

KANSAS CITY SOUTHERN
Form 11-K
June 27, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 11-K

þ **ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number 333-91478-99

For the period ended January 1, 2008 and fiscal year ended December 31, 2007 and 2006

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Kansas City Southern Railway Company Union 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Kansas City Southern

427 West 12th Street

Kansas City, Missouri 64105-1804

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN
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Report of Independent Registered Public Accounting Firm

To the Plan Administrator of
The Kansas City Southern Railway Company Union 401(k) Plan
Kansas City, Missouri

We have audited the accompanying statements of net assets available for benefits of The Kansas City Southern Railway Company Union 401(k) Plan as of January 1, 2008 and December 31, 2007 and the related statements of changes in net assets available for benefits for the period ended January 1, 2008 and the year ended December 31, 2007. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of The Kansas City Southern Railway Company Union 401(k) Plan as of January 1, 2008 and December 31, 2007 and the changes in net assets available for benefits for the period ended January 1, 2008 and the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the financial statements, Kansas City Southern, the Plan sponsor, merged the Plan into the Kansas City Southern 401(k) and Profit Sharing Plan on January 1, 2008.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of assets (held at end of year) and schedule of delinquent participant contributions as of and for the year ended December 31, 2007, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the United States Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ McGladrey & Pullen, LLP

Kansas City, Missouri
June 27, 2008

Report of Independent Registered Public Accounting Firm

To the Participants and Plan Administrator of
The Kansas City Southern Railway Company Union 401(k) Plan:

We have audited the accompanying statement of net assets available for benefits of the Kansas City Southern Railway Company Union 401(k) Plan (the Plan) as of December 31, 2006, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006, and the changes in net assets available for benefits for the year then ended in conformity with U.S. generally accepted accounting principles.

The Plan adopted Financial Accounting Standards Board Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, as of December 31, 2006.

/s/ KPMG LLP

Kansas City, Missouri

June 29, 2007

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Statements of Net Assets Available for Benefits
January 1, 2008 and December 31, 2007 and 2006

| | January 1, 2008 | December 31, 2007 | 2006 |
|--|----------------------------|------------------------------|-------------|
| Assets: | | | |
| Cash and temporary investments | \$ 8,455 | 8,455 | 3,875 |
| Investments, at fair value: | | | |
| Common stock of Kansas City Southern | 25,679 | 25,679 | 40,050 |
| Common collective trust | 102,428 | 102,428 | 79,536 |
| Mutual funds | 941,297 | 941,297 | 757,288 |
| Total investments | 1,069,404 | 1,069,404 | 876,874 |
| Investment trades receivable | 3,515 | 3,515 | |
| Total assets | 1,081,374 | 1,081,374 | 880,749 |
| Liabilities: | | | |
| Investment trades payable | 8,181 | 8,181 | 3,368 |
| Transfer to Kansas City Southern 401(k) and Profit Sharing Plan | 1,073,912 | | |
| Total liabilities | 1,082,093 | 8,181 | 3,368 |
| Net assets available for benefits at fair value | (719) | 1,073,193 | 877,381 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 719 | 719 | 1,735 |
| Net assets available for benefits at contract value | \$ | 1,073,912 | 879,116 |

See accompanying notes to financial statements.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Statements of Changes in Net Assets Available for Benefits
Period ended January 1, 2008 and Years ended December 31, 2007 and 2006

| | For the Period Ended January 1, 2008 | For the Years Ended December 31, | |
|--|---|---|-------------|
| | | 2007 | 2006 |
| Additions: | | | |
| Investment income: | | | |
| Interest and dividends | \$ | 70,785 | 38,166 |
| Net appreciation (depreciation) in fair value of investments | | (225) | 63,471 |
| Total investment income | | 70,560 | 101,637 |
| Participant contributions | | 134,176 | 94,676 |
| Total additions | | 204,736 | 196,313 |
| Deductions: | | | |
| Benefits paid | | (9,940) | (56,834) |
| Increase in net assets available for benefits before transfer of assets to other qualified plan | | 194,796 | 139,479 |
| Transfer to Kansas City Southern 401(k) and Profit Sharing Plan | (1,073,912) | | |
| Net increase (decrease) | (1,073,912) | 194,796 | 139,479 |
| Net assets available for benefits: | | | |
| Beginning of period | 1,073,912 | 879,116 | 739,637 |
| End of period | \$ | 1,073,912 | 879,116 |

See accompanying notes to financial statements.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Notes to Financial Statements

January 1, 2008 and December 31, 2007 and 2006

(1) Description of the Plan

The following description of the Kansas City Southern Railway Company Union 401(k) Plan (the Plan) is provided for general information purposes only. More complete information regarding the Plan s provisions may be found in the plan document.

