

DST SYSTEMS INC  
Form 10-K  
February 28, 2011

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**United States  
Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-K**

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2010**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from            to  
Commission file number 1-14036**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**43-1581814**  
(I.R.S. Employer  
identification no.)

**333 West 11th Street, Kansas City, Missouri**  
(Address of principal executive offices)

**64105**  
(Zip code)

**(816) 435-1000**

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**  
Common Stock, \$0.01 Per Share Par Value  
Preferred Stock Purchase Rights

**Name of each Exchange on which registered**  
New York Stock Exchange  
New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web-site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant as of June 30, 2010:  
Common Stock, \$0.01 par value \$1,268,755,379

Number of shares outstanding of the Registrant's common stock as of January 31, 2011:  
Common Stock, \$0.01 par value 46,278,147

**Documents incorporated by reference:** Proxy Statement for the annual meeting of stockholders on May 10, 2011 (Part III)

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**DST Systems, Inc.**

**2010 Form 10-K Annual Report**

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The brand, service or product names or marks referred to in this Annual Report are trademarks or services marks, registered or otherwise, of DST Systems, Inc. or its subsidiaries or affiliates or of vendors to the Company.

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**CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING COMMENTS**

The discussions set forth in this annual report on Form 10-K contain statements concerning potential future events. Such forward-looking statements are based upon assumptions by the Company's management, as of the date of this Annual Report, including assumptions about risks and uncertainties faced by the Company. In addition, management may make forward-looking statements orally or in other writings, including, but not limited to, in press releases, in the annual report and in the Company's other filings with the Securities and Exchange Commission (the "SEC"). Readers can identify these forward-looking statements by the use of such verbs as expects, anticipates, believes or similar verbs or conjugations of such verbs. If any of management's assumptions prove incorrect or should unanticipated circumstances arise, the Company's actual results could materially differ from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors including, but not limited to, those factors identified in Item 1A, "Risk Factors" of this Form 10-K. Readers are strongly encouraged to consider those factors when evaluating any forward-looking statements concerning the Company. The Company undertakes no obligation to update any forward-looking statement in this annual report to reflect future events or developments.

**PART I**

**Item 1. Business**

This discussion of the business of DST Systems, Inc. ("DST" or the "Company") should be read in conjunction with, and is qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") under Item 7 herein. In addition, pursuant to Rule 12b-23 under the Securities Exchange Act of 1934, as amended, the information set forth in the first paragraph and under the headings "Introduction" and "Seasonality" in the MD&A and the segment and geographic information included in Item 8, Note 14 are incorporated herein by reference in partial response to this Item 1.

The Company was originally established in 1969. Through a reorganization in August 1995, the Company is now a corporation organized in the State of Delaware.

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports will be made available free of charge on or through the Company's Internet website ([www.dstsystems.com](http://www.dstsystems.com)) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. In addition, the Company's corporate governance guidelines and the charters of the Audit Committee, the Corporate Governance/Nominating Committee and the Compensation Committee of the DST Board of Directors are available on the Company's Internet website. These guidelines and charters are available in print to any stockholder who requests them. Written requests may be made to the DST Corporate Secretary, 333 West 11th Street, Kansas City, Missouri 64105, and oral requests may be made by calling the DST Corporate Secretary's Office at (816) 435-8655. An individual may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E. Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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**NARRATIVE DESCRIPTION OF BUSINESS**

The Company's business units offer sophisticated information processing and software services and products. These business units are reported as two operating segments, Financial Services and Output Solutions. In addition, investments in the Company's real estate subsidiaries and affiliates, equity securities, private equity funds and certain financial interests have been aggregated into the Investments and Other Segment.

A summary of each of the Company's segments follows:

**Financial Services**

The Company's Financial Services Segment provides technology based solutions using its own proprietary software systems. The principal industries serviced include mutual fund/investment management, life and property/casualty insurance and healthcare payer industries. The Company's proprietary software systems include shareowner recordkeeping and distribution support systems for U.S. and international mutual fund companies; a defined-contribution participant recordkeeping system for the U.S. retirement plan market; investment management systems offered to U.S. and international investment managers and fund accountants; a business process management and customer contact system offered to a broad variety of industries; medical and pharmacy claims administration processing systems and services offered to providers of healthcare plans, third party administrators, medical practice groups and pharmacy benefit managers; and an electronic file system offered to mutual fund companies, insurance companies and professional service (legal, accounting and others) firms.

As described in Part II, Item 7 "Significant Events" the following changes have occurred in the composition of the Financial Services Segment during the three years ended December 31, 2010:

*Acquisitions*

On March 31, 2009, DST purchased the remaining 50% equity interest of Argus Health Systems, Inc. ("Argus") for \$57.0 million in cash. As a result, Argus is no longer an unconsolidated affiliate of DST, but rather is a wholly owned subsidiary resulting in DST consolidating the results of Argus after March 31, 2009.

