KANSAS CITY SOUTHERN
Form DEF 14A
March 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14

(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 ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

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

þ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ 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.

¨ 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:

(5) Total fee paid:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a current valid OMB control number.

SEC 1913 (04-05)

¨ Fee paid previously with preliminary materials.

¨ 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

Annual Meeting of Stockholders

to be held

May 3, 2012

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 this Notice and Proxy Statement,

the enclosed proxy card and the accompanying 2011 Annual Report

on or about March 30, 2012.

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KANSAS CITY SOUTHERN

427 West 12th Street

Kansas City, Missouri 64105

March 30, 2012

To Our Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Kansas City Southern, at Union Station Kansas City, Arthur Stilwell Room, 30 West Pershing Road, Kansas City, Missouri, at 10:00 a.m. Central Time, on Thursday, May 3, 2012. The purposes of this meeting are described in the accompanying Notice of Annual Meeting and Proxy Statement.

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

Sincerely,

Michael R. Haverty
Executive Chairman
of the Board of Directors

David L. Starling
President
and Chief Executive Officer

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KANSAS CITY SOUTHERN

427 West 12th Street

Kansas City, Missouri 64105

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders of Kansas City Southern will be held at Union Station Kansas City, Arthur Stilwell Room, 30 West Pershing Road, Kansas City, Missouri, at 10:00 a.m. Central Time, on Thursday, May 3, 2012.

Stockholders will consider and vote on the following matters:

1. Election of three directors;

2. Ratification of the Audit Committee s selection of KPMG LLP as our independent registered public accounting firm for 2012;

3. Approval of an Amended and Restated Certificate of Incorporation of Kansas City Southern, presented as three separate proposals as set forth below, all of which must be approved in order for the Amended and Restated Certificate of Incorporation to be approved:

a. To eliminate supermajority voting requirements;

b. To eliminate cumulative voting;

c. To effect conforming and technical changes;

4. An advisory vote to approve named executive officer compensation;

5. A stockholder proposal, if presented at the Annual Meeting;

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

Only stockholders of record at the close of business on March 5, 2012, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors,

Brian P. Banks
Associate General Counsel &
Corporate Secretary

The date of this Notice is March 30, 2012.

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 Annual Meeting.

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KANSAS CITY SOUTHERN

427 West 12th Street

Kansas City, Missouri 64105

PROXY STATEMENT

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INFORMATION ABOUT THE ANNUAL MEETING

Why were you sent this Proxy Statement?

On or about March 30, 2012, we began mailing this Proxy Statement to our stockholders of record on March 5, 2012 (the Record Date) in connection with our Board of Directors solicitation of proxies for use at the 2012 Annual Meeting of Stockholders and any adjournment thereof (the Annual Meeting). We will hold the Annual Meeting at Union Station Kansas City, Arthur Stilwell Room, 30 West Pershing Road, Kansas City, Missouri on Thursday, May 3, 2012 at 10:00 a.m. Central Time. The Notice of Annual Meeting of Stockholders, our 2011 Annual Report to Stockholders (the Annual Report), and a proxy card and voting instructions accompany this Proxy Statement. Unless otherwise indicated or the context requires, references in this Proxy Statement to KCS or the Company include Kansas City Southern and its consolidated subsidiaries.

We will pay for the Annual Meeting, including the cost of mailing the proxy materials and any supplemental materials. Directors, officers and employees of KCS may, either in person, by telephone or otherwise, 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., LLC, 470 West Avenue, Stamford, Connecticut 06902, 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 $25,000 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, the Annual Report and other soliciting materials to the beneficial owners.

Brokers, dealers, banks, voting trustees, other custodians and their nominees are asked to forward this Notice and Proxy Statement, the proxy card and the Annual Report to the beneficial owners of 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 Annual Meeting?

Only KCS stockholders or their proxies and guests of KCS may attend the Annual Meeting. Any stockholder or stockholder s representative who, because of a disability, may need special assistance or accommodation to allow him or her to participate in the Annual Meeting may request reasonable assistance or accommodation from us by contacting the office of the Corporate Secretary at our principal executive offices, (888) 800-3690. 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 April 24, 2012.

What matters will be considered at the Annual Meeting?

At the Annual Meeting, stockholders will consider and vote upon: (1) the election of three directors; (2) the ratification of the Audit Committee s selection of KPMG LLP as our independent registered public accounting firm for 2012; (3) approval of an Amended and Restated Certificate of Incorporation, which is divided into three separate proposals, all three of which must be approved in order to approve the Amended and Restated Certificate of Incorporation; (4) an advisory vote to approve named executive officer compensation; (5) a stockholder proposal, if presented at the Annual Meeting; and (6) such other matters as may properly come before the Annual Meeting or any adjournment thereof. Stockholders do not have dissenters rights of appraisal in connection with these proposals. All of the matters, other than the stockholder proposal, are proposed by the Board of Directors and the Board of Directors unanimously recommends you vote for the director nominees presented, for the proposal regarding the ratification of our independent registered public accounting firm for 2012, for each of the three proposals related to approval of our Amended and Restated Certificate of Incorporation and for the approval, on a non-binding basis, of the 2011 compensation of the Company s

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Named Executive Officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables contained in this Proxy Statement. One stockholder proposal may be presented at the Annual Meeting and the Board of Directors recommends you vote against this proposal. The Board of Directors knows of no other matters that will be presented or voted on at the Annual Meeting.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held

on May 3, 2012.

The Proxy Statement and Annual Report are available at www.edocumentview.com/ksu.

For the date, time, location, information about attending the Annual Meeting, an identification of the matters to be voted upon at the Annual Meeting, and the recommendations of the Board of Directors regarding those matters, please see Information About the Annual Meeting. For information on how to vote in person or by proxy at the Annual Meeting, please see Voting. Stockholders that wish to attend the meeting and vote in person may obtain directions to the Annual Meeting by sending a written request directed to our Corporate Secretary, P.O. Box 219335, Kansas City, Missouri 64121-9335 (or if by express delivery to 427 West 12th Street, Kansas City, Missouri 64105), or by calling (888) 800-3690.

VOTING

Who may vote at the Annual 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 Annual Meeting. On the Record Date, we had outstanding 242,170 shares of 4% Preferred Stock (excluding 407,566 shares held in treasury) and 109,967,335 shares of Common Stock (excluding 13,384,850 shares held in treasury) for a total of 110,209,505 shares eligible to vote at the Annual 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 all matters to be considered at the Annual Meeting. Each holder of Voting Stock is entitled to cast one vote for each share of Voting Stock held on the Record Date on each matter other than the election of directors. You may vote cumulatively for the election of directors. For this purpose, each stockholder has votes equal to the number of shares of Voting Stock held on the Record Date multiplied by the number of directors to be elected. You may cast all of your votes for a single nominee or distribute your votes among the nominees in any manner you elect. This Proxy Statement solicits discretionary authority to vote cumulatively for the election of directors. The accompanying form of proxy also grants that authority.

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 or by scanning the QR code on the proxy card with your smartphone and follow the instructions on the screen, prior to 1:00 a.m., Central Time, on May 3, 2012 (May 1, 2012 for participants in certain employee benefit plans discussed below).

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By Telephone: Using a touch-tone telephone, call toll-free at 1-800-652-VOTE (8683) and follow the voice instructions, prior to 1:00 a.m., Central Time, on May 3, 2012 (May 1, 2012 for participants in certain employee benefit plans discussed below).

By Mail: Mark, sign, date and return the enclosed proxy or instruction card so it is received before the Annual 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 Annual Meeting. The shares of a stockholder who is present and entitled to vote at the Annual 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 directors are elected by the affirmative vote of a plurality of shares of Voting Stock present at the Annual Meeting and entitled to vote, provided a quorum exists. A plurality means receiving the largest number of votes. Where, as here, there are three director vacancies, the three nominees with the highest number of affirmative votes are elected. On any proposal other than the election of directors, the percentage of shares required to pass a proposal depends on the proposal. For Proposal 2, ratification of the Audit Committee s selection of KPMG LLP as our independent registered public accounting firm for 2012, Proposal 4, an advisory vote to approve named executive officer compensation and Proposal 5, the stockholder proposal, the affirmative vote of a majority of the shares of Voting Stock present at the Annual Meeting in person or by proxy and entitled to vote on the subject matter, provided a quorum is present, is required for the adoption of the proposals. For Proposals 3A, 3B and 3C, approval of each of which is necessary for approval of our Amended and Restated Certificate of Incorporation, the vote of 70% of the outstanding shares of Voting Stock entitled to vote is necessary for adoption of Proposal 3A and 3B and the vote of a majority of the outstanding shares of Voting Stock is necessary for adoption of Proposal 3C. Proposals 3A, 3B and 3C are presented together as they all constitute elements of our proposed Amended and Restated Certificate of Incorporation. In order for any of the three proposals to be approved, all three must be approved. If any one of the Proposals 3A, 3B or 3C fails to receive the required vote, the proposed Amended and Restated Certificate of Incorporation will not be approved and none of the changes reflected in the proposed Amended and Restated Certificate of Incorporation will become effective.

Voting ceases when the chairman of the Annual Meeting closes the polls. The votes are counted and certified by three inspectors appointed by the Board of Directors in advance of the Annual Meeting. In determining whether a majority of shares has been affirmatively voted for a particular proposal, the affirmative votes for the proposal are measured against the votes for and against the proposal plus the abstentions from voting on the proposal. In determining whether Proposals 3A, 3B, and 3C have been approved, the total outstanding shares of Voting Stock entitled to vote are counted in determining whether the requisite 70% or majority has voted for the proposal. You may abstain from voting on any proposal other than the election of directors. Abstentions from voting are not considered as votes affirmatively cast. Abstaining will, therefore, have the effect of a vote against a proposal. With regard to the election of directors, votes may be cast in favor or withheld. Votes that are withheld will be excluded entirely from the vote and will have no effect.

What if 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 Annual Meeting, informs brokers of those proposals on which they are entitled to vote the undirected shares.

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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). Broker non-votes generally do not affect the determination of whether a quorum is present at the Annual Meeting because, in most cases, some of the shares held in the broker s name have been voted, and, therefore, all of those shares are considered present at the Annual Meeting.

Under applicable law, except for Proposals 3A, 3B, and 3C, a broker non-vote will not be considered present and entitled to vote on non-discretionary items and will have no effect on the vote. Because Proposals 3A and 3B require the vote of 70% of the outstanding Voting Stock entitled to vote and Proposal 3C requires the vote of a majority of the outstanding Voting Stock entitled to vote, a broker non-vote will have the effect of a vote against the proposals.

On what proposals can my broker vote my shares?

A broker may vote without direction only on Proposal 2, ratification of auditors. Brokers may not use discretionary authority to vote shares on any other proposal, including the election of directors, if they have not received instructions from their clients. **Please vote your proxy so your vote can be counted.**

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 Annual 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 (i) FOR the election of the persons nominated by the Board for Directors, (ii) FOR ratification of the Audit Committee s selection of KPMG LLP as our independent registered public accounting firm for 2012, (iii) FOR approval of Proposals 3A, 3B, and 3C to approve the Amended and Restated Certificate of Incorporation, (iv) FOR the approval, on an advisory basis, of the compensation of our Named Executive Officers, (v) AGAINST the stockholder proposal, and (vi) in accordance with their discretion, upon such other matters as may properly come before the Annual Meeting. The Proxy Committee reserves the right to vote such proxies cumulatively for the election of less than all of the nominees for director, but does not intend to do so unless other persons are nominated and such a vote appears necessary to ensure the election of the persons nominated by the Board.

Can you revoke your proxy or voting instruction card?

At any time before the polls for the Annual 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 Annual 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.

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How do participants in Kansas City Southern 401(k) and Profit Sharing Plan (the KCS 401(k) Plan) vote?

Effective December 30, 2011, the Kansas City Southern Employee Stock Ownership Plan (ESOP) and the Gateway Western Union 401(k) Plan (the Gateway 401(k) Plan) merged into the KCS 401(k) Plan. Accordingly, all participant shares are now held in the KCS 401(k) Plan. If you participate in the KCS 401(k) Plan, you have received a separate voting instruction card (accompanying this Proxy Statement) to instruct the trustee of the KCS 401(k) Plan how to vote the shares of Common Stock held on your behalf. The trustee is required under the trust agreement 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 1:00 a.m., Central Time, on May 1, 2012. 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. KCS 401(k) Plan participants who wish to revoke their voting instructions must contact the trustee and follow its procedures.

Are the votes of participants in the KCS 401(k) Plan confidential?

Under the terms of the KCS 401(k) 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 KCS 401(k) Plan. The accompanying voting instruction card relating to such plan 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 Securities and Exchange Commission (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 Summary Compensation Table in this Proxy Statement (we call these persons the Named Executive Officers); and
- All current executive officers, directors and nominees for director as a group. The address for each of our directors and executive officers listed is 427 West 12th Street, Kansas City, Missouri 64105.

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. No officer or director of KCS owns any equity securities of any subsidiary of KCS. 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)
BlackRock, Inc.	6,957,957(2)	6.33%
Wells Fargo & Company	6,259,349(3)	5.7%
T. Rowe Price Associates, Inc	6,368,567(4)	5.7%
Lu M. Córdova Director	4,055(5)	*
Henry R. Davis Director	104,053(6)	*
Robert J. Druten Director	57,530(7)	*
Terrence P. Dunn Director	33,718(8)	*
Antonio O. Garza, Jr. Director	4,990(9)	*
Michael R. Haverty Executive Chairman; Director	918,166(10)	*
Thomas A. McDonnell Director	657,525(11)	*
Patrick J. Ottensmeyer	61,780(12)	*

Executive Vice President Sales and Marketing		
Rodney E. Slater Director	17,218(13)	*
David L. Starling President and Chief Executive Officer; Director	140,937(14)	*
Michael W. Upchurch Executive Vice President and Chief Financial Officer	42,243(15)	*
José Guillermo Zozaya Delano President and Executive Representative of Kansas City Southern de México, S.A. de C.V. (KCSM)	52,772(16)	*
All Directors and Executive Officers as a Group (17 Persons)	2,363,435(17)	2.14%

* 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, nominees for director 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, nominees for director 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. The list of our executive officers is included in our Annual Report on Form 10-K for the year ended December 31, 2011. 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 BlackRock, Inc. is 40 East 52nd Street, New York, New York 10022. This information is based on BlackRock, Inc. s Schedule 13G/A filed on February 13, 2012.

(3) The address of Wells Fargo & Company (WF) is 420 Montgomery Street, San Francisco, CA 94104 and the address of Wells Capital Management Incorporated WC) is 525 Market St., 10th Floor, San Francisco, CA 95105. Based on a Schedule 13G filed on January 26, 2012, by WF, WC and certain listed subsidiaries, WF reports sole power to vote 5,991,401 shares, shared power to vote 830 shares, sole power to dispose of 6,134,039 shares and shared power to dispose of 3,167 shares. WC reports sole power to vote 1,283,012 shares and sole power to dispose of 5,779,461 shares.

(4) The address of T. Rowe Price Associates, Inc. (Price Associates) is 100 E. Pratt Street, Baltimore, Maryland 21202. Based on a Schedule 13G filed February 10, 2012, TRP reports sole power to vote 1,537,067 shares and sole power to dispose of 6,368,567 shares. These securities are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(5) Ms. Córdova s beneficial ownership includes 1,666 restricted shares and 29 shares held in a trust.

(6) Mr. Davis s beneficial ownership includes 1,666 restricted shares.

(7) Mr. Druten s beneficial ownership includes 1,666 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 and 2,000 shares held by a charitable foundation for which Mr. Druten disclaims beneficial ownership.

(8) Mr. Dunn s beneficial ownership includes 1,666 restricted shares and 32,052 shares held in a revocable trust for which he is the trustee with sole voting and dispositive power.

(9) Mr. Garza s beneficial ownership includes 1,666 restricted shares.

(10) Mr. Haverty s beneficial ownership includes 11,181 restricted shares, 179,534 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date, 626,404 shares held jointly with his spouse, 50,425 shares allocated to his account in the KCS 401(k) Plan, and 48,209 shares held by a charitable foundation for which Mr. Haverty disclaims

beneficial ownership.

(11) Mr. McDonnell s beneficial ownership includes 1,666 restricted shares, 115,859 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.

(12) Mr. Ottensmeyer s beneficial ownership includes 10,404 restricted shares, 24,167 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date, and 234 shares allocated to his account in the KCS 401(k) Plan.

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(13) Mr. Slater s beneficial ownership includes 1,666 restricted shares.

(14) Mr. Starling s beneficial ownership includes 62,197 restricted shares, 27,900 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date, 36,419 shares held jointly with his spouse and pledged as collateral for a line of credit, and 10,000 shares held in an Individual Retirement Account.

(15) Mr. Upchurch s beneficial ownership includes 26,059 restricted shares and 6,883 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.

(16) Mr. Zozaya s beneficial ownership includes 4,262 restricted shares and 16,017 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date.

(17) The number includes 179,758 restricted shares, 340,163 shares that may be acquired through options that are exercisable as of, or will become exercisable within 60 days of, the Record Date, 742,526 shares held jointly, 701,090 shares otherwise held indirectly and 36,419 shares are pledged as collateral for loans or held in brokerage accounts with margin privileges. Mr. McDonnell, a Director, disclaims beneficial ownership of 540,000 of the total shares listed. Mr. Druten, a Director, disclaims beneficial ownership of 2,000 of the total shares listed. Mr. Haverty, our Executive Chairman and a Director, disclaims beneficial ownership of 48,209 of the total shares listed.

PROPOSAL 1   ELECTION OF THREE DIRECTORS

The Board of Directors of KCS (the   Board) is divided into three classes. The members of each class serve staggered three-year terms of office, which results in one class standing for election at each annual meeting of stockholders. The term of office for the three directors elected at the Annual Meeting will expire in 2015 or when their successors are elected and qualified, or their earlier resignation or removal.

Three persons have been nominated by the Board of Directors for election as directors. All nominees have indicated they are willing and able to serve as directors if re-elected and have consented to being named as nominees in this Proxy Statement. If any nominee should become unable or unwilling to serve, the Proxy Committee intends to vote for one or more substitute nominees chosen by them in their sole discretion.

The biography of each nominee below contains information regarding the person s service as a director, business experience, director positions held currently or at any time during the last five years and experiences, qualifications, attributes or skills that led the Nominating and Corporate Governance Committee (the   Nominating Committee) or the Board to conclude that the person should serve as a director for the Company as of the time that this proxy statement was filed with the SEC.

As explained above in   How many votes does each Voting Share have   and   How do we decide whether our stockholders have approved the proposals? , you may cumulatively vote for the election of directors and directors are elected by the affirmative vote of a plurality of the shares of Voting Stock present at the Annual Meeting and entitled to vote on the election of directors, assuming a quorum is present.

Nominees for Director to Serve Until the Annual Meeting of Stockholders in 2015

Lu M. Córdova, age 57, has been a director of KCS since May 6, 2010. Ms. Córdova has served as the Chief Executive Officer of Corlund Industries, L.L.C., an investment holding company specializing in operations management, strategic planning, business development and capital finance, since 2005. Ms. Córdova has also served as General Manager of Almacen Storage-US, LLC, which provides self-storage and small business warehousing in resort areas in Mexico, since 2007. She has been a director of Euronet Worldwide, Inc. since June 2011. She served on the Board of Directors of the 10th District Federal Reserve Bank based in Kansas City, Missouri from January 2005 until December 2011, where she served on the audit committee and compensation committee, and as Chairman of the Board of the 10th District Federal Reserve Bank from January 2008 until January 2011. Before serving on the Board of Directors of the Federal Reserve Bank of Kansas City, she served on its Economic Advisory Council from 2002 through 2004. She served as president of CTEK Venture Centers, a not-for-profit business catalyst, from 2001 until her retirement in 2005. She also served as Chairman of CTEK Angels, also a not-for-profit business catalyst, from 2002 until 2007. Ms. Córdova served as Chief Executive Officer of Acteva, an e-commerce software transaction provider, from 1998 until 2000. Ms. Córdova was formerly a vice president at @Home Network and at McGraw-Hill.

Ms. Córdova has extensive business leadership and entrepreneurial experience. She has developed strong leadership skills for high growth companies through her experience in leading companies in the start-up phases and growth-phases of business development. Her business experience has also given her extensive experience in corporate finance and strategic planning. In addition, Ms. Córdova is a citizen of both the United States and Mexico and has experience in managing and leading Mexican businesses. Ms. Córdova also has experience in the development of government financial and economic policies that she has developed through her formal education and experience with the Board of Directors of the 10th District Federal Reserve Bank.