These financial statements include the period ended January 1, 2008 and the years ended December 31, 2007 and 2006. The Plan elected to defer the filing of its financial statements with its Form 5500 for the year ended December 31, 2007, as permitted by 29 CFR 2520.104-50, since the following Plan year ended January 1, 2008 is a short year of seven months or less. Accordingly, the Plan has included statements of net assets as of January 1, 2008 and December 31, 2007 and 2006, along with statements of changes in net assets for the period ended January 1, 2008, and years ended December 31, 2007 and 2006, as required by DOL regulations when such election is made.

(a) General

The Plan is a participant-directed, defined contribution plan adopted on January 1, 1997. The Plan covers certain full-time employees of The Kansas City Southern Railway Company (the Company) who are members of one of the following collective bargaining units: American Train Dispatchers Association, Brotherhood of Railway Carmen Division of Transportation Communications International Union, Brotherhood of Railroad Signalmen, The American Railway and Airway Supervisors Association Division of Transportation Communications International Union, Transportation Communications International Union Clerks, and The National Conference of Firemen & Oilers. Plan entry dates are the first day of each calendar quarter. A plan participant that ends his or her membership in any of the above collective bargaining units is no longer eligible to make elective deferrals under the Plan but will continue to be vested under the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

(b) Plan Administration

The Plan is administered by the Compensation and Organization Committee which is appointed by the board of directors of the Company. On June 14, 2007, the Plan s trustee changed from Nationwide Trust Company to Charles Schwab Trust Company (the Trustee). The Trustee is responsible for the custody and management of the Plan s Assets.

(c) Contributions

Each year, participants may contribute a portion of their annual eligible compensation, as defined in the plan document, not to exceed a specified dollar amount as determined by the Internal Revenue Code (IRC). The Company does not match participant contributions. Upon enrollment in the Plan, a participant may direct their contributions into any of the various funds offered by the Plan which includes Kansas City Southern (NYSE:KSU) common stock as an investment option.

(d) Vesting

Participants are immediately vested in their contributions plus actual Plan earnings thereon.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Notes to Financial Statements

January 1, 2008 and December 31, 2007 and 2006

(e) *Payment of Benefits*

Distributions generally will be made in the event of retirement, death, disability, resignation, or dismissal. A participant's normal retirement age is 65. The Plan also provides for distribution at age 59½. Distributions after termination of employment will be made in a lump-sum payment. Balances not exceeding \$1,000 will be paid out within one calendar year of termination of employment. Balances exceeding \$1,000 will be paid upon the distribution date elected by the participant, but no later than March 1 following the calendar year in which the participant attains the age of 70½. On retirement, death, disability, or termination of service, a participant (or participant's beneficiary in the event of death) may elect to receive a lump-sum distribution equal to the participant's vested account balance. In addition, hardship distributions are permitted if certain criteria are met.

(f) *Participant Accounts*

Each participant's account is credited with the participant's contribution and an allocation of Plan earnings, net of investment expenses. Allocations are based on participant earnings or account balances, as set forth in the plan agreement. The benefit to which a participant is entitled is that which can be provided from the participant's vested account.

(g) *Administrative Expenses*

Investment expenses are paid by the Plan as long as plan assets are sufficient to provide for such expenses. Administrative expenses are principally paid by the Company.

(2) *Summary of Significant Accounting Policies*

(a) *Basis of Accounting and Use of Estimates*

The accompanying financial statements are prepared on the accrual basis of accounting. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from these estimates.

(b) *Income Recognition*

Interest income is recorded as earned on the accrual basis. Dividend income is recorded on the ex-dividend date.

(c) *Investment Valuation*

Investments in mutual funds and common stocks are stated at fair value as determined by quoted market prices.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Notes to Financial Statements

January 1, 2008 and December 31, 2007 and 2006

Investments in the common collective trust (Invesco Stable Value Trust or the Trust) are valued at the net asset value as determined using the estimated fair value of the investments in the respective trust at year end. The estimated fair value of the investment in the Trust is then adjusted to contract value in the adjustment from fair value to contract value for fully benefit-responsive investment contracts. The contract value is determined by the Invesco National Trust Company.

The Trust holds guaranteed investment contracts (GICs) and synthetic guaranteed investment contracts (synthetic GICs). GICs represent deposits which guarantee a stated interest rate for the term of the contracts. The fair value of GICs is determined based on the present value of the contract s expected cash flows, discounted by current market interest rates for like-duration and like-quality investments. Synthetic GICs are portfolios of securities (debt securities or units of collective trusts) owned by the Trust with wrap contracts associated with portfolios. The fair value of wrap contracts is based on the change in the present value of the contract s expected cash flows, discounted at current market rates. Investment contracts may have elements of risk due to lack of a secondary market and resale restrictions which may result in the inability of the Trust to sell a contract at a fair price and may substantially delay the sale of contracts which the Trust seeks to sell. In addition, investment contracts may be subject to credit risk based on the ability of the insurance company or bank to meet interest or principal payments, or both, as they become due.

