



Kansas City Southern

Consolidated Investors' Report Second Quarter 2011



This document should be read in conjunction with the Company's 10-K, 10-Q, and any 8-K statements filed with the Securities Exchange Commission.

This document includes statements concerning potential future events involving the Company which could materially differ from events that actually occur. The differences could be caused by a number of factors including those factors identified in the "Risk Factors" section of the Company's Form 10-K for the year ended December 31, 2010 filed by the Company with the SEC (File No. 1-04717). The Company will not update any forward-looking statements in this presentation to reflect future events or developments.

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Second Quarter Press Release

NEWS RELEASE



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Kansas City Southern Reports Record Second Quarter Revenue; Operating Ratio of 71.7%

Second Quarter 2011 Results

- Revenues of \$535 million, a 16% increase from prior year on a 7% increase in carloadings
- Operating income of \$152 million, an increase of 19% from a year ago
- Operating ratio of 71.7%, a 0.7 point improvement over second quarter 2010
- Adjusted diluted earnings per share of \$0.71 for second quarter 2011 up from \$0.55 in the second quarter 2010. Diluted earnings per share were \$0.64 and \$0.34 respectively.

Kansas City, MO, July 21, 2011. Kansas City Southern (KCS) (NYSE:KSU) reported second quarter 2011 revenues of \$535 million, a 16% increase compared to the corresponding 2010 period. Overall, carload volumes were 7% higher than in second quarter 2010.

All commodity groups contributed to the improvement in revenues. The Automotive group experienced a 42% increase in revenues in second quarter compared to the same period a year ago. Intermodal revenues also showed strength increasing 25% over the same time period. Other revenue improvements were 28% for Coal; 14% for Industrial and Consumer Products; 14% for Chemical and Petroleum; and 5% for Agriculture and Minerals.

Operating expenses for the second quarter of \$383 million were \$49 million, or 15%, higher than the corresponding 2010 period, primarily due to a 33% increase in fuel. Exclusive of fuel, operating expenses increased 10%. Operating income for the second quarter of 2011 was \$152 million, which was 19% higher than 2010. KCS's record second quarter operating ratio of 71.7% improved compared with the 72.4% operating ratio reported for the corresponding 2010 period, despite higher fuel prices.

Net income available to common stockholders in the second quarter totaled \$71 million, or \$0.64 per diluted share, compared to \$35 million, or \$0.34 per diluted share in second quarter 2010. Adjusting for debt retirement costs of \$10.3 million in the second quarter of 2011 and \$32.5 million in second quarter 2010, adjusted diluted earnings per share were \$0.71 and \$0.55 respectively, an increase of 29%.

"Kansas City Southern achieved year-over-year and sequential improvement in most of its key financial and operational metrics, including carloads, revenues, operating income and operating ratio," stated David L. Starling, KCS president and chief executive officer. "These results illustrate the continued expansion of KCS's markets and its success in maintaining a high level of operating performance while handling record levels of traffic. As we look out to the remainder of the year, KCS's full year revenue growth is expected to be higher than the first half growth of 14%; an improvement over the low double-digit guidance we provided previously.

"KCS did experience some disruption of its grain and coal traffic late in the second quarter caused by flood conditions in the upper Midwest. While KCS's rail system was not directly impacted, our interchange partners have been forced to divert trains away from flood-ravaged areas. This situation is expected to persist through the first half of the third quarter.

“Despite the traffic disruptions, KCS established new records in the second quarter for carloads; and freight, line haul and total revenues, while also attaining the highest average revenue per unit in the company’s history. The strength and diversity of the markets we serve in both the U.S. and Mexico provide us with confidence that KCS can continue to achieve strong business growth over the long term.

“In July, KCS completed the refinancing of the Kansas City Southern Railway credit facility extending maturities and improving financial flexibility. Also in July, KCS entered into a final settlement on the Hurricane Alex property and casualty claim. It is expected that the final cumulative earnings per share impact of Hurricane Alex will be a loss of approximately \$0.05, which is consistent with guidance provided since the third quarter 2010 earnings conference call.”