Michael R. Haverty, age 67, has been Executive Chairman of KCS since August 1, 2010 and has been a director of KCS since May 1995. Mr. Haverty has served as Chairman of the Board of KCS since January 1, 2001. He served as Chief Executive Officer of KCS from July 12, 2000 until July 31, 2010. Mr. Haverty served as President of KCS from July 12, 2000 to June 12, 2006. Mr. Haverty served as Executive Vice President of KCS from May 1995 until July 12, 2000. He served as President and Chief Executive Officer of The Kansas City Southern Railway Company (KCSR) from 1995 to 2005 and has been a director of KCSR since 1995. He has served as Chairman of the Board of KCSR since 1999. Mr. Haverty has served as a director of the Panama Canal Railway Company, an affiliate of KCS, since 1996 and as Co-Chairman of the Board of Directors of that company since 1999. Mr. Haverty has served as Co-Chairman of Panarail Tourism Company, an affiliate of KCS, since 2000. He has served as Chairman of the Board of KCSM, a wholly-owned subsidiary of KCS, since April 1, 2005. Mr. Haverty served as Chairman and Chief Executive Officer of Haverty Corporation from 1993 to May 1995, acted as an independent executive transportation advisor from 1991 to 1993, and was President and Chief Operating Officer of The Atchison, Topeka and Santa Fe Railway Company from 1989 to 1991.

Mr. Haverty led the Company s rail operations for over fifteen years. He came to the Company with extensive executive experience in the management of rail operations. Mr. Haverty also has strong experience in leading a public company, corporate finance, managing capital intensive organizations, international business, government and international relations, relations with the Mexican government and strategic planning. He has been the chief strategist in the development and execution of the Company s cross-border rail strategy.

Thomas A. McDonnell, age 66, has been a director of KCS since March 18, 2003. Mr. McDonnell has served as a director of DST Systems, Inc. (DST) since 1971 and as Chief Executive Officer of DST since 1984. He previously served as President of DST from 1973 until July 2009 (except for a 30-month period from October 1984 to April 1987). DST provides sophisticated information processing, computer software services and business solutions to the financial services, communications and healthcare industries. He is a director of Euronet Worldwide, Inc. (since December 1996) and serves on the audit committee of this public company. He previously served as a director of Blue Valley Ban Corp (from 1996 until July 2010), Commerce Bancshares, Inc. (from April 2001 until April 2010) and Garmin Ltd. (from March 2001 until May 2010). He served on the audit committees of the boards of each of these public companies other than Blue Valley Ban Corp. Mr. McDonnell previously served as a director of KCS from 1983 until October 1995. Mr. McDonnell also served as an officer and director of KCSR before DST was spun off from KCS in 1995.

Mr. McDonnell is an experienced business leader with the skills necessary to serve as a director of the Company. He has served for many years as the CEO of DST Systems, Inc., a publicly traded company and has developed strong business leadership skills in this role. Mr. McDonnell has extensive executive experience in corporate finance and accounting, technology, international operations and strategic planning. His service on other boards has provided him with a broad business background and leadership skills that are highly valued by Directors on the Company s Board.

YOUR BOARD RECOMMENDS THAT YOU VOTE

FOR

THE ELECTION OF THE BOARD S NOMINEES

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THE BOARD OF DIRECTORS

The Board of Directors met four times in 2011. The Board meets regularly to review significant developments affecting KCS and to act on matters requiring Board approval. The Board reserves certain powers and functions to itself; in addition, it has requested that the Chief Executive Officer refer certain matters to it. During 2011, all directors attended at least 75% of the aggregate of (1) the total number of meetings of the Board and (2) the total number of meetings held by all committees of the Board on which they served.

The biography of each director below contains information regarding the person s service as a director, business experience, director positions held currently or at any time during the last five years and experiences, qualifications, attributes or skills that led the Nominating Committee or the Board to conclude that the person should serve as a director for the Company as of the time that this proxy statement was filed with the SEC.

Directors Serving Until the Annual Meeting of Stockholders in 2013

Terrence P. Dunn, age 62, has been a director of KCS since May 2007. Mr. Dunn has served as President and Chief Executive Officer of J.E. Dunn Construction Group (formerly known as Dunn Industries) since 1989. Headquartered in Kansas City, Missouri, J.E. Dunn Construction Group is the holding company for commercial contracting and construction company affiliates across the nation. Mr. Dunn has served on the Board of Directors of UMB Financial Corporation since 2003.

As the President and Chief Executive Officer of a $2.0 billion (revenue) construction company, Mr. Dunn has extensive executive experience in managing a capital intensive business, corporate finance and accounting and strategic planning. Mr. Dunn also has strong skills in executive compensation matters and business expansion. He also has strong board leadership skills developed as lead director of UMB Financial Corporation and as former chairman of the board of the Federal Reserve Bank of Kansas City.

Antonio O. Garza, Jr., age 52, has been a director of KCS since May 6, 2010. Mr. Garza has been a partner of ViaNovo, a leading management and communications consultancy since 2009. He has also worked as counsel to the Mexico City office of White & Case, LLP since 2009. White & Case has served as outside legal counsel to KCSM for over ten years. As counsel to the firm, Mr. Garza does not share in the profits of the firm and is not compensated for fees generated by the firm for performing legal work for KCS or KCSM. Mr. Garza served as United States Ambassador to Mexico from 2002 until January 2009. Mr. Garza was elected to the Texas Railroad Commission in 1998 and served as its Chairman from 1999 until he left the Commission in 2002 to serve as United States Ambassador to Mexico. He served as the Secretary of State of Texas from 1994 until 1998. Mr. Garza has served as a director of Basic Energy Services, a publicly traded corporation, since May 2009, for which he also has served on the Compensation Committee since October 2009, and he has served on the Board of Directors of BBVA Compass Bank since January 2010. He has served as a director of KCSM since October 2011. Mr. Garza previously served on the Advisory Council of KCSM from October 2009 until his election to the Company s Board of Directors in May 2010. He also is on the Board of Trustees of Southern Methodist University, for which he serves on the finance/legal committee, and on the University of Texas Development Board and Dean s Advisory Board for Harvard s School of Public Health.

Mr. Garza brings strong political, diplomatic and international business skills to the Board that he has developed through his experience as the United States Ambassador to Mexico and as an international business consultant and attorney. In addition, he has extensive experience in public policy development, strategic relationships with government officials and government relations experience including prior experience working with the Mexican government, which will serve the Board well in its governance and strategic oversight of KCSM. Mr. Garza also has a solid understanding of KCSM s operations developed through his service on its Advisory Council.

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David L. Starling, age 62, has been a director of KCS since May 6, 2010. Mr. Starling has served as President and Chief Executive Officer of KCS since August 1, 2010. He served as President and Chief Operating Officer of KCS from July 1, 2008 through August 1, 2010. Mr. Starling has also served as a Director, President and Chief Executive Officer of KCSR since July 1, 2008. He has also served as Vice Chairman of the Board of Directors of KCSM, a wholly-owned subsidiary of the Company, since September 2009. Mr. Starling has served as Vice Chairman of the Board of Directors of Panama Canal Railway Company (PCRC), a joint venture company owned equally by KCS and Mi-Jack Products, Inc., since July 2008. Prior to joining KCS, Mr. Starling served as President and Director General of PCRC from 1999 through June 2008. From 1988 through 1999, Mr. Starling served in various leadership positions for American President Lines including most recently vice president Central Asia headquartered in Hong Kong.

Mr. Starling has extensive executive experience in the North American rail industry and in intermodal and global shipping logistics. He developed significant international logistics experience in his role as Vice President of Central Asia for American President Lines, where he was responsible for its operations in China, Taiwan and Hong Kong. Mr. Starling has significant rail operations leadership experience developed in his position as President and Director General of Panama Canal Railway Company, where he supervised the reconstruction and subsequent operation of the company. He has played an important role in executing the Company s cross-border rail strategy since joining the Company in July 2008 as its President and Chief Operating Officer. Prior to joining the Company, Mr. Starling developed a strong understanding of its international shipping operations through his position as Executive Representative of the Company from July 2007 until joining the Company as an employee in July 2008. In this role, Mr. Starling represented the Company in seeking to encourage shipping of ocean container traffic through the Port of Lázaro Cárdenas, as well as through Panama.

Directors Serving Until the Annual Meeting of Stockholders in 2014

Henry R. Davis, age 71, has been a director of KCS since February 28, 2008. Since 1998, Mr. Davis has served as President of the investment firm Promotora DAC, S.A. de C.V., which focuses its investments in the financial and real estate sectors. Mr. Davis served as President, Chief Executive Officer and Vice Chairman of the Board of Grupo Cifra from 1983, until its acquisition by Wal-Mart de México in 1998. Mr. Davis is a director of Grupo Bimbo, S.A.B. de C.V. (1999 to present) and Fibra Uno, S.A.B. de C.V. (2011 to present). He previously served as a director of Grupo Aeroportuario de Pacífico S.A.B. de C.V. (2006 to 2010) and Ixe Grupo Financiero S.A. de C.V. (2001 to 2011).

As the Chief Executive Officer and Vice Chairman of Grupo Cifra, Mr. Davis developed extensive business leadership skills. He also has unique insights in managing and operating businesses in Mexico that serves the Board well in its governance and strategic oversight of the Company s wholly-owned subsidiary, KCSM. Mr. Davis has also developed extensive finance and real estate experience through the leadership of Promotora DAC, S.A. de C.V. In addition, he has strong skills in corporate finance, managing capital intensive industry operations, international relations, strategic planning and executive compensation.

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Robert J. Druten, age 64, has been a director of KCS since July 26, 2004. Mr. Druten served as Executive Vice President and Chief Financial Officer of Hallmark Cards, Inc. from 1994 until his retirement in August 2006. From 1991 until 1994, he served as Executive Vice President and Chief Financial Officer of Crown Media, Inc., a cable communications subsidiary of Hallmark. He served as Vice President of Corporate Development and Planning of Hallmark from 1989 until 1991. Prior to joining Hallmark in 1986, Mr. Druten held a variety of executive positions with Pioneer Western Corporation from 1983 to 1986. Mr. Druten has served as a trustee of Entertainment Properties Trust (EPT), a real estate investment trust, since 1997 and is its Chairman of the Board. He has also been a member of the compensation, governance and finance committees of EPT. He has served as a director of Alliance Holdings GP, L.P., a publicly traded limited partnership whose publicly traded subsidiary is engaged in the production and marketing of coal, since 2007, where he serves on the Audit Committee and its Conflicts Committee. Mr. Druten previously served as a director of American Italian Pasta Company, from 2007 until it was acquired by Ralcorp Holdings, Inc. in July 2010, where he was the Chair of the Audit Committee and also served on the Compensation Committee.

Mr. Druten has extensive executive experience in corporate finance and accounting developed during his tenure as a financial manager, and ultimately as Chief Financial Officer, of Hallmark Cards, Inc. He has also served on the audit committees of other public companies, which gives him valuable knowledge and perspective in serving on the Company s Audit Committee. Mr. Druten also has experience in managing capital intensive operations, international operations and strategic planning.

Rodney E. Slater, age 57, has been a director of KCS since June 5, 2001. Mr. Slater is a partner in the public policy practice group of the law firm Patton Boggs LLP and has served as a member of the firm s transportation practice group in Washington, D.C. since 2001. He served as United States Secretary of Transportation from 1997 to January 2001 and head of the Federal Highway Administration from 1993 to 1996. Mr. Slater is also a director of Southern Development Bancorporation (since May 2001), International Battery, Inc. (since May 2009), Transurban Group (since June 2009), Verizon Communications, Inc. (since March 2010) and WS Atkins plc (since September 2011). Mr. Slater has served as a member of the Brambles Advisory Board since August 2010. Mr. Slater previously served as a Director of ICx Technologies, Inc. from July 2006 through October 2010 and Delta Airlines from October 2008 through June 2011, and is a Past Chairman of the Board of United Way of America.

Mr. Slater brings strong leadership skills to the Board developed through his career as a government leader, which culminated in his service as the United States Secretary of Transportation. As Secretary of Transportation, Mr. Slater developed extensive experience in the regulation of transportation, development of public policy and government and international relations, and he serves as a key advisor to the Board on these issues. Mr. Slater also has extensive experience in executive compensation.

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CORPORATE GOVERNANCE

The Corporate Governance Guidelines of Kansas City Southern (the Guidelines) are available for review in the Corporate Governance Governance Documents section under the Investors tab of our website at *www.kcsouthern.com.* In addition, this section of our website makes available all of our corporate governance materials, including our Bylaws, as amended and restated on June 28, 2010 (the Bylaws), board committee charters, code of business conduct and ethics and our anti-harassment and equal employment opportunity policies. Our Board of Directors regularly reviews corporate governance developments and modifies the Guidelines, committee charters, and key practices as it believes warranted.

The Investors section of our website also includes a copy of the brochure for our United States Speak Up! line in portable document format (i.e., PDF). Our United States Speak Up! line is a means for employees, customers, suppliers, stockholders and other interested parties to submit confidential and anonymous reports of suspected or actual actions they believe may violate our corporate policies or the law including, but not limited to, the following:

Unlawful harassment	Employment discrimination	Accounting or auditing irregularities
Bribery	Conflicts of interest	Insider trading
Destroying, altering or falsifying company records	Security concerns, including those of terrorist activity	Creating or ignoring safety or environmental hazards
Misuse of corporate assets	Securities matters	Theft and fraud
Threats to personal safety	Use or sale of illegal drugs	Disclosure of proprietary information
Violations of anti-trust, environmental or other governmental compliance regulations		Suspicious activity, including inquiries from strangers about our facilities or operations

Our United States Speak Up! line is operated by an independent outside vendor 24 hours a day, seven days a week. Any employee, stockholder, or other interested party can call the following toll-free (within the United States) number to submit a report:

1-800-727-2615

We have a similar hotline in Mexico, the KCSM Speak Up! line, to receive confidential and anonymous reports of suspected or actual actions that the reporting party believes may violate our corporate policies or the law. The KCSM Speak Up! line is operated by an independent outside vendor 24 hours a day, seven days a week. Any employee, stockholder or other interested party can call one of the following toll-free numbers to submit a report:

Initial Toll-Free Phone Number: 01-800-288-2872

Access Code: 800-727-2615

or

Initial Toll Free-Phone Number: 01-800-112-2020

Access Code: 800-727-2615

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Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics is applicable to all directors, officers and employees of KCS and its subsidiaries and embodies our principles and practices relating to the ethical conduct of our business and our commitment to honesty, fair dealing and compliance with applicable laws and regulations. Our Code of Business Conduct and Ethics is available in the Corporate Governance Governance Documents section under the Investors tab of our website at *www.kcsouthern.com* and in print to any stockholder who requests it.

Policy on Director Attendance at Annual Stockholder Meetings

Our directors are encouraged to attend the annual stockholder meetings. Except for Mr. Slater and Mr. Davis, all directors serving at the time of the 2011 annual stockholder meeting attended that meeting.

Director Qualifications, Qualities and Skills

The Guidelines establish certain qualifications, qualities and skills that directors and nominees must meet to be eligible to serve on our Board of Directors. Under the Guidelines, directors and nominees must be committed to representing the long-term interests of our stockholders and meet, at a minimum, the following qualifications:

- Highest personal and professional ethics, integrity and values;
- Independence, in accordance with the requirements of the NYSE, unless their lack of independence would not prevent two-thirds of the Board from meeting such requirements;
- No current service on boards of companies that, in the judgment of the Nominating Committee, are in competition with, or opposed to the best interests of, the Company; and
- Below the age of 72 years as of the date of the meeting at which his or her election would occur.

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

- Significant experience at policy making levels in business, government or education;
- Significant experience or relationships in, or knowledge about, geographic markets served by us or industries that are relevant to our business; and
- Willingness to devote sufficient time to carrying out their duties and responsibilities effectively, including service on appropriate committees of the Board.

Our Bylaws also provide that no one who is 72 years old shall be eligible to be nominated or to serve as a member of the Board of Directors, but any person who attains the age of 72 during the term of directorship to which he or she was elected shall be eligible to serve the remainder of that term. Our Restated Certificate of Incorporation and Bylaws do not have any other eligibility requirements for directors.

Non-Management Director Independence

The Guidelines require that a majority of the Board of Directors must be independent, as determined affirmatively by the Board in accordance with the listing standards of the NYSE, although our goal is to have two-thirds of the members of the Board meet these requirements. We refer to directors who do not serve as executive officers of KCS or any of its subsidiaries as the Non-Management Directors. The Non-Management Directors constitute more than two-thirds of our Board of Directors. The Non-Management Directors are Messrs. Davis, Druten, Dunn, McDonnell and Slater, Ambassador Garza and Ms. Córdova. Our Board has affirmatively determined that each such Non-Management Director is independent in accordance with applicable

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NYSE listing standards (see Insider Disclosures Certain Relationships and Related Transactions). In determining the independence of each Non-Management Director, the Board of Directors applied categorical standards of independence contained in the Guidelines and applicable NYSE listing standards. These standards assist the Board in determining that a director or nominee has no material relationship with KCS, either directly or as a partner, shareholder or officer of an organization that has a relationship with KCS. Under the standards, to be considered independent, a member of the Board may not:

- Have a material relationship with KCS (directly or as a partner, shareholder or officer of an organization that has such a relationship); provided, a material relationship shall not be inferred merely because (i) the director is a director, officer, shareholder, partner or principal of, or advisor to, another company that does business with KCS and the annual sales to, or purchases from, KCS are less than the greater of $1 million or 2% of the annual revenues of the other company, if the director does not receive any compensation as a direct result of such business with KCS, or (ii) the director is an officer, director or trustee of a charitable organization, and our discretionary charitable contributions to that organization are less than the greater of $1 million or 2% of that organization s consolidated gross revenues;

- Be, or have been during the three years preceding the determination, an employee, or have an immediate family member who is, or was during the three years preceding the determination, an executive officer, of KCS;

- Have received, or have an immediate family member who has received during any twelve-month period within the three years preceding the determination, more than $100,000 in direct compensation from KCS, other than director and committee fees, pension or other forms of deferred compensation for prior service (provided such deferred compensation is not contingent in any way on future service);

- Be, or have an immediate family member who is, a current partner of a firm that is our internal or external auditor; be a current employee of such a firm or have an immediate family member who is a current employee of such firm and who participates in the firm s audit; or have been, or have an immediate family member who was, within the three years preceding the determination (but is no longer), a partner or employee of such firm and personally worked on our audit within that time;

- Be, or have been during the three years preceding the determination, or have an immediate family member who is, or was during the three years preceding the determination, employed as an executive officer of another company where any of our present executives at the same time serves or served on that company s compensation committee; or

- Be a current employee, or have an immediate family member who is a current executive officer, of a company that has made payments to, or received payments from, KCS for property or services in an amount which, in any of the last three fiscal years, exceeded the greater of $1 million or 2% of the other company s consolidated gross revenues for its last completed fiscal year.

Executive Sessions

Our Non-Management Directors meet regularly in executive session without management. Thomas A. McDonnell (the Presiding Director) serves as Presiding Director in such sessions.

Board Leadership Structure

The Board regularly considers the appropriate leadership structure for the Company and has concluded that the Company and its stockholders are best served by not having a formal policy on whether the same individual should serve as both the Chief Executive Officer and Chairman of the Board. The Board believes that no single Board leadership model is most effective in all circumstances for any company and that it is better for the Board to use its knowledge and experience to elect the most qualified director as Chairman of the Board, even if such director also serves as the Chief Executive Officer of the Company.

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In June 2010, after considerable discussion and review, the Board determined to separate the role of Chairman of the Board and Chief Executive Officer as part of the Company s leadership succession plan. The Board appointed Mr. Haverty to serve as Executive Chairman of the Board of Directors and Mr. Starling to serve as President and Chief Executive Officer of the Company, succeeding Mr. Haverty in the role of Chief Executive Officer. In the position of Executive Chairman, Mr. Haverty continues to be an employee of the Company and leads the Company s strategic planning process and supervises and has mentored Mr. Starling as he has transitioned into the role of Chief Executive Officer. Mr. Starling is responsible for developing and recommending to the Board the Company s annual business plans and budgets that support the Company s long-term strategy. Further, he is responsible for establishing and maintaining an effective management team and an active plan for its development and succession.

Given Mr. Haverty s continuing status as a management employee of the Company and to ensure effective independent oversight, the Board holds regular executive sessions of the Non-Management Directors over which Mr. McDonnell presides as the Presiding Director. Further, all Board committees, other than the Executive Committee, are comprised of only Non-Management Directors. Thus, the Non-Management Directors directly oversee critical matters such as the compensation of executive management, including Mr. Haverty s and Mr. Starling s compensation, the selection and evaluation of Board nominees, the integrity of the Company s financial statements, and the development of corporate governance programs of the Company.

Stockholder/Interested Person Communication with the Board

Any stockholder or interested person may communicate with the Non-Management Directors or the Presiding Director by sending such communication in writing to the office of the Corporate Secretary, Kansas City Southern, P.O. Box 219335, Kansas City, Missouri, 64121-9335, or by express carrier to the Corporate Secretary, Kansas City Southern, 427 West 12th Street, Kansas City, Missouri 64105. In its capacity as the agent for the Non-Management Directors and Presiding Director, the office of the Corporate Secretary may review, sort and summarize the communications and, in accordance with the directions provided by and procedures established by the Non-Management Directors, forward such communications to the Non-Management Directors and the Presiding Director, as appropriate. To be considered, such communications must be signed by the stockholder or other interested party, with the stockholder s or other interested party s name, address and telephone number. The Non-Management Directors or the Presiding Director shall review such communication with the Board, or the group addressed in the communication, for the purpose of determining an appropriate response and any appropriate action that should be taken. Any communications received may be shared with management on the instruction of the Non-Management Directors or the Presiding Director.

BOARD COMMITTEES

The Board of Directors has established an Executive Committee, an Audit Committee, a Finance Committee, a Compensation and Organization Committee (referred to in this Proxy Statement as the Compensation Committee), and a Nominating and Corporate Governance Committee (referred to in this Proxy Statement as the Nominating Committee). Committee members are elected at the Board s annual meeting immediately following our Annual Meeting of stockholders.

The following number of committee meetings were held during 2011:

Committee	In Person(1)	By Telephone(1)
Executive	0	0
Audit	4	0
Finance	3	0
Compensation	3	2
Nominating	2	0

(1) Some directors attended by telephone certain meetings held in person and some directors attended in person certain meetings held by telephone.

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The Executive Committee

The Executive Committee consists of our Executive Chairman, and two Non-Management Directors elected by the Board to serve one-year terms. The current members of the Executive Committee are Mr. McDonnell (Executive Committee Chairman), Mr. Haverty and Mr. Slater. When the Board is not in session, the Executive Committee has all the powers of the Board in all cases in which specific directions have not been given by the Board.

The Audit Committee

The Audit Committee consists of three 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 Audit Committee are Mr. Druten (Chairman), Ms. Córdova and Mr. McDonnell. The members of the Audit Committee are independent (as defined in the NYSE s listing standards) and meet the additional independence standards in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act). In determining independence, the Board of Directors concluded that each member of the Audit Committee has no material relationship with KCS under the standards set forth in the Guidelines. The Guidelines do not limit the number of public company audit committees on which the members of our Audit Committee may serve. However, for any director to simultaneously serve on our Audit Committee and the audit committees of more than three other public companies, the Board must affirmatively determine that such simultaneous service will not impair the director s ability to effectively serve on our Audit Committee.

The Board has determined that Mr. Druten and Mr. McDonnell are audit committee financial experts as that term is defined in applicable securities regulations. The Board determined that Mr. Druten qualifies as an audit committee financial expert based upon his prior experience as Executive Vice President and Chief Financial Officer of Hallmark Cards, Inc. and previously at Crown Media, Inc., as well as his prior experience as a certified public accountant with Arthur Young & Co. The Board of Directors determined that Mr. McDonnell qualifies as an audit committee financial expert based upon his experience as the Chief Executive Officer of DST, his accounting and financial education, his experience actively supervising others performing accounting or auditing functions, and his past and current memberships on audit committees of other public companies.

The Audit Committee is responsible for appointing and pre-approving the fees of our independent registered public accounting firm and pre-approving fees for other non-audit services provided by our independent registered public accounting firm. In addition, the Audit Committee monitors the quality and integrity of our financial reporting process, financial statements and systems of internal controls.

The Board of Directors has adopted a written charter for the Audit Committee detailing all of its responsibilities, a copy of which is available in the Corporate Governance Governance Documents section under the Investors tab of our website at *www.kcsouthern.com*.

The Audit Committee s report is provided below.

The Finance Committee

The Finance Committee consists of three 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 Finance Committee are Mr. Druten (Chairman), Ambassador Garza and Mr. McDonnell.

The Finance Committee is responsible for reviewing and approving financial transactions exceeding $25 million, but not exceeding $200 million. The Finance Committee also reviews management s financing plans and reports and makes recommendations to the Board with respect to matters affecting our financing plan and capital structure.

The Board of Directors has adopted a written charter for the Finance Committee detailing all of its responsibilities, a copy of which is available in the Corporate Governance Governance Documents section under the Investors tab of our website at *www.kcsouthern.com*.

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The Compensation Committee

The Compensation Committee consists of three 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 Mr. Dunn (Chairman), Mr. Davis and Mr. Slater. Each member of the Compensation Committee is independent (as defined in the NYSE s listing standards), is considered an outside director under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and is considered a non-employee director under Rule 16b-3 under the Exchange Act.

The Compensation Committee is responsible for establishing, communicating to management and the Board and periodically updating the Company s compensation philosophy, objectives, policies, strategies and programs, with the objective of ensuring they provide appropriate motivation for corporate performance and increased stockholder value. The Compensation Committee is solely responsible for reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer (CEO), evaluating and reviewing with our CEO his performance in light of those goals and objectives, and setting our CEO s compensation level based on that evaluation. In addition, the Compensation Committee reviews and approves the compensation of other members of senior management of KCS based on recommendations from the CEO and Towers Watson, our independent compensation consultant (Towers Watson or the Compensation Consultant). The Compensation Committee annually reviews and assesses the risks associated with the Company s compensation practices, policies and programs applicable to employees to determine whether the risks arising from such practices, policies and programs are appropriate or reasonably likely to have a material adverse effect on the Company.

The Board of Directors has adopted a written charter for the Compensation Committee detailing all of its responsibilities, a copy of which is available in the Corporate Governance Governance Documents section under the Investors tab of our website at *www.kcsouthern.com*.

The Compensation Committee s report is provided below.

Compensation Committee Interlocks and Insider Participation

During 2011:

- 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.

The Nominating and Corporate Governance Committee

The Nominating Committee consists of all of our independent (as defined in the NYSE s listing standards) Non-Management Directors and are re-elected by the Board annually to serve on this committee. The current members of the Nominating Committee are Mr. Slater (Chairman), Ms. Córdova, Mr. Davis, Mr. Druten, Mr. Dunn and Mr. McDonnell.

The Nominating Committee recommends to the Board of Directors suitable nominees for election to the Board or to fill newly created directorships or vacancies on the Board. In addition, the Nominating Committee is responsible for ensuring that the Company maintains appropriate corporate governance practices and procedures.

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

The Board of Directors has adopted a written charter for the Nominating Committee detailing all of its responsibilities, a copy of which is available in the Corporate Governance Governance Documents section under the Investors tab of our website at *www.kcsouthern.com.*

The Board s Role in Risk Oversight

The Board of Directors is responsible for overseeing the Company s enterprise risk management process and program. This includes understanding the Company s philosophy and strategy towards enterprise risk management and mitigation. The Board reviews the Company s most significant risks and whether management is responding within the Company s risk management and mitigation strategies. The Board has delegated to the Audit Committee the primary responsibility for reviewing the Company s risk assessment and risk management policies. Management periodically reports to the Audit Committee on the Company s risk identification, assessment and mitigation activities. The Company has an enterprise risk management coordinator who supervises the enterprise risk management process. Furthermore, the Company has given its Disclosure Committee responsibility to review the comparability of the risk factors disclosed in the Company s Annual Report on Form 10-K with the Company s enterprise risk profile. The risk oversight structure has no effect on the Board s leadership structure.

Risk Considerations in our Compensation Program

In early 2012, the Company engaged Towers Watson to review its compensation program to assess the risks that it could create, as reflected in the Company s risk management practices and policies. The review covered a number of key facets of the Company s compensation plans, including their purposes, the types of performance measures used, the number and organizational level of participants, the aggregate amount and maximum individual amounts payable under the plans, the ability of the participants to take actions that could influence the calculation of their awards, the scope of the risks that could be created by actions taken to enhance the amounts payable under the plans, and how the Company s risk management policies and governance practices are structured to mitigate these risks. As a result of this review, the Company concluded that its compensation program does not create risks that are reasonably likely to have a material adverse effect on the Company or its stockholders.

Director Diversity

The Nominating Committee strives to nominate directors who represent an appropriate mix of backgrounds and experiences to best enhance the functions of the Board. The Nominating Committee considers diversity in the broadest sense, thus including factors such as age, sex, race, ethnicity and geographic location, as well as a variety of experience and educational backgrounds (such as operations, finance, accounting and marketing experience and education) when seeking Board nominees. The Nominating Committee does not have a diversity policy in place.

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INSIDER DISCLOSURES

Certain Relationships and Related Transactions

A 50% owned affiliate of a wholly-owned subsidiary of DST leases to KCSR the headquarters building occupied by KCS and KCSR, and also leases to KCSR a floor in another building. These leases expire in 2019. Thomas A. McDonnell, one of our Non-Management Directors, is the Chief Executive Officer and a director of DST and Chairman of the Board of Directors of the DST subsidiary. Rent and expenses paid by KCSR under these leases aggregated approximately $4.3 million in 2011. DST s indirect 50% interest in those lease payments amounted to less than 1% of DST s consolidated gross revenues in 2011. The aggregate rentals payable under the leases from January 1, 2011 until the end of the lease terms total approximately $24.0 million. Mr. McDonnell does not receive any salary from the DST subsidiary or affiliate, owns no stock in either entity, owns less than 5% of the outstanding common stock of DST, and receives no direct financial benefit from these lease payments.

Related Person Transaction Policies and Procedures

The Board of Directors is empowered to review, approve and ratify any transactions between KCS and related persons, as that term is defined by Item 404 of Regulation S-K. The charter of the Nominating Committee contains procedures for the review of related person transactions and the reporting of such transactions by the Nominating Committee to the full Board of Directors for approval or ratification. These transactions, which include any financial transaction, arrangement or relationship or any series of similar transactions, are reviewed for approval or ratification for any transaction between the Company and its directors, director nominees, executive officers, greater than five percent beneficial owners and their respective immediate family members, where the amount involved in the transaction exceeds or is expected to exceed $120,000 in a single fiscal year. The Nominating Committee has directed the Corporate Secretary to review on behalf of the Nominating Committee responses to annual director and officer questionnaires to determine whether any related person has, or has had, a direct or indirect material interest in any transaction with the Company or its subsidiaries, other than the receipt of ordinary director or officer compensation in the last fiscal year. The charter of the Audit Committee contains procedures designed to ensure that any related person transactions that are ratified or approved by the Nominating Committee are properly reported by the Company in its financial statements and SEC filings.

The policy outlined in the Nominating Committee Charter provides that the Nominating Committee reviews certain transactions subject to the policy and determines whether or not to approve or ratify those transactions. In doing so, the Nominating Committee takes into account, among other factors it deems appropriate:

- the significance of the transaction to the Company;
- the best interests of the Company s stockholders;
- the materiality of the transaction to the related person;
- whether the transaction is significantly likely to impair any judgments an executive officer or director would make on behalf of the Company;
- the Company s Code of Business Conduct and Ethics;
- whether a related person serves on the Compensation Committee and if so, whether such continued service is appropriate in accordance with the Compensation Committee charter; and
- whether the terms of the transaction are more favorable to the Company than would be available from an unrelated third party.

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NON-MANAGEMENT DIRECTOR COMPENSATION

This section describes the compensation paid to our Non-Management Directors. Michael R. Haverty, our Executive Chairman, and David L. Starling, our President and CEO, each serve on our Board of Directors, but are not paid any compensation for their service on the Board. Their compensation is described in the Summary Compensation Table included in this Proxy Statement.

Director Fees

Non-Management Director Compensation Practices

The Compensation Committee recommends each component of Non-Management Director compensation to the Board. The Compensation Committee seeks to recommend competitive compensation packages that include both cash and 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 the Compensation Consultant;
- directors duties and responsibilities; and
- director retention.

Non-Management Director Compensation Program

Under the current Non-Management Director compensation program (the Non-Management Director Compensation Program), 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 meeting)	$ 4,000
Board (telephonic meeting)	$ 3,000
Committee (in person meeting)	$ 2,000
Committee (telephonic meeting)	$ 1,500

Non-Management Director Stock Awards

Under the Non-Management Director Compensation Program, each Non-Management Director is awarded a grant of restricted Common Stock under the Kansas City Southern 2008 Stock Option and Performance Award Plan (the 2008 Plan) on the date of each annual meeting. The grant is for a number of shares equal to $90,000 in value divided by the average closing price of the Company s stock for the 30 days prior to the grant date. Following the 2011 annual meeting of stockholders, each Non-Management director was awarded 1,666 shares of restricted Common Stock calculated in accordance with the above-described formula, based on an average closing price over the 30 days prior to the grant date of $54.02 per share.

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.

Director Stock Ownership Guidelines

The Board has adopted stock ownership guidelines for Non-Management Directors. The guidelines were revised in 2011. These guidelines provide that each Non-Management Director is required to beneficially own shares of our Common Stock with a fair market value equal to at least five times the base annual retainer for serving as a Board member (currently 5 x $50,000 = $250,000). Restricted stock granted to a Non-Management Director will count toward this requirement. Non-Management Directors must achieve this ownership level within five years from the date of their election to the Board. This compliance period was shortened from eight years to five years from the date a Director is elected or appointed to the Board.

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 Fee Deferral Plans

Non-Management Directors are permitted to defer receipt of directors cash fees under an unfunded Directors Deferred Fee Plan (which we refer to as the Deferred Fee Plan) adopted by the Board of Directors. Earnings on deferred fees and earnings credited to the director s account 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 United States 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. Currently, there are no directors participating in the Deferred Fee Plan and there were no balances under the plan as of December 31, 2011.

In 2011, the Board of Directors adopted the Non-Management Director Deferred Stock Program (the Deferred Stock Program). Under the Deferred Stock Program, cash retainers paid each year may be deferred into shares of KCS common stock. Meeting fees are not eligible for the Deferred Stock Program. Directors may defer a percentage or a specific dollar amount into KCS common stock. The number of shares granted under the Deferred Stock Program will be equal to (a) the aggregate value of annual cash retainers elected to be deferred,

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divided by (b) the fair market value per share on the grant date. The stock is 100% vested, but has no voting rights. Dividend equivalents (if any) will also be credited to the KCS deferred stock account. Directors may elect the date that distribution of the deferred shares occurs. They may also choose to receive payment in either lump sum or installments (up to 5 years). Payment will be accelerated in the event of a change in control of KCS or the director s death. Currently there are no directors participating in the Deferred Stock Program.

2011 Non-Management Director Compensation

The following table shows the compensation paid to our Non-Management Directors in 2011.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
Lu M. Córdova	$ 83,000	$ 93,163	$ 0	$ 658	$ 176,821
Henry R. Davis	$ 79,000	$ 93,163	$ 0	$ 63	$ 172,226
Robert J. Druten	$ 101,000	$ 93,163	$ 0	$ 29,530	$ 223,693
Terrence P. Dunn	$ 86,000	$ 93,163	$ 0	$ 30,158	$ 209,321
Antonio O. Garza, Jr.	$ 68,000	$ 93,163	$ 0	$ 158	$ 161,321
Thomas A. McDonnell	$ 105,000	$ 93,163	$ 0	$ 30,103	$ 228,266
Rodney E. Slater	$ 86,000	$ 93,163	$ 0	$ 158	$ 179,321

(1) This column presents the aggregate grant date fair value of restricted stock awards made in 2011 computed in accordance with FASB ASC Topic 718. The restricted shares were awarded under our 2008 Plan. Each Non-Management Director received a grant of 1,666 restricted shares of Common Stock on the date of the 2011 annual meeting of stockholders, which was May 5, 2011.

As of December 31, 2011, each Non-Management Director held 1,666 unvested restricted shares of Common Stock with a fair value at grant date of $93,163.

(2) No options were granted to any Non-Management Director in or for 2011. 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, 2011, each Non-Management Director held the options listed in the table below:

Name	Number of Exercisable Options at 12/31/11	Number of Unexercisable Options at 12/31/11
Lu M. Córdova	0	0
Henry R. Davis	0	0
Robert J. Druten	20,000	0
Terrence P. Dunn	0	0
Antonio O. Garza, Jr.	0	0
Thomas A. McDonnell	0	0
Rodney E. Slater	0	0

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

Name	**Group Term Life Premiums**	**AD&D Premiums**	**Charitable Matching Gifts(a)**	**Total**
Lu M. Córdova	$ 138	$ 20	$ 500	$ 658
Henry R. Davis	$ 55	$ 8	$ 0	$ 63
Robert J. Druten	$ 138	$ 20	$ 29,372	$ 29,530
Terrence P. Dunn	$ 138	$ 20	$ 30,000	$ 30,158

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Name	Group Term Life Premiums	AD&D Premiums	Charitable Matching Gifts(a)	Total
Antonio O. Garza, Jr.	$ 138	$ 20	$ 0	$ 158
Thomas A. McDonnell	$ 90	$ 13	$ 30,000	$ 30,103
Rodney E. Slater	$ 138	$ 20	$ 0	$ 158

(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.

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AUDIT COMMITTEE REPORT

In accordance with the Audit Committee s written charter duly adopted by the Board of Directors, we have reviewed and discussed with management the Company s audited financial statements as of and for the year ended December 31, 2011.

Management is responsible for the Company s internal controls and the financial reporting process. KPMG LLP, the Company s independent registered public accounting firm, is responsible for performing an independent audit of the Company s consolidated financial statements and expressing an opinion on the effectiveness of the Company s internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board and to issue a report thereon. Our responsibility is to monitor and oversee these processes on behalf of the Board of Directors.

We have discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380) as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

We discussed with the Company s independent registered public accounting firm the overall scope and plans for their audit. We met with the independent registered public accounting firm, with and without management present, to discuss the results of their audits, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

We have received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm s communications with the audit committee concerning independence, and have discussed with the registered public accounting firm its independence from management.

Based on the reviews and discussions referred to above, we recommended to the Board of Directors that the consolidated financial statements referred to above be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the SEC.

The Audit Committee

Robert J. Druten, *Chairman*
Lu M. Córdova
Thomas A. McDonnell

This Audit 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.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Engagement

KPMG LLP (KPMG) served as our independent registered public accounting firm for the year ended December 31, 2011. KPMG performed professional services in connection with the audit of our consolidated financial statements we filed with the SEC under the Exchange Act, registration statements we filed with the SEC under the Securities Act of 1933, as amended (the Securities Act), and private offering documents. KPMG also audited the Company s internal control over financial reporting as of December 31, 2011 and issued an attestation report.

Independent Registered Public Accounting Firm Fees

The following table presents the total fees for professional audit services and other services rendered by KPMG, the independent registered public accounting firm to KCS, for the years ended December 31, 2011 and 2010 *(in thousands)*.

	Year Ended December 31,	
	2011	**2010**
Audit fees	$ 1,958.4	$ 1,875.0
Audit-related fees(1)	210.5	445.0
Tax fees	29.9	37.7
Total	$ 2,198.8	$ 2,357.7

(1) Primarily reflects fees related to debt offering documents and SEC filings.

Pre-Approval Policy

The Audit Committee must pre-approve the engagement of the independent registered public accounting firm to audit our consolidated financial statements.

The Audit Committee s pre-approval policies and procedures, as described in its charter, provide that the Audit Committee will approve all fees for audit and non-audit services prior to engagement. The Chair of the Audit Committee is authorized to pre-approve any audit and non-audit services on behalf of the Audit Committee, provided that such decisions are provided to the full Audit Committee at its next scheduled meeting.

The Audit Committee pre-approved all services provided by KPMG for 2011.

Selection of KPMG as our Independent Registered Public Accounting Firm for 2012

The Audit Committee has selected KPMG as our independent registered public accounting firm to audit our 2012 consolidated financial statements and provide an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2012.

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PROPOSAL 2 RATIFICATION OF THE AUDIT COMMITTEE S

SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected KPMG as our independent registered public accounting firm to audit our 2012 consolidated financial statements and provide an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2012. KPMG served as our independent registered public accounting firm in 2011. We are seeking our stockholders ratification of the Audit Committee s selection of our independent registered public accounting firm even though we are not legally required to do so. If our stockholders ratify the Audit Committee s selection, the Audit Committee nonetheless may, in its discretion, retain another independent registered public accounting firm at any time during the year if the Audit Committee feels that such change would be in the best interest of KCS and its stockholders. Alternatively, if this proposal is not approved by stockholders, the Audit Committee may re-evaluate its decision. One or more representatives of KPMG are expected to be present at the Annual Meeting and will have the opportunity, if desired, to make a statement and are expected to be available to respond to appropriate questions from stockholders. As explained above in How do we decide whether our stockholders have approved the proposals? ratification of this proposal requires the affirmative vote of a majority of the shares of Voting Stock present at the Annual Meeting that are entitled to vote on the proposal, assuming a quorum is present.

YOUR BOARD RECOMMENDS THAT YOU VOTE

FOR

RATIFICATION OF THE AUDIT COMMITTEE S

SELECTION OF KPMG LLP

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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, each of whom meets the independence requirements of the NYSE, qualifies as an outside director under Section 162(m) of the Code, and is considered a non-employee director under Rule 16b-3 under the Exchange Act.

All references in this Compensation Discussion and Analysis to Named Executive Officers or NEOs refer to our Chief Executive Officer, our Chief Financial Officer and the other executive officers for whom information is provided in the Summary Compensation Table below. Except for José Guillermo Zozaya Delano, who serves as the President and Executive Representative of KCSM and is based in Mexico, all of our Named Executive Officers are based in the United States of America (U.S.). We sometimes refer herein to these officers as U.S. Named Executive Officers.

Executive Summary

2011 Performance

The creation of stockholder value is the most important responsibility of our Board of Directors and executive officers. Our Compensation Committee believes our compensation practices and programs are appropriately designed to motivate our executives to meet this goal and to hold them accountable for all aspects of KCS performance. As our performance improves, so does the compensation of our Named Executive Officers.

In 2011, we recognized record-high volumes and revenues. For the first time, we exceeded two million carloads/units in a single year. Record-high revenues of $2.1 billion were driven by strong growth in intermodal and automotive traffic. As revenues grew in all of the business units during the year, our management team continued its focus on operating expense control, which resulted in operating expenses as a percentage of revenues of 70.9%, the lowest annual consolidated operating ratio percentage we have ever achieved.

Throughout, KCS executives managed in a manner that resulted in a stronger, more valuable company for our stockholders. Key aspects of 2011 performance that directly or indirectly impacted executive officer compensation are highlighted below, and described in greater detail in our Annual Report to stockholders:

Performance	***Result***
Consolidated Revenues	16% increase over 2010 level
Operating income	26% increase over 2010 level
Carloads	8% increase over 2010 level
Operating ratio	Record low consolidated operating ratio of 70.9%; 2.3 points lower than 2010 level
Diluted earnings per share	80% increase over 2010 level
Year-end closing stock price	42% increase over 2010 closing price; 104% increase over last two calendar years

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Overview of Compensation Elements

The KCS executive total compensation program is designed to help us fulfill key objectives under our compensation philosophy, including:

- Facilitating the attraction and retention of highly-qualified executives;
- Motivating executives to achieve our operating and strategic goals;
- Aligning executives interests with those of our stockholders; and
- Delivering executive compensation in a responsible and cost-effective manner.

Our programs also are intended to deliver competitive compensation opportunities for high performance. We measure our programs against a select group of transportation and mature, capital-intensive companies with annual revenues of less than $3.5 billion. We target median pay practices, with the ability to earn higher when performance warrants. The programs also incorporate downside risk, so that total delivered compensation will be less than targeted levels if we fall short of our performance and value creation targets.

The primary elements of our 2011 executive officer compensation package are highlighted and described below. The amount and types of elements differ between our U.S. and Mexico executives as a result of custom, traditions, compensation statutes and tax law differences.

Compensation Element	***Purpose***
Base Salary	Provides a fixed element of pay for an individual s primary duties and responsibilities
Annual Incentive	Encourages and rewards achievement of specified financial or operating goals on an annual basis
Long-Term Incentives	Aligns executives interests with those of investors (via creation of stockholder value); encourages stock ownership, and retention of our executives 2011 grants to NEOs included performance shares, restricted shares and stock options
Perquisites	Provides additional pay elements that are conservative, reasonable and consistent with our pay philosophy, industry practice and applicable law
Benefits	Provides basic life and disability insurance, medical coverage, and retirement income

Key Decisions and Outcomes in 2011

Each year, the Compensation Committee places a particular focus on the goals under our Annual Incentive Plan and our long-term incentive grants, to ensure that they align with shareholder interests. For 2011, the Compensation Committee:

- Established goals under the Annual Incentive Plan that reflect superior operating performance, as measured by consolidated operating ratio.
  - As a result of exceeding the target goal for consolidated operating ratio, awards under the plan were 173% of target.

Established the 2011 Long-Term Incentive Program which provides for three-year performance share awards and time-vested stock options and restricted stock. Performance share awards are in three tranches with performance goals set annually.

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As a result of exceeding the 2011 performance goals, 193% of the 2011 target performance share awards were earned.

In 2010, the Compensation Committee approved a grant of 40,000 restricted shares of our Common Stock for Mr. Starling, with vesting contingent on the achievement of annual or cumulative earnings per share growth goals. The first year goals were achieved in 2011 and 10,000 shares vested.

Approved revisions to the Executive Stock Ownership Guidelines.

Reviewed and recommended revisions to the Non-Management Director Stock Ownership Guidelines that were ultimately adopted by the Board.

Approved modest salary increases for the Named Executive Officers in 2011.

Conclusion

We continually review our executive compensation program to assure that it achieves the objectives described above. The Compensation Committee and our management believe that our executive compensation program is designed and implemented in your best interests as stockholders. In light of the Company s superior financial performance and the continuing success of our compensation program, the Compensation Committee made no significant changes to our compensation principals or philosophy during the year, concluding that it continues to provide a competitive pay-for-performance package that effectively incentivizes executives and retains them for the long term. The Compensation Committee also noted that stockholders expressed strong support for the Company s executive compensation program at our 2011 Annual Meeting of Stockholders, with almost 95% of the stockholders who voted on the say-on-pay proposal voting in favor. Our Compensation Committee believes this evidences our stockholders support for our approach to executive compensation. We currently intend to hold an annual advisory vote on the compensation of our named executive officers until the next say-on-pay frequency vote.

Peer Competitive Market Group

In early 2010, the Compensation Consultant 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. The Compensation Committee relied on the results of this study in setting 2010 and 2011 compensation. In connection with this analysis and prior benchmarking analyses, we defined our primary United States and Mexico competitive market as transportation and mature, capital-intensive companies with annual revenues of less than $3.5 billion that participate in the Compensation Consultant s Executive Compensation Database. In 2011, with respect to our U.S. Named Executive Officers, this group remained the same and was comprised of the following companies, all of which had revenues in 2010 between $658 million and $3.5 billion:

A.O. Smith Corp.	The GEO Group, Inc.	National Semiconductor Corp.
AGL Resources, Inc.	Hayes Lemmerz International Inc.	NorthWestern Corporation
Alexander & Baldwin, Inc.	Herman Miller Inc.	Pinnacle West Capital
Beckman Coulter, Inc.	HNI Corp.	PNM Resources Inc.
Brady Corp.	IDACORP Inc.	Portland General Electric Co.
Carpenter Technology Corp.	IDEX Corporation	The Scotts Miracle-Gro Company
Cephalon Inc.	JetBlue Airways Corporation	Southern Union Co.
Crown Castle International Corp.	Kaman Industrial Technologies	Terra Industries Inc.
Donaldson Co. Inc.	Kennametal Inc.	Thomas & Betts Corp.
DPL Inc.	Magellan Midstream Partners LP	The Toro Co.
Dynegy, Inc.	Martin Marietta Materials, Inc.	Tupperware Brands Corp.
Ferrellgas Partners LP	Media General Inc.	UIL Holdings Corp.
Garmin Ltd.	MetroPCS Communications Inc.	UniSource Energy Corp.
GATX Corp.	Millipore Corp.	Warnaco Group, Inc.
	Mirant Corp.	Westar Energy Inc.

With respect to Mr. Zozaya, this group was comprised of the following companies, all of which had revenues in 2010 between $388 million and $2.2 billion:

Cemex	Grupo Alfa	Pepsico de México
Coca-Cola Femsa	Grupo KUO	Pfizer México, S.A.de C.V.
Gamesa	Hewlett Packard (Mexico subsidiary)	Procter & Gamble (Mexico subsidiary)
Glaxo SmithKline (Mexico subsidiary)	IBM de México	Sabritas
GRUMA	Kellogg (Mexico subsidiary)	Smurfit Carton y Papel de México, S.A. de C.V.
	Maseca	

Philosophy

The Compensation Committee compensates the Company s executive officers, including the Named Executive Officers, based on an executive compensation philosophy consisting of the following elements:

Market competitive positioning

- Base salary We seek to provide competitive levels of fixed compensation that reflect our executives respective job scopes and responsibilities. The base salary is intended to provide a regular base income for an executive, commensurate with his or her position and to reward the acquisition of critical skills and competencies. On average, we seek to pay executives a base salary that is at about the local country market 50th percentile, subject to incumbent-specific and internal equity/value considerations.

- Target annual incentive award opportunities Target annual incentive awards are intended to approximate the market 50th percentile in the U.S. The target award for executives based in Mexico may be above the market median practice in Mexico.

Role of incentive compensation

- Annual Incentives The purpose of our annual cash incentive awards is to motivate and reward the achievement of predetermined company financial goals that are based on the needs of the business. Annual incentive program awards for Named Executive Officers are awarded based on achievement of Company performance measures that are designed to provide target awards for year-over-year operational or financial improvement.

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

The Compensation Committee believes our executive compensation program 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 them in accordance with the creation of stockholder value; and

Deliver executive compensation in a responsible and cost-effective manner that reflects sound governance principles on the part of the Company and its Board of Directors.

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Elements Of Compensation

The primary elements of our 2011 executive officer compensation package are described below. The amount and types of elements differ between our U.S. and Mexico executives as a result of custom, traditions, compensation statutes and tax law differences.

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 local country market, and internal equity considerations.
Annual Incentive	To encourage and reward the achievement of specified financial goals on an annual basis.	Performance-based cash award opportunity; amount earned is based on actual results relative to pre-determined goals.
Long-Term Incentives		
Performance Share Awards	To incentivize management for long-term financial success.	Three-year performance based share awards in three tranches with financial goals set annually.
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.
Stock Options	To incent and reward the creation of stockholder value.	Service-based long-term incentive opportunity; amounts realized are dependent upon share price appreciation.
Perquisites	To provide a level of perquisites typically provided at U.S. companies against which KCS competes for U.S. executive talent, and to provide perquisites to KCSM s executives as required by Mexican law.	In the U.S., KCS pays for country club initiation fees (but not membership dues), financial planning services, fees for donor advised funds, and other perquisites as described under Perquisites below. For all executives, KCS provides an annual physical exam (provided through KCS s medical plan). In Mexico, we are required to provide the following perquisites: (1) annual Christmas bonus, (2) vacation and vacation premium payments, (3) food stipend, (4) automotive allocation or leased company car, (5) gasoline coupons, (6) 100% of the executive s share of social security fees, and (7) a limited reimbursement of expenses for financial planning services.

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Compensation Element	*Purpose*	*Characteristic*
Benefits	To provide for basic life and disability insurance, medical coverage, and retirement income.	For U.S. employees, KCS matches employee 401(k) contributions up to the lesser of a maximum of 5% of a participant s eligible compensation or certain statutory limits, and pays a portion of premiums for medical coverage, short-term disability coverage, long-term disability coverage and AD&D coverage. For U.S. and Mexico employees, KCS provides a basic amount of group life insurance coverage. Additionally, KCS provides all U.S. employees with the opportunity to semi-annually purchase a specified number of shares of KCS Common Stock at a discount. For U.S. executives, KCS has an Executive Plan that provides a benefit based on an amount 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. In Mexico, KCS matches executives contributions into a savings fund up to certain legal limits.
Change in Control *Benefits*	To 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.	For U.S. executive officers, cash severance payments following termination or resignation under certain defined circumstances following a change in control, vesting of non-vested equity awards, post-employment health and welfare benefits and, for U.S. executives hired prior to 2007, excise-tax protection and tax gross-ups on severance payments. In Mexico, KCS has agreed to pay cash severance in the event of a termination under certain defined circumstances following a change in control.
Severance Compensation	To assist the Company in attracting and retaining key executive officers.	For U.S. executive officers, KCS provides cash severance payments and health and welfare benefits for a period of time following an involuntary termination of employment. In Mexico, in addition to severance benefits required by Mexico law, KCS has contractually agreed to pay its President and Executive Representative one year s base salary following an involuntary termination of employment.

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

Executive Compensation Practices

Our compensation programs are designed to reward employees for producing sustainable growth, to attract and retain world-class talent and to align compensation with the long-term interests of our stockholders.

The table below highlights our current executive compensation practices both the practices we believe drive performance (left column) and the practices we have not implemented because we do not believe they would serve our stockholders long-term interests (right column).

Our Executive Compensation Practices: (What We Do)	**Executive Compensation Practices We Have Not Implemented: (What We Don t Do)**
We tie pay to performance. The great majority of executive pay is not guaranteed. We set clear financial goals for corporate performance.	We do not believe any of the Company s compensation programs create risks that are reasonably likely to pose a material adverse impact to the Company.
We mitigate undue risk, including utilizing caps on potential payments, and robust Board and management processes to identify risk.	We do not reprice underwater stock options.
We have adopted stringent share ownership guidelines, which all Named Executive Officers meet.	We do not provide tax gross-ups for perquisites.
Our earned performance share awards do not vest until the end of the three-year cycle.	We do not have excise tax gross-ups other than historical provisions contained in employment agreements entered into prior to 2007.
We provide only modest perquisites that have a sound benefit to the Company s business.	
We have reasonable post-employment and change in control provisions that apply to executive officers in their employment agreements.	
Our equity plans under which awards may be granted generally provide for accelerated vesting of future awards after a change in control only if an employee is also terminated (a double-trigger).	
Our Compensation Committee benefits from its utilization of an independent compensation consulting firm.	

The Compensation Committee closely monitors any other services provided to the Company by its compensation consulting firm to ensure they are minimal.

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Compensation Determination and Implementation

The Compensation Committee uses the benchmark analyses of our peer companies, internal pay equity analyses and other tools in setting the compensation of senior management on an annual basis to confirm that the compensation packages for our Named Executive Officers are in line with the compensation philosophy adopted by the Compensation Committee.

The Compensation Consultant recommends the pay package for our Executive Chairman to the Compensation Committee. Our Executive Chairman and the Compensation Consultant recommend the pay package for our CEO to the Compensation Committee. Pay packages for the other Named Executive Officers are recommended by our Executive Chairman and our CEO, with input and guidance from the Compensation Consultant, to the Compensation Committee. The Compensation Committee, the Executive Chairman and the CEO, with the advice of the Compensation Consultant, 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 local country 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.

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, taking into account recommendations from the Executive Chairman and the CEO, and advice from the Compensation Consultant, 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 peer group for the relevant country in setting base salary levels, actual executive salaries may vary from this 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 the strength of the Named Executive Officer s individual performance. The Compensation Committee exercises subjective judgment and varies the weightings of these factors with respect to each Named Executive Officer.

In February 2011, the Compensation Committee approved salary increases for all members of the Company s and KCSM s senior management, including the Named Executive Officers. Each U.S. Named Executive Officer received a 3.0% base salary increase in accordance with market median salary increases among the Company s United States peer group. Mr. Zozaya received a 4.0% base salary increase in accordance with market median salary increases in Mexico.

Chief Executive Officer Compensation Changes in 2011

In February 2011, the Compensation Committee unanimously voted to grant Mr. Starling employment credit for his service as President and Director General of Panama Canal Railway Company (PCRC), a fifty percent owned equity investment of the Company. Although PCRC is not a subsidiary of the Company, the Compensation Committee believes that his service and the operating results of PCRC benefited the Company and are worthy of recognition. With this, Mr. Starling will satisfy the retirement provisions of his existing and future equity awards from the Company in that he is over 55 years old and will be considered to have more than ten years of service to the Company. This will result in such awards becoming non-forfeitable on an accelerated basis pursuant to the retirement provisions of the award agreements.

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Annual Incentive Awards

In February 2011, the Compensation Committee approved the 2011 Annual Incentive Plan (the 2011 AIP) for our Named Executive Officers. In order for there to be any payout to our Named Executive Officers under the 2011 AIP, the Company had to achieve a consolidated operating ratio of 72.5% or better.

As with the 2010 AIP model, each Named Executive Officer was assigned incentive targets at the threshold, target and maximum incentive performance levels that are a percentage of the Named Executive Officer s 2011 base salary. The target percentage assigned for each performance level depended on the executive s salary grade and was 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.

Each Named Executive Officer was assigned incentive targets at the threshold, target and maximum incentive performance levels that were a percentage of the Named Executive Officer s 2011 base salary, as follows:

	Percentage of Base Salary		
Named Executive Officer	Threshold Performance Level	Target Performance Level	Maximum Performance Level
Mr. Starling	50%	100%	200%
Mr. Upchurch	30%	60%	120%
Mr. Haverty	37.5%	75%	150%
Mr. Zozaya	30%	60%	120%
Mr. Ottensmeyer	30%	60%	120%

Following are the 2011 consolidated operating ratio incentive targets, as well as the percentage payout of the executive s total incentive target for these metrics:

Performance Level	Consolidated Operating Ratio	Percentage Payout at Total Incentive Target
Threshold	72.5%	50%
Target	71.8%	100%
Maximum	70.5%	200%

For the year ended December 31, 2011, our consolidated operating ratio was 70.9%. As a result of this, the Named Executive Officers each earned a 2011 AIP payout of 173% of the target amount. See the Summary Compensation Table for actual amounts paid.

Each year, the Compensation Committee will determine whether an annual 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 our executives.

Long-Term Incentives

2008 Stock Option and Performance Award Plan (the 2008 Plan). The purpose of the 2008 Plan is to allow officers, directors, employees and consultants of KCS and its affiliates to acquire or increase equity ownership in the Company. The 2008 Plan provides for the award of stock options (including incentive stock options), restricted shares, restricted share units, bonus shares, stock appreciation rights (SARs), limited stock appreciation rights (LSARs), performance units and/or performance shares to officers, directors, employees and consultants. Awards under the 2008 Plan are made at 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 2008 Plan was approved by the stockholders of the Company on October 7, 2008 and replaced the 1991 Amended and Restated Stock Option and Performance Award Plan (the 1991 Plan), which is no longer being used with respect to the issuance of new awards. The purpose of the 1991 Plan and the types of awards provided for in the 1991 Plan were generally the same as the 2008 Plan. Awards granted under the 1991 Plan continue to be governed by that plan and their respective award agreements until vesting or expiration. 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 or the 2008 Plan.

We do not time stock option grants or other equity awards to our executives with the release of material non-public information. Further, we do not grant stock options at a discounted exercise price.

2011 Executive Long-Term Incentive Program

In the fall of 2010, the Compensation Committee and Company management began to develop a new long-term incentive plan (the 2011 LTI Program). The Compensation Consultant was engaged to assist in the process to help the Compensation Committee develop guiding principles for the new program, and to provide input and design alternatives for the Compensation Committee s consideration.

The Compensation Consultant utilized the guidelines developed during the creation of the 2010 LTI Program to assist in the development of the 2011 LTI Program. The Compensation Committee agreed that that the 2011 LTI Program should continue to:

- Drive sustained improvement in our operating performance;
- Communicate strong performance focus to the external market;
- Support execution of our long-term business strategy;
- Provide a balanced program based on performance, share price leverage and employee retention;
- Maintain flexibility to dovetail with our other talent management tools;
- Maintain our external competitiveness; and
- Be simple and transparent.

Consistent with these principles, the Compensation Committee articulated a desire to refocus participants on long-term performance. Our management recommended that the 2011 LTI Program should be a three-year program, rather than a one-year program like the 2010 LTI Program, with a large percentage of the value of the awards granted under the plan relying on the performance of the Company or its stock to be earned or have value. Management further suggested that the performance awards be divided into three tranches and the performance metrics for earning each award tranche under the 2011 LTI Program be set annually in order to provide the Compensation Committee with flexibility to annually take into account factors such as the economy, the business environment and our performance in determining the performance metrics that need to be satisfied for management to earn the performance share awards under the plan. Given the unexpected significant decline in the economy at the end of 2008 and the potential for further vacillation in the economy, the Compensation Committee viewed the ability to take into account such external factors in setting performance goals for this program as a very important feature of the program.

In addition to the performance share component of the 2011 LTI Program, the Compensation Committee determined it appropriate to also grant a mix of time-based non-qualified stock options and restricted shares of our stock. The Compensation Committee believed that a high percentage of the award mix should be comprised of performance share awards and non-qualified stock options, each of which will require management to generate positive financial performance or stock appreciation in order to financially benefit from the award grants. The Compensation Committee also concluded that a portion of the award should be comprised of time-based, cliff vesting, restricted stock of the Company for purposes of acting as a management retention tool during the three-year term of the program.

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The 2011 LTI Program was approved in February 2011. As discussed above, we increased the emphasis on performance shares in our long-term incentive compensation. The mix of awards was as follows:

2011 Long-Term Incentive Mix

The performance shares awarded were divided into three equal tranches, with one tranche available for each year of the three-year plan. Management may earn between 50% and 200% of each year s performance award tranche by meeting or exceeding the performance criteria set for that year. The performance criteria for each tranche in the three year plan will be set at the first meeting of the Compensation Committee during each year of the 2011 LTI Program. The shares earned in each tranche, if any, do not vest until the end of the three year period, on the later of (i) February 28, 2014 or (ii) the date the Compensation Committee certifies that the Performance Goals for the 2013 Performance Period are (or are not) satisfied.