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KANSAS CITY SOUTHERN
Form 11-K
June 30, 2003

Securities and Exchange Commission
Washington, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2002 and 2001

Commission File Number: 333-91478

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

The 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

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EXHIBIT:

Exhibit 23 - Consent of KPMG LLP

The Kansas City Southern Railway
Company Union 401(k) Plan

Financial Statements and Supplemental Schedule

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December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)

The Kansas City Southern Railway Company Union 401(k) Plan

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* Other schedules required by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

Independent Auditors' Report

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

We have audited the accompanying statements of net assets available for benefits of the Kansas City Southern Railway Company Union 401(k) Plan (the Plan) as of December 31, 2002 and 2001, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial

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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 auditing standards generally accepted in the United States of America. 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 Plan as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes at year-end is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Kansas City, Missouri
May 30, 2003

THE KANSAS CITY SOUTHERN RAILWAY
COMPANY UNION 401(k) PLAN
Statements of Net Assets Available for Benefits
December 31, 2002 and 2001

| | 2002 | 2001 |
|--------------------------------------|----------|---------|
| | ----- | ----- |
| Assets: | | |
| Cash and temporary investments | \$ 2,611 | |
| Investments, at fair value: | | |
| Common stock of Kansas City Southern | 9,756 | --- |
| Money markets | 39,798 | 19,771 |
| Mutual funds | 351,625 | 416,933 |
| Total investments | 401,179 | 436,704 |
| Participant contributions receivable | --- | 2,650 |

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| | | |
|-----------------------------------|------------|---------|
| Net assets available for benefits | \$ 403,790 | 439,354 |
|-----------------------------------|------------|---------|

See accompanying notes to financial statements.

THE KANSAS CITY SOUTHERN RAILWAY
 COMPANY UNION 401(k) PLAN
 Statement of Changes in Net Assets Available for Benefits
 Year ended December 31, 2002

| | | |
|---|------------|----------|
| Investment income (loss): | | |
| Interest and dividends | \$ 8,568 | |
| Net depreciation in fair value of investments | (94,136) | |
| | | ----- |
| Total investment loss | | (85,568) |
| Participant contributions | | 62,520 |
| Benefits paid | | (12,516) |
| Decrease in net assets available for benefits | | (35,564) |
| Net assets available for benefits: | | |
| Beginning of year | | 439,354 |
| | | ----- |
| End of year | \$ 403,790 | ===== |

See accompanying notes to financial statements.

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

Notes to Financial Statements

December 31, 2002 and 2001

(1) Description of the Plan

(a) General

The Kansas City Southern Railway Company Union 401(k) Plan (the Plan) is a participant-directed, contributory, defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The following description of the Plan provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(b) Eligibility

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The Plan covers all full-time employees of The Kansas City Southern Railway Company (the Company) who are members of one of the following collective bargaining units: Brotherhood of Railway Carmen, Division of Transportation Communications International Union, Brotherhood of Railroad Signalmen, Transportation Communications International Union, and The National Conference of Firemen & Oilers. Plan entry dates are January 1, April 1, July 1 and October 1 of each year.

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.

(c) Contributions

Participants may contribute a portion of their annual eligible compensation, as defined in the Plan, not to exceed an individual annual maximum contribution of \$11,000 in 2002. The Company does not match participant contributions.

(d) 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 account.

(e) Vesting

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

(f) Investment Options

Upon enrollment in the Plan, a participant may direct their contributions into any of the various funds offered by the Plan.

Effective July 1, 2002, the Plan added Kansas City Southern (NYSE:KCS) common stock as an investment option.

Participants should refer to the respective prospectuses for a description of the investment objective of each fund.

(g) 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 59 1/2.

Distribution after termination of employment will be made in a lump-sum payment. Balances not exceeding \$5,000 will be paid no later than the 60th day following the close of the plan year in which the participant attains normal retirement age. Balances exceeding \$5,000 will be paid upon the distribution date elected by the participant, but no later than the 60th day following the close of the plan year in which the following occurs: (a) the participant attains normal

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retirement age or (b) the participant's separation from service.

(h) Plan Termination

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

(i) Plan 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 Presentation

The Plan's financial statements are presented on the accrual basis of accounting and present the net assets available for benefits and changes in those net assets. Benefit payments to participants are recorded when paid.

(b) Investments

The fair value of marketable securities is based upon quotations from national securities exchanges; where marketable securities are not listed on an exchange, quotations are obtained from brokerage firms. Securities transactions are accounted for on the trade date (the date the order to buy or sell is executed).