GAAP RECONCILIATION

Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share	Three Months Ended June 30,	
	2011	2010
Diluted earnings per share	\$ 0.64	\$ 0.34
Adjustment for debt retirement costs	0.07	0.21
Adjusted diluted earnings per share (a)	\$ 0.71	\$ 0.55

(a) The Company believes adjusted diluted earnings per share is meaningful as it allows investors to evaluate the Company’s performance for different periods on a more comparable basis by excluding items that do not relate to the ongoing operations of the Company.

Headquartered in Kansas City, MO, Kansas City Southern is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. Its primary U.S. holding is The Kansas City Southern Railway Company, serving the central and south central U.S. Its international holdings include Kansas City Southern de México, S.A. de C.V., serving northeastern and central Mexico and the port cities of Lázaro Cárdenas, Tampico and Veracruz, and a 50 percent interest in Panama Canal Railway Company, providing ocean-to-ocean freight and passenger service along the Panama Canal. Kansas City Southern's North American rail holdings and strategic alliances are primary components of a NAFTA Railway system, linking the commercial and industrial centers of the U.S., Mexico and Canada.

This news release contains “forward-looking statements” within the meaning of the securities laws concerning potential future events involving KCS and its subsidiaries, which could materially differ from the events that actually occur. The words “projects,” “estimates,” “forecasts,” “believes,” “intends,” “expects,” “anticipates,” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are based upon information currently available to management and management’s perception thereof as of the date of this news release. Differences that actually occur could be caused by a number of external factors over which management has little or no control, including: competition and consolidation within the transportation industry; the business environment in industries that produce and consume rail freight; revocation of the rail concession of KCS’s subsidiary, Kansas City Southern de México, S.A. de C.V.; the termination, or failure to renew, agreements with customers, other railroads and third parties; interest rates; access to capital; disruptions to the KCS’s technology infrastructure, including its computer systems; natural events such as severe weather, hurricanes and floods; market and regulatory responses to climate change; credit risk of customers and counterparties and their failure to meet their financial obligation; legislative and regulatory developments and disputes; rail accidents or other incidents or accidents along the KCS’s rail network, facilities or customer facilities involving the release of hazardous materials, including toxic inhalation hazards; fluctuation in prices or availability of key materials, in particular diesel fuel; changes in securities and capital markets; loss of key personnel; labor difficulties, including strikes and work stoppages; insufficiency of insurance to cover lost revenue, profits or other damages; acts of terrorism or risk of terrorist activities; war or risk of war; and other factors affecting the operation of the business; domestic and international economic conditions; political and economic conditions in Mexico and the level of trade between the United States and Mexico; the outcome of claims and litigation KCS or its subsidiaries. More detailed information about these factors may be found in filings by KCS with the Securities and Exchange Commission, including the KCS’s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-4717) and subsequent Quarterly Reports on Form 10-Q. Forward-looking statements are not, and should not be relied upon

as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. KCS is not obligated to update any forward-looking statements in this news release to reflect future events or developments.

Income Information

(in millions, except share and per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 534.9	\$ 461.6	\$ 1,023.5	\$ 897.9
Operating expenses:				
Compensation and benefits	104.4	93.7	204.8	184.4
Purchased services	54.8	48.0	102.9	92.9
Fuel	92.0	69.1	171.5	129.9
Equipment costs	42.7	41.3	84.1	80.0
Depreciation and amortization	45.5	46.9	91.2	92.7
Materials and other	43.9	35.4	89.6	82.6
Total operating expenses	383.3	334.4	744.1	662.5
Operating income	151.6	127.2	279.4	235.4
Equity in net earnings of unconsolidated affiliates	5.3	4.6	8.9	11.0
Interest expense	(32.4)	(41.9)	(65.5)	(86.3)
Debt retirement costs	(10.3)	(32.5)	(10.3)	(47.4)
Foreign exchange gain (loss)	0.4	(1.4)	0.3	1.2
Other income, net	-	1.0	1.7	1.5
Income before income taxes	114.6	57.0	214.5	115.4
Income tax expense	42.9	19.6	78.7	43.8
Net income	71.7	37.4	135.8	71.6
Less: Net income (loss) attributable to noncontrolling interest	0.9	-	1.0	(1.1)
Net income attributable to Kansas City Southern and subsidiaries	70.8	37.4	134.8	72.7
Preferred stock dividends	0.1	2.8	1.5	5.5
Net income available to common stockholders	\$ 70.7	\$ 34.6	\$ 133.3	\$ 67.2
Earnings per share:				
Basic earnings per share	\$ 0.65	\$ 0.35	\$ 1.25	\$ 0.69
Diluted earnings per share	\$ 0.64	\$ 0.34	\$ 1.23	\$ 0.68
Average shares outstanding (<i>in thousands</i>):				
Basic	109,428	99,907	106,858	97,946
Potentially dilutive common shares	382	459	2,918	514
Diluted	109,810	100,366	109,776	98,460

Balance Sheet Information

(in millions)

(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 156.0	\$ 85.4
Accounts receivable, net	195.8	160.0
Materials and supplies	115.4	101.4
Deferred income taxes	136.3	138.2
Other current assets	58.0	91.2
Total current assets	661.5	576.2
Investments	48.8	46.4
Restricted funds	14.7	22.0
Property and equipment (including concession assets), net	4,994.1	4,902.4
Other assets	106.6	93.9
Total assets	<u>\$ 5,825.7</u>	<u>\$ 5,640.9</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Debt due within one year	\$ 18.2	\$ 18.1
Accounts payable and accrued liabilities	387.6	403.0
Total current liabilities	405.8	421.1
Long-term debt	1,614.6	1,621.6
Deferred income taxes	730.1	654.5
Other noncurrent liabilities and deferred credits	221.8	230.0
Total liabilities	2,972.3	2,927.2
Commitments and contingencies	-	-
Stockholders' equity	7.2	7.3
Paid-in capital	881.6	877.2
Retained earnings	1,679.9	1,548.0
Accumulated other comprehensive loss	(0.9)	(1.4)
Total stockholders' equity	2,567.8	2,431.1
Noncontrolling interest	285.6	282.6
Total equity	2,853.4	2,713.7
Total liabilities and equity	<u>\$ 5,825.7</u>	<u>\$ 5,640.9</u>

Cash Flow Information

(in millions)

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Operating activities:		
Net income	\$ 135.8	\$ 71.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91.2	92.7
Deferred income taxes	77.2	42.9
Equity in undistributed earnings of unconsolidated affiliates	(8.9)	(11.0)
Share-based compensation	5.3	4.5
Excess tax benefit from share-based compensation	-	(15.5)
Deferred compensation	11.0	3.2
Distributions from unconsolidated affiliates	6.6	10.5
Cash payments related to hurricane damage	(1.1)	-
Insurance proceeds related to hurricane damage	21.7	-
Gain on sale of assets	(0.2)	(0.4)
Debt retirement costs	10.3	47.4
Changes in working capital items:		
Accounts receivable	(43.8)	(36.5)
Materials and supplies	(13.8)	0.4
Other current assets	11.2	5.9
Accounts payable and accrued liabilities	(7.3)	23.5
Other, net	(26.3)	(18.9)
Net cash provided by operating activities	268.9	220.3
Investing activities:		
Capital expenditures	(171.8)	(120.9)
Acquisition of an intermodal facility, net of cash acquired	-	(25.0)
Property investments in MSLLC	(24.2)	(10.5)
Insurance proceeds related to hurricane damage	8.3	-
Proceeds from disposal of property	4.9	3.5
Other, net	8.7	7.5
Net cash used for investing activities	(174.1)	(145.4)
Financing activities:		
Proceeds from issuance of long-term debt	200.0	295.7
Repayment of long-term debt	(209.6)	(589.0)
Proceeds from common stock issuance	-	214.9
Debt costs	(12.9)	(40.4)
Proceeds from employee stock plans	1.2	0.7
Excess tax benefit from share-based compensation	-	15.5
Preferred stock dividends paid	(2.9)	(5.5)
Net cash used for financing activities	(24.2)	(108.1)
Cash and cash equivalents:		
Net increase (decrease) during each period	70.6	(33.2)
At beginning of year	85.4	117.5
At end of period	\$ 156.0	\$ 84.3

Revenue Statistics by Commodity - Quarterly

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue Per Carload/Unit	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2011	2010	2011	2010	2011	2010
Chemical & Petroleum						
Agri Chemicals	\$ 5.6	\$ 6.0	3.6	3.7	\$ 1,556	\$ 1,622
Other Chemicals	45.9	40.3	27.3	26.3	1,681	1,532
Petroleum	30.4	25.9	19.6	18.8	1,551	1,378
Plastics	25.0	21.2	16.5	15.7	1,515	1,350
Total	<u>106.9</u>	<u>93.4</u>	<u>67.0</u>	<u>64.5</u>	<u>1,596</u>	<u>1,448</u>
Industrial & Consumer Products						
Forest Products	56.4	51.4	30.8	33.0	1,831	1,558
Metals & Scrap	49.7	41.1	28.9	26.9	1,720	1,528
Other	18.9	16.7	20.9	18.4	904	908
Total	<u>125.0</u>	<u>109.2</u>	<u>80.6</u>	<u>78.3</u>	<u>1,551</u>	<u>1,395</u>
Agriculture & Minerals						
Grain	59.6	59.0	34.7	36.2	1,718	1,630
Food Products	40.5	36.1	18.5	18.6	2,189	1,941
Ores & Minerals	14.7	15.1	12.1	13.0	1,215	1,162
Stone, Clay & Glass	6.7	5.7	3.5	3.6	1,914	1,583
Total	<u>121.5</u>	<u>115.9</u>	<u>68.8</u>	<u>71.4</u>	<u>1,766</u>	<u>1,623</u>
Coal						
Unit Coal	58.1	45.2	57.4	55.1	1,012	820
Other Coal	9.9	8.1	10.9	10.0	908	810
Total	<u>68.0</u>	<u>53.3</u>	<u>68.3</u>	<u>65.1</u>	<u>996</u>	<u>819</u>
Intermodal	<u>62.0</u>	<u>49.6</u>	<u>194.6</u>	<u>171.6</u>	<u>319</u>	<u>289</u>
Automotive	<u>34.4</u>	<u>24.3</u>	<u>20.5</u>	<u>17.5</u>	<u>1,678</u>	<u>1,389</u>
Total for Commodity Groups	<u>517.8</u>	<u>445.7</u>	<u>499.8</u>	<u>468.4</u>	<u>\$ 1,036</u>	<u>\$ 952</u>
Other Revenue	<u>17.1</u>	<u>15.9</u>				
Total	<u>\$ 534.9</u>	<u>\$ 461.6</u>				

Revenue Statistics by Commodity – Year to Date

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue Per Carload/Unit	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010	2011	2010
Chemical & Petroleum						
Agri Chemicals	\$ 11.6	\$ 12.2	7.5	7.8	\$ 1,547	\$ 1,564
Other Chemicals	86.2	77.0	52.1	50.3	1,655	1,531
Petroleum	58.4	51.1	38.3	37.7	1,525	1,355
Plastics	47.6	42.7	32.1	30.9	1,483	1,382
Total	203.8	183.0	130.0	126.7	1,568	1,444
Industrial & Consumer Products						
Forest Products	111.5	98.2	63.5	63.6	1,756	1,544
Metals & Scrap	94.9	77.4	57.9	51.9	1,639	1,491
Other	37.1	33.4	41.3	36.2	898	923
Total	243.5	209.0	162.7	151.7	1,497	1,378
Agriculture & Minerals						
Grain	109.9	115.0	65.6	71.3	1,675	1,613
Food Products	75.1	68.6	35.7	36.1	2,104	1,900
Ores & Minerals	29.1	27.5	25.1	24.4	1,159	1,127
Stone, Clay & Glass	12.5	10.8	6.7	6.9	1,866	1,565
Total	226.6	221.9	133.1	138.7	1,702	1,600
Coal						
Unit Coal	114.0	96.9	116.0	116.5	983	832
Other Coal	18.6	15.4	21.0	20.6	886	748
Total	132.6	112.3	137.0	137.1	968	819
Intermodal	116.2	92.2	370.5	322.1	314	286
Automotive	65.5	46.0	40.6	35.3	1,613	1,303
Total for Commodity Groups	988.2	864.4	973.9	911.6	\$ 1,015	\$ 948
Other Revenue	35.3	33.5				
Total	\$ 1,023.5	\$ 897.9				

Productivity Statistics

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Gross Ton Miles (GTM) in millions (a)	22,227	21,232	43,074	41,623
Revenue Ton Miles (RTM) in millions	11,641	11,296	22,775	22,573
Average Employees - Total	6,101	6,079	6,091	6,068
Average Employees - Union	4,704	4,697	4,692	4,672
GTM's per Average Employee (in millions)	3.64	3.49	7.07	6.86
Operating Ratio	71.7%	72.4%	72.7%	73.8%

(a) - Excludes Locomotive Gross Ton Miles

Capital Expenditures

(in millions)

	Six Months Ended June 30,	
	2011	2010
Roadway capital program	\$ 117.2	\$ 98.4
Equipment	2.9	5.4
Information technology	3.4	7.3
Capacity	3.4	0.9
Other	30.7	9.3
Total capital expenditures (accrual basis)	157.6	121.3
Change in capital accruals	14.2	(0.4)
Total cash capital expenditures	<u>\$ 171.8</u>	<u>\$ 120.9</u>
Track Renewal		
Track miles of rail installed	<u>63.0</u>	<u>13.4</u>
Cross ties installed (thousands)	<u>404</u>	<u>402</u>

Debt Summary

(in millions)

	Expiration Date	Interest Rate	June 30, 2011	December 31, 2010
KCS Revolver ⁽¹⁾	4/28/2013	Floating	\$ -	\$ -
KCS Term Loan ⁽¹⁾	4/28/2013	Floating	305.8	307.4
KCSM Revolver	8/30/2013	Floating	-	-
Total Bank Facilities			<u>305.8</u>	<u>307.4</u>
KCSM Senior Notes	12/1/2013	7.625%	-	32.4
KCS Senior Notes	12/15/2013	13.000%	115.1	113.7
KCSM Senior Notes	6/1/2014	7.375%	-	165.0
KCS Senior Notes	6/1/2015	8.000%	275.0	275.0
KCSM Senior Notes	4/1/2016	12.500%	93.9	93.6
KCSM Senior Notes	2/1/2018	8.000%	296.2	296.0
KCSM Senior Notes	12/15/2020	6.625%	185.0	185.0
KCSM Senior Notes	6/15/2021	6.125%	200.0	-
Total Unsecured Senior Notes			<u>1,165.2</u>	<u>1,160.7</u>
KCSM Loan and Security Agreement	2/28/2023	5.737%	55.3	60.6
KCSM Loan Agreement	9/29/2023	6.195%	42.6	44.4
Tex Mex RRIF Loan	7/13/2030	4.290%	43.2	43.9
Capital Leases	Various	Various	15.4	16.8
Other	Various	Various	5.3	5.9
Total Debt			<u>\$ 1,632.8</u>	<u>\$ 1,639.7</u>

⁽¹⁾ On July 12, 2011, KCS amended and restated its credit agreement. The maturity of the term loans was extended to January 15, 2017, and the Company used available cash to reduce the principal balance of the term loans by \$5.8 million. The maturity of the revolver was extended to July 15, 2016, and the available principal amount of such commitments was increased from \$125.0 million to \$200.0 million.

Free Cash Flow *

(in millions)

	Six Months Ended June 30,	
	2011	2010
Net cash provided by operating activities	\$ 268.9	\$ 220.3
Cash used for capital expenditures	(171.8)	(120.9)
Other investing activities, net	(2.3)	(24.5)
Preferred stock dividends paid	(2.9)	(5.5)
Free cash flow after dividends paid	<u>\$ 91.9</u>	<u>\$ 69.4</u>

* All reconciliations to GAAP can be found on page 13.

Credit Ratings and Statistics

Credit ratings are subject to change at any point in time. These ratings were applicable as of June 30, 2011.

	<u>S&P</u>	<u>Moody's</u>
KCS		
Outlook	Stable	Stable
Senior Secured	BBB-	Baa3
Senior Unsecured	BB	Ba3
Corporate	BB	Ba2
KCSM		
Outlook	Stable	Stable
Senior Secured	BB+	Ba1
Senior Unsecured	BB	Ba2
Corporate	BB	Ba2
	June 30, 2011	December 31, 2010
Debt/Capitalization Ratio (Total Debt/Total Debt + Equity)	36.4%	37.7%

Non-GAAP Financial Information (Regulation G)

(in millions)

KCS reports its financial results in accordance with generally accepted accounting principles ("GAAP"). However, management believes that certain non-GAAP financial measures used to review and in certain cases manage the Company's business that fall within the meaning of Regulation G (Disclosure of non-GAAP financial measures) may provide its users of the financial information with additional meaningful comparison when reviewing the Company's results.

In press releases and analyst presentations, KCS has provided financial information adjusted for certain items, which are non-GAAP financial measures. KCS management uses non-GAAP information in its planning and forecasting processes and to further analyze its own financial trends and operational performance, as well as making financial comparisons to prior periods presented on a similar basis. The Company also uses some of these measures internally as part of its incentive compensation plans for management employees. Management believes investors and users of the Company's financial information should consider all of the above factors when evaluating KCS's results.

These non-GAAP measures should not be considered a substitute for GAAP measures. Some of KCS's non-GAAP measures may differ from similar measures used by other companies, even if similar terms are used to identify such measures.

Reconciliation of Free Cash Flow to Net Increases (Decreases) in Cash and Cash Equivalents:	Six Months Ended	
	June 30,	
	2011	2010
Net cash provided by operating activities	\$ 268.9	\$ 220.3
Net cash used for investing activities	(174.1)	(145.4)
Preferred stock dividends paid	(2.9)	(5.5)
Free cash flow - see (a) below	91.9	69.4
Proceeds from issuance of long-term debt	200.0	295.7
Repayment of long-term debt	(209.6)	(589.0)
Proceeds from common stock issuance	-	214.9
Other financing activities	(11.7)	(24.2)
GAAP net increases (decreases) in cash and cash equivalents	<u>\$ 70.6</u>	<u>\$ (33.2)</u>

(a) The Company believes this measure provides the amount of liquidity generated by operations that can be used for the combination or any one of the following: debt reduction, capital investment, and other investments.

Basic and Diluted Earnings Per Share Calculation

(in millions, except per share amounts; shares in thousands)

		Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Net income available for common stockholders for BASIC:	A	\$ 70.7	\$ 133.3
Net income identified below as DILUTIVE:	I (If Dilutive)	-	1.4
Net income available for diluted stockholders for DILUTIVE:	C	\$ 70.7	\$ 134.7
Weighted average shares outstanding	B	109,428	106,858
Impact on Diluted shares of stock options		382	408
Incremental Shares - Preferred Stock 5.125%	H (If Dilutive)	-	2,510
Total Diluted Shares	D	109,810	109,776
EPS - Basic - Net Income	A/B	\$ 0.6461	\$ 1.2474
EPS - Diluted - Net Income	C/D	\$ 0.6438	\$ 1.2270

DILUTIVE TEST

DECEMBER 5, 2005 TRANSACTION

Preferred Shares 5.125%			
Weighted average number of shares	Shares	H	2,510
	Earnings	I	\$ 1.4
			Shares
		B + H = J	109,368
EPS > Basic EPS = Not Dilutive or EPS < Basic EPS = Dilutive		(A + I) / J	\$ 1.2316
			DILUTIVE