shares and performance shares granted in 2007 as well as prior fiscal years, in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information, refer to Note 9 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2007, as

filed with the SEC. See the Grants of Plan-Based Awards Table for information on awards made in 2007. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the Named Executive Officers.

(7) This column presents the dollar amount recognized for financial reporting purposes with respect to the 2007 fiscal year for the fair value of stock options granted in 2007 as well as prior fiscal years, in accordance with FAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information, refer to Note 9 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2007, as filed with the SEC. See the Grants of Plan-Based Awards Table for information on awards made in 2007. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the Named Executive Officers.

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(8) All Other Compensation for the Named Executive Officers consists of:

Name		401(k) Contributions	Group Term Life Insurance Premiums	AD&D Premiums	LTD Premiums	Matching Charitable Gifts(a)	Financial Planning Reimbursement	Other(b)	Total
Haverty	2007	$ 11,250	$ 1,080	$ 168	$ 158	$ 29,983	$ 7,855	$ 0	$ 50,494
	2006	$ 11,000	$ 1,080	$ 168	$ 158	$ 30,000	$ N/A	$ 610	$ 43,016
Ottensmeyer	2007	$ 5,912	$ 1,080	$ 168	$ 158	$ 0	$ 900	$ 20,430(c)	$ 28,648
	2006	$ 0	$ 675	$ 105	$ 99	$ 0	$ N/A	$ 17,312	$ 18,191
Shoener	2007	$ 11,250	$ 1,080	$ 168	$ 158	$ 30,000	$ 4,500	$ 0	$ 47,156
	2006	$ 11,000	$ 1,080	$ 168	$ 158	$ 15,000	$ N/A	$ 13,581	$ 40,987
Avramovich	2007	$ 8,032	$ 1,080	$ 168	$ 158	$ 0	$ 0	$ 0	$ 9,438
	2006	$ 7,750	$ 675	$ 105	$ 99	$ 0	$ N/A	$ 36,893	$ 45,522
Wochner	2007	$ 11,250	$ 1,026	$ 160	$ 158	$ 0	$ 0	$ 0	$ 12,594

(a) We provide a two-for-one Company match of eligible charitable contributions made by our Named Executive Officers. The maximum amount of contributions we will match in any calendar year for any Named Executive Officer is $15,000. Of this $15,000, only half may be contributed to one organization.

(b) All employees of the Company, including the Named Executive Officers, are given the opportunity to use our stadium and arena suites to the extent the suites are not being used for business purposes. Our Named Executive Officers may use the services of their administrative assistants for limited personal matters. In addition, spouses of certain our Named Executive Officers accompanied them on private aircraft chartered to transport the Named Executive Officers for business purposes. None of these perquisites results in an aggregate incremental cost to the Company, and thus no value for either of these perquisites is included in the Summary Compensation Table.

(c) Other for Mr. Ottensmeyer consists of $430 for the cost of tickets for commercial flights paid by the Company for his spouse to accompany him on business and $20,000 paid by the Company for an initiation fee for a country club membership.

Narrative to Summary Compensation Table

We compete with other companies for executive talent and we seek to pay executives at approximately the market median for their positions in order to remain competitive for executive talent. None of the Named Executive Officers participate in any compensation programs that are not available to the other executives of the Company. We believe it is of note that Mr. Haverty has been with KCS for approximately thirteen years, and both he and Mr. Shoener have deep executive experience in our industry. We further believe that the unique roles, responsibilities, experience, accountability, leadership and achievements of Messrs. Haverty and Shoener as our Company s chief officers during 2007 were worthy of special consideration in setting their compensation.

Employment Agreements. Each of Messrs. Haverty, Ottensmeyer and Wochner is a party to an employment agreement with KCS, KCSR, or KCS and KCSR, which remains in effect until terminated or modified. Messrs. Shoener and Avramovich were each a party to an employment agreement with KCS, KCSR, or KCS and

KCSR, prior to their termination of employment and were eligible for the same types of benefits as Messrs. Haverty, Ottensmeyer and Wochner under their respective employment agreements as described below.

Pursuant to their respective employment agreements, Messrs. Haverty, Ottensmeyer and Wochner receive as compensation for their services an annual base salary at the rate approved by the Compensation Committee. The salaries for these executive officers shall not be reduced except as agreed to by the parties or as part of a general salary reduction by KCSR applicable to all officers of KCSR. Messrs. Haverty, Ottensmeyer and Wochner are eligible to participate in benefit plans or programs generally available to management employees of KCSR. Each of the employment agreements provides that the value of the respective executive s annual compensation is fixed at a percentage of base salary for purposes of determining contributions, coverage and benefits under any disability insurance policy and under any cash compensation benefit plan provided to the executive as follows: 167.67% for Mr. Haverty; 175% for Mr. Ottensmeyer, and 145% for Mr. Wochner.

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For information regarding potential payments to the currently Named Executive Officers upon termination of employment or change in control, see Potential Payments Upon Termination of Employment or Change in Control below.

Indemnification Agreements. We have entered into indemnification agreements with our officers and directors. These agreements are intended to supplement our officer and director liability insurance and to provide the officers and directors with specific contractual assurance that the protection provided by our Bylaws will continue to be available regardless of, among other things, an amendment to the Bylaws or a change in management or control of KCS. The indemnification agreements provide for indemnification to the fullest extent permitted by the Delaware General Corporation Law and for the prompt advancement of expenses, including attorneys fees and all other costs and expenses incurred in connection with any action, suit or proceeding in which the director or officer was or is a party, is threatened to be made a party or is otherwise involved, or to which the director or officer was or is a party, is threatened to be made a party or is otherwise involved by reason of service in certain capacities. Under the indemnification agreements, if required by the Delaware General Corporation Law, an advancement of expenses incurred will be made upon delivery to us of an undertaking to repay all advanced amounts if it is ultimately determined by final adjudication that the officer or director is not entitled to be indemnified for such expenses. The indemnification agreements allow directors and officers to seek court relief if indemnification or expense advances are not received within specified periods, and obligate us to reimburse them for their expenses in pursuing such relief in good faith.

GRANTS OF PLAN-BASED AWARDS

The following table provides information for each of the Named Executive Officers regarding 2007 grants of annual incentive awards, restricted shares, earned performance shares and stock options.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**(#)**	**(#)(4)**	**($/Sh)(5)**	
Michael R. Haverty	N/A	$ 328,644	$ 657,288	$ 1,314,576				
	01/17/2007				77,852(2)			$ 2,321,547
	01/17/2007				46,878(3)			$ 1,397,902
Patrick J. Ottensmeyer	N/A	$ 86,074	$ 172,148	$ 344,296				
	01/17/2007				21,548(2)			$ 642,561
	01/17/2007				13,022(3)			$ 388,316
	10/29/2007				5,000(2)			$ 194,600
Arthur L. Shoener	N/A	$ 156,499	$ 312,998	$ 625,997				
	01/17/2007				32,824(2)			$ 978,812
	01/17/2007				19,032(3)			$ 567,534
Daniel W. Avramovich	N/A	$ 88,948	$ 177,896	$ 355,793				
	01/17/2007				21,637(2)			$ 645,215
	01/17/2007				13,022(3)			$ 388,316
William J. Wochner	N/A	$ 65,109	$ 130,218	$ 260,436				
	01/17/2007				3,282(2)			$ 97,869
	01/17/2007				2,003(3)			$ 59,729
	02/23/2007				22,500(2)	22,500	$ 34.11	$ 1,047,600(6)
	08/07/2007				7,778(2)			$ 261,652
	08/07/2007				4,591(3)			$ 154,441

(1) The amounts reflect