BlueDoor Technologies Pty Ltd ("BlueDoor") was acquired by DST Systems, Inc. on November 14, 2008 for an aggregate amount of \$13.4 million consisting of approximately \$10.3 million of cash and 85,006 shares of DST common stock at an approximate value of \$3.1 million.

Argus is principally engaged in the business of providing pharmacy claims processing and other related services to help clients manage pharmacy benefit programs. The Company believes that the acquisition of Argus complements its existing DST Health Solutions business, expands the size of its healthcare processing capabilities and will enable the Company to provide broader product offerings to new and existing customers.

BlueDoor, based in Melbourne, Australia, provides software solutions to retirement fund management companies that perform participant accounting and funds management services for the retirement savings ("superannuation") markets in Australia.

The Financial Services Segment distributes its services and products on a direct basis and through subsidiaries and joint venture affiliates in the U.S., United Kingdom ("U.K."), Canada, Europe, Australia, South Africa, Asia-Pacific and the Middle East and, to a lesser degree, distributes such services and products through various strategic alliances.

The Company's Output Solutions Segment provides single source, integrated print and electronic statement and billing output solutions, including customized statement and bill production, direct

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marketing and personalization services, fulfillment, postal optimization, and electronic presentment, payment and distribution solutions. These capabilities enable the Output Solutions Segment to provide services to industries that place a premium on customer communications that require high quality, accurate and timely statement and billing output processing.

As described in Part II, Item 7 "Significant Events" the following changes have occurred in the composition of the Output Solutions Segment during the three years ended December 31, 2010:

*Acquisitions*

On July 30, 2010, DST, through its wholly-owned U.K. subsidiary, Innovative Output Solutions Limited ("IOS"), acquired dsicmm Group Limited ("dsicmm"), a provider of print/mail services in the U.K., for cash and the issuance of IOS stock. After completion of the transaction, DST owns 70.5% of IOS and the remaining 29.5% is owned by a group of former stockholders of dsicmm. DST has consolidated the financial results of the combined IOS business from the closing date and has reflected the 29.5% owned by the former stockholders of dsicmm as a non-controlling interest.

*Contract Termination*

In the second quarter of 2010, an Output Solutions telecommunications client, representing approximately 6.6% of 2009 annual Output Solutions Segment operating revenues, terminated its contract and internalized its bill production. The termination occurred on April 30, 2010 and resulted in a contract termination payment to the Company of approximately \$63.0 million.

The Output Solutions Segment conducts its operations from four operating facilities located throughout North America and six operating facilities located throughout the U.K. DST Output is among the largest users of continuous, high-speed, full-color inkjet printing systems and among the largest First-class mailers in the U.S. IOS is among the largest direct communications manufacturers in the U.K.

The Output Solutions Segment's research and development efforts have resulted in two mail and postal processing initiatives, Smart Commingling and Intelligent Mail barcode, in compliance with United States Postal Services requirements. In addition, the Digital Press Technology ("DPT") high-speed color printing and inserting platform enables the Output Solutions Segment to produce high-speed transactional printing combined with dynamic color printing. DST Output believes DPT is a technologically-differentiated service offering that enables them to provide better and more efficient products and services to clients.

The Output Solutions Segment in North America distributes its product directly to clients and through relationships in which its services are combined with or offered concurrently through providers of data processing services. The Output Solutions Segment's products are also distributed or bundled with product offerings to clients of the Financial Services Segment.

**Investments and Other**

The Investments and Other Segment is comprised of the Company's real estate subsidiaries and affiliates and joint ventures, investments in equity securities, private equity investments and other financial interests. The assets held by the Investments and Other Segment are primarily passive in nature. The Company owns and operates real estate mostly in the U.S. and U.K., primarily for lease to the Company's other business segments. The Company is a partner in certain real estate joint ventures that lease office space to the Company, certain of its unconsolidated affiliates and unrelated third parties. The Company is a 50% partner in a limited purpose real estate joint venture formed to develop and lease approximately 1.1 million square feet of office space to the U.S. government. The Investments and Other Segment holds investments in available-for-sale equity securities with a market

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value of approximately \$828.6 million at December 31, 2010, including approximately 10.3 million shares of State Street Corporation ("State Street"), 15.0 million shares of Computershare Ltd. ("Computershare") and 1.9 million shares of Euronet Worldwide, Inc., with a market value of \$478.7 million, \$165.5 million and \$32.9 million, respectively, based on closing exchange values at December 31, 2010.

### Source of Revenue

The Company's sources of revenue, by industry served, are presented below. The sources listed may be served by more than one of the Company's business segments.