Purchases and sales of securities are recorded on a trade-date basis.

Unsettled security transactions at year end are reflected in the financial statements as investment trades payable or receivable.

(d) Net Appreciation (Depreciation) in Fair Value of Investments

Net realized and unrealized appreciation (depreciation) is recorded in the accompanying statement of changes in net assets available for benefits as net appreciation (depreciation) in fair value of investments.

Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

(e) Payment of Benefits

Benefit payments are recorded when paid.

(f) New Accounting Pronouncement

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and enhances disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB agreed to partially defer the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The Plan does not anticipate that the adoption of SFAS 157 will have a material impact

on the Plan's financial statements.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Notes to Financial Statements

January 1, 2008 and December 31, 2007 and 2006

(3) Investments

The following presents investments that represent 5% or more of the Plan's net assets:

| | January 1, 2008 | December 31, | |
|---|----------------------------|---------------------|-------------|
| | | 2007 | 2006 |
| Invesco Stable Value Trust, 103,147, 103,147, and 81,271 units, respectively | \$ 102,428 | 102,428 | 79,536 |
| EuroPacific Growth, 1,214, 1,214, and 906 units, respectively | 61,747 | 61,747 | 42,161 |
| Franklin Balance Sheet Investment Fund Class A, 1,422, 1,422, and 1,171 units, respectively | 82,439 | 82,439 | 78,092 |
| Growth Fund of America, 2,449, 2,449, and 1,966 units, respectively | 83,277 | 83,277 | 64,638 |
| ING International Value Fund, 3,590, 3,590, and 2,261 units, respectively | 66,737 | 66,737 | 46,537 |
| Janus Fund, 5,062, 5,062, and 4,876 units, respectively | 163,302 | 163,302 | 137,202 |
| MFS Value Fund, 2,391, 2,391, and 2,056 units, respectively | 63,423 | 63,423 | 55,052 |
| PIMCO Total Return Administrative Shares, 11,366, 11,366, and 9,766 units, respectively | 121,505 | 121,505 | 101,375 |
| Washington Mutual Investors, 2,599, 2,599, and 1,958 units, respectively | 87,413 | 87,413 | 68,256 |

During 2008, there was no change to the value of the Plan's investments. During 2007 and 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$225 and appreciated \$63,471, respectively, as follows:

| | 2008 | 2007 | 2006 |
|--|-------------|-------------|-------------|
| Kansas City Southern common stock | \$ | 11,691 | 5,790 |
| Mutual funds | | (11,916) | 57,681 |
| Total net investment appreciation (depreciation) | \$ | (225) | 63,471 |

(4) Portfolio Risk

The Plan provides for investments in various securities that, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Notes to Financial Statements

January 1, 2008 and December 31, 2007 and 2006

(5) Tax Status

The Plan received a favorable determination letter from the Internal Revenue Service, dated August 9, 2002, indicating that it is qualified under Section 401(a) of the Internal Revenue Code (the Code), and therefore, the related trust is exempt from tax under Section 501(a) of the Code. The determination letter is applicable for amendments executed through April 1, 2002. The tax determination letter has not been updated for the latest plan amendments occurring after April 1, 2002. However, the plan administrator believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC. Therefore, the plan administrator believes that the Plan was qualified and the related trust was tax-exempt for the period ended January 1, 2008 and years ended December 31, 2007 and 2006. The Company is not aware of any activity or transactions that may adversely affect the qualified status of the Plan.

(6) Related Party Transaction

Certain Plan investments held in the Trust are shares of KCS common stock, which is considered a party-in-interest. At January 1, 2008 and December 31, 2007 and 2006, the fair value of shares held is \$25,679, \$25,679, and \$40,050, respectively.

(7) Plan Termination

Although it has expressed no intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. Upon termination of the Plan, the participants shall receive amounts equal to their respective account balances.

(8) Reconciliation of the Financial Statements to the Form 5500

The following is a reconciliation of the net assets available for benefits per the financial statements to the Form 5500:

| | 2008 | 2007 | 2006 |
|--|-------------|-------------|-------------|
| Net assets available for benefits per the financial statements | \$ | 1,073,912 | 879,116 |
| Less: Adjustment from contract value to fair value for fully benefit-responsive investment contracts | | (719) | (1,735) |
| Net assets available for benefits per the Form 5500 | \$ | 1,073,193 | 877,381 |

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Notes to Financial Statements

January 1, 2008 and December 31, 2007 and 2006

The following is a reconciliation of the investments per the financial statements to the Form 5500:

| | 2008 | 2007 | 2006 |
|--|--------------|-------------|-------------|
| Investments per the financial statements | \$ 1,069,404 | 1,069,404 | 876,874 |
| Less: Pending transfer of investments to Kansas City Southern 401(k) and Profit Sharing Plan | (1,069,404) | | |
| Investments per the Form 5500 | \$ | 1,069,404 | 876,874 |

Transfer of legal control of the Plan's net assets occurred on January 1, 2008. Transfer of legal title of the underlying investments of the Plan occurred and was completed at various dates during the month of January 2008.

The following is a reconciliation of the total investment income per the financial statements to the Form 5500:

| | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Total investment income per the financial statements | \$ | 70,560 | 101,637 |
| Add: Adjustment from contract value to fair value for fully benefit-responsive investment contracts | | 1,016 | (1,735) |
| Total investment income per the Form 5500 | \$ | 71,576 | 99,902 |

(9) Prohibited Transaction

During the period ending January 1, 2008 and plan year ending December 31, 2007, the Company did not have any prohibited transactions. During the plan year ending December 31, 2006, the Company failed to remit to the Trustee certain employee contributions totaling approximately \$60 within the period of time prescribed by ERISA Section 2510.3-102. Delays in remitting contributions to the Plan's trustee were due to administrative errors, and the Company made contributions to the affected participant's account to compensate in aggregate the approximate lost income due to the delays.

(10) Plan Merger

On December 31, 2007, the Plan Sponsor approved the merger of the Plan into the Kansas City Southern 401(k) and Profit Sharing Plan (the KCS 401(k) Plan). Effective January 1, 2008, legal control of the Plan's net assets of \$1,073,912 were transferred to the KCS 401(k) Plan.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Schedule H, line 4(i) Schedule of Assets (Held at End of Year)
December 31, 2007

| Identity | Description | Fair value |
|---|---|-------------------|
| Common stock: | | |
| *Kansas City Southern common stock | 748 shares, with a fair value of \$34.33 per share | \$ 25,679 |
| Common collective trust: | | |
| Invesco Stable Value Trust | 103,146.99 shares, with a fair value of \$0.99 (rounded) per share | 102,428 |
| Mutual funds: | | |
| AIM Small Cap Growth Fund | 1,604.791 shares, with a fair value of \$29.00 per share | 46,539 |
| American Balanced | 920.270 shares, with a fair value of \$19.31 per share | 17,770 |
| American Century Real Estate/Advisor | 2,362.519 shares, with a fair value of \$21.19 per share | 50,062 |
| CRM Mid Cap Value Fund/Investment | 1,578.882 shares, with a fair value of \$29.15 per share | 46,024 |
| DWS Equity 500 Index | 256.382 shares, with a fair value of \$164.59 per share | 42,198 |
| EuroPacific Growth | 1,213.825 shares with a fair value of \$50.87 per share | 61,747 |
| Franklin Balance Sheet Investment Fund Class A | 1,422.351 shares, with a fair value of \$57.96 per share | 82,439 |
| Growth Fund of America | 2,448.610 shares, with a fair value of \$34.01 per share | 83,277 |
| ING International Value Fund | 3,589.936 shares, with a fair value of \$18.59 per share | 66,737 |
| Janus Fund | 5,062.047 shares, with a fair value of \$32.26 per share | 163,302 |
| Janus Twenty Fund | 119.575 shares, with a fair value of \$74.10 per share | 8,861 |
| MFS Value Fund | 2,390.609 shares, with a fair value of \$26.53 per share | 63,423 |
| PIMCO Total Return Administrative Shares | 11,366.229 shares, with a fair value of \$10.69 per share | 121,505 |
| Washington Mutual Investors | 2,599.252 shares, with a fair value of \$33.63 per share | 87,413 |
| Total investments | | \$1,069,404 |

* Party-in-interest.

See accompanying report of independent registered public accounting firm.

**THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN**

Schedule H, line 4(a) Schedule of Delinquent Participant Contributions
December 31, 2007

| Identity of party involved | Relationship to plan | Description of transaction | Amount Involved | Lost Income |
|---|-----------------------------|--|------------------------|--------------------|
| Kansas City Southern Railway Company | Plan Sponsor | Nontimely remittance of contributions to the plan for 2006 | \$60 | \$9 |
| See accompanying report of independent registered public accounting firm. | | | | |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Kansas City Southern Railway Company
Union 401(k) Plan

June 27, 2008

/s/ John E. Derry
John E. Derry
Vice President Human Resources

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