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes in net assets available for benefits. Actual results could differ from those estimates.

(d) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

(3) Investments

Investments, which exceeded 5% of the net assets available for benefits at December 31, 2002 and 2001, were as follows:

| | 2002 | 2001 |
|---------------------------------------|--------|---------|
| | ----- | ----- |
| Dodge & Cox Balanced Fund | \$ - | 44,166 |
| Invesco Stable Value Money Market | 39,796 | 19,771 |
| Janus Fund | 90,427 | 185,747 |
| Barclays Global Inv Equity Index Fund | 26,826 | - |
| Janus Strategic Value Fund | - | 52,338 |

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| | | |
|---|------------|---------|
| MFS Value Fund | 27,123 | - |
| Franklin Balance Sheet Investment A | 29,244 | |
| PIMCO Renaissance Fund | 29,791 | - |
| PIMCO Total Return Administrative Shares Fund | 56,806 | - |
| Washington Mutual Investors Fund | 31,398 | - |
| Vanguard Index Trust 500 Portfolio | - | 112,255 |
| Fidelity Advisor Intermediate Bond Fund | - | 22,427 |
| Other | 69,768 | - |
| | ----- | ----- |
| Total Investments | \$ 401,179 | 436,704 |
| | ===== | ===== |

During 2002, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$94,136 as follows:

| | |
|-----------------------------------|-------------|
| Kansas City Southern common stock | \$ (1,502) |
| Mutual funds | (92,634) |
| | ----- |
| | \$ (94,136) |
| | ===== |

(4) Plan Amendment

Effective April 1, 2002, the Plan was amended and restated and a new trustee, administrator and custodian of the Plan were appointed. Plan assets transferred to the new trustee were transferred into funds comparable to those offered by the previous custodian or as determined by a formal request from each participant. The conversion initiated a "black out" period beginning March 15, 2002, and continued through April 22, 2002. During this period, funds could not be withdrawn from the Plan and investment elections could not be changed until the trustee had time to accurately complete the conversion. During this period, employee contributions continued to be made through payroll deductions and the contributions were deposited.

(5) 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 statement of net assets available for benefits.

(6) Income Tax Status

The Plan has 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 and, therefore, the related trust is exempt from tax under Section 501(a) of the Internal Revenue Code. The determination letter is applicable for amendments executed through December 20, 2001.

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The Company is not aware of any activity or transactions that may adversely affect the qualified status of the Plan.

Schedule 1

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

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)
December 31, 2002

| Identity | Description |
|--|--|
| ----- | |
| Common Stock | |
| *Kansas City Southern common stock | 813 shares, with a fair value of \$12.00 per share |
| Money Markets | |
| Barclays Money Market | 2 shares, with a fair value of \$1.00 per share |
| Invesco Stable Value | 39,795.77 shares, with a fair value of \$1.00 per share |
| Mutual Funds | |
| AIM Small Cap Growth Fund | 740.441 shares, with a fair value of \$18.48 per share |
| Barclays Global Inv Equity Index Fund I | 1,059.46 shares, with a fair value of \$25.32 per share |
| EuroPacific Growth | 428.533 shares, with a fair value of \$22.97 per share |
| Franklin Balance Sheet Investment A | 788.452 shares, with a fair value of \$37.09 per share |
| Growth Fund of America | 780.379 shares, with a fair value of \$18.47 per share |
| ING International Value Fund | 532.582 shares, with a fair value of \$10.29 per share |
| Janus Fund | 5,074.441 shares, with a fair value of \$17.82 per share |
| Janus Twenty Fund | 64.30 shares, with a fair value of \$29.01 per share |
| MFS Value Fund | 1,641.852 shares, with a fair value of \$16.52 per share |
| Oppenheimer Quest Balanced Value | 1,165.887 shares, with a fair value of 12.63 per share |
| PIMCO Renaissance | 2,034.935 shares, with a fair value of \$14.64 per share |
| PIMCO Total Return Administrative Shares | 5,323.858 shares, with a fair value of \$10.67 per share |
| Washington Mutual Investors Fund | 1,335.50 shares, with a fair value of \$23.51 per share |
| Total investments | |

*Party-in-interest.

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See accompanying independent auditors' report.

SIGNATURE

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.

THE KANSAS CITY SOUTHERN RAILWAY COMPANY
UNION 401(K) PLAN

By /s/ Eric B. Freestone

Eric B. Freestone
Title: Vice President Human Resources

Dated June 30, 2003