	Year Ended December 31,					
	2010		2009		2008	
	(dollars in millions)					
<b>U.S. operating revenues</b>						
Mutual fund / investment management	\$ 774.9	45.2%	\$ 766.8	48.1%	\$ 804.8	48.0%
Healthcare related services(1)	283.7	16.6%	275.2	17.2%	212.1	12.7%
Telecommunications, video and utilities	231.8	13.5%	200.6	12.5%	219.2	13.1%
Other financial services	108.5	6.4%	98.4	6.2%	128.6	7.7%
Other	79.2	4.6%	82.2	5.2%	94.5	5.6%
<b>Total U.S. operating revenues</b>	<b>1,478.1</b>	<b>86.3%</b>	<b>1,423.2</b>	<b>89.2%</b>	<b>1,459.2</b>	<b>87.1%</b>
<b>International operating revenues</b>						
Investment management and other financial services	161.1	9.4%	133.3	8.4%	170.0	10.1%
Telecommunications, video and utilities	39.6	2.3%	34.0	2.1%	30.9	1.8%
Other(2)	34.8	2.0%	4.9	0.3%	15.4	1.0%
<b>Total international operating revenues</b>	<b>235.5</b>	<b>13.7%</b>	<b>172.2</b>	<b>10.8%</b>	<b>216.3</b>	<b>12.9%</b>
<b>Total operating revenues</b>	<b>1,713.6</b>	<b>100.0%</b>	<b>1,595.4</b>	<b>100.0%</b>	<b>1,675.5</b>	<b>100.0%</b>
Out-of-pocket reimbursements(3)	614.9		622.5		609.9	
<b>Total revenues</b>	<b>\$ 2,328.5</b>		<b>\$ 2,217.9</b>		<b>\$ 2,285.4</b>	

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- (1) Includes operating revenues of Argus Health Systems, Inc. from the acquisition date of March 31, 2009.
- (2) Includes operating revenues of dsicmm Group Limited from the acquisition date of July 30, 2010.
- (3) Principally postage and telecommunication expenditures, which are reimbursed by the customer.

### FINANCIAL SERVICES SEGMENT

The Financial Services Segment is the largest operating segment of the Company, providing the following products and services: shareowner recordkeeping, broker subaccounting, retirement plan/participant recordkeeping, distribution support solutions, business process management, investment management software and services, healthcare administration processing solutions and services, pharmacy claims processing and

electronic file storage services.



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The information in Part II, Item 8 (Financial Statements and Supplementary Data), in Note 14 (Segment and Geographic Information) is incorporated by reference in partial response to this Item 1. The following table provides key operating data for the Financial Services Segment:

Financial Services Operating Data	Year Ended December 31,		
	2010	2009	2008
	(dollars in millions)		
<b>Revenues</b>			
U.S. operating revenues			
Mutual fund/investment management	\$ 670.8	\$ 658.7	\$ 688.3
Healthcare related services(1)	263.0	254.0	190.8
Telecommunications, video and utilities	6.0	7.1	10.5
Other financial services	46.6	49.1	63.3
Other	52.7	45.1	47.8
	1,039.1	1,014.0	1,000.7
International operating revenues			
Investment management and other financial services	110.1	96.5	131.7
Telecommunications, video and utilities	4.8	4.6	4.4
Other	2.7	0.1	5.9
	117.6	101.2	142.0
Total operating revenues	1,156.7	1,115.2	1,142.7
Out-of-pocket reimbursements(2)	44.6	54.3	72.6
Total revenues	\$ 1,201.3	\$ 1,169.5	\$ 1,215.3
<b>Mutual fund shareowner accounts processed (in millions)</b>			
U.S.			
Registered accounts:			
Non tax-advantaged	54.8	63.6	65.4
Tax-advantaged:			
IRA mutual fund accounts	25.5	26.8	27.0
Other retirement accounts	9.7	10.0	9.9
Section 529 and Educational IRAs	9.4	9.5	8.9
	44.6	46.3	45.8
Total registered accounts	99.4	109.9	111.2
Subaccounts	14.3	11.2	8.9
Total accounts serviced	113.7	121.1	120.1
International			
United Kingdom(3)	7.1	6.6	5.9
Canada(4)	10.7	10.2	10.6
TRAC participants (millions)	4.5	4.2	3.7
Automated Work Distributor workstations (thousands)	195.9	193.5	195.2
DST Health Solutions covered lives (millions)	22.9	23.5	23.4
Pharmacy claims paid by Argus (millions)	380.4	380.0	433.0

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- (1) Includes operating revenues of Argus Health Systems, Inc. from the acquisition date of March 31, 2009.
- (2) Principally postage and telecommunication expenditures, which are reimbursed by the customer.

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- (3) Processed by International Financial Data Services (U.K.) Limited, an unconsolidated affiliate of the Company.
- (4) Processed by International Financial Data Services L.P., an unconsolidated affiliate of the Company comprised of businesses in Canada, Ireland and Luxembourg.

**U.S. Investment Recordkeeping Solutions**

DST's U.S. Investment Recordkeeping Solutions is comprised the following four product offerings:

Shareowner Recordkeeping

Broker Subaccounting

Retirement Plan & Participant Recordkeeping

Distribution Support Solutions

**Shareowner Recordkeeping**

The shareowner recordkeeping systems and services support open and closed-end mutual funds, Real Estate Investment Trusts ("REITs"), and various forms of tax advantaged savings vehicles. Included in tax-advantaged accounts are Individual Retirement Accounts ("IRAs"), and Educational Savings Plan Accounts, which encompass both Coverdell and Section 529 college savings plan accounts.

Most of the Company's clients who utilize the shareowner recordkeeping platform are "open-end" mutual fund companies, which obtain funds for investment by making a continuous offering of their shares. The proprietary system application for shareowner recordkeeping is TA2000. TA2000 handles virtually all shareowner related activities including purchases, redemptions, exchanges and transfers of shares; maintaining shareowner identification and share ownership records; reconciling cash and share activity; calculating and disbursing commissions to brokers and other distributors; processing dividends; reporting sales; and providing information for printing of shareowner trade confirmations, statements and year-end tax forms. The system processes multiple classes of equity, fixed income and money market funds.

Shareowner recordkeeping services are offered on a full, remote and shared service basis. Selection by a client of the type of service is influenced by a number of factors, including cost and level of desired control over interaction with fund shareowners or distributors. "Full" service processing or "BPO" (Business Process Outsourcing) includes all necessary administrative and clerical support to process and maintain shareowner records, reconciling cash and share activity, answering inquiries from shareowners, brokers and others, and handling the TA2000 processing functions described above. In addition, full service mutual fund transfer agency clients may elect to have their end of day available client bank balances invested overnight by and in the name of the Company into credit-quality money market funds or other similar overnight investment alternatives. "Remote" service processing, or "ASP" (Application Service Provider), is designed to enable mutual fund management companies acting as their own transfer agent, and third party transfer agents that have their own administrative and clerical staff access to TA2000 at the Company's data processing facilities, using the Company's data communications network. "Shared" service processing enables clients to select the administrative functions to be handled by both client personnel and the Company. This service is facilitated by the use of "AWD" (Automated Work Distributor), DST's own business process management and customer contact system.

The Company derives revenues from its shareowner recordkeeping services through use of the Company's proprietary software systems to provide such services, clerical processing services and other related products. Fees are generally charged based on a per account and number of funds basis for system processing services and on a per account, number of funds and transaction basis for clerical services. In limited instances, the Company has asset based fee arrangements. The Company's policy is not to license TA2000. The Company also derives revenues from investment earnings related to cash balances maintained in the Company's full service, transfer agency bank accounts.

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Investor attraction to a wide array of mutual fund investment products with increasingly specialized features has increased the number of mutual fund shareowner accounts, the volume of transactions and the complexity of recordkeeping. In addition, new technologies have changed the service requirements and distribution channels of the mutual fund market. The Company has made significant investments in computer capacities and systems functionality to handle the increasing marketplace demands in order to maintain its market position and to improve quality and productivity. A majority of the shareowner accounts serviced by the Company are at organizations that have been clients of the Company for more than five years.

Accounts serviced under shareowner recordkeeping arrangements with the fund sponsor (mutual fund company) are referred to as "registered accounts." This distinguishes these accounts from broker subaccounts, which are serviced under contract with a broker/dealer. Registered accounts include both tax-advantaged and non tax-advantaged accounts on the books of the transfer agent.

At December 31, 2010, the Company provided shareowner recordkeeping services for approximately 113.7 million shareowner accounts (registered and subaccounts), a decrease of 7.4 million accounts or 6.1% since December 31, 2009. Registered accounts (both tax advantaged and non-tax advantaged accounts) serviced were 99.4 million at December 31, 2010, a decrease of 10.5 million or 9.6% as compared to December 31, 2009.

At December 31, 2010, 44.6 million of the registered accounts were tax advantaged. DST serviced 25.5 million IRAs invested in mutual funds and 9.7 million accounts in an assortment of retirement accounts (SAR-SEP, Keogh and SIMPLEs). In addition, DST supported 9.4 million educational savings accounts, of which 8.6 million are Section 529 plan accounts.

**Broker Subaccounting**

The Company provides mutual fund shareowner recordkeeping services to brokerage firms who perform transfer agent functions in a subaccounting arrangement for mutual fund accounts that have been sold by the broker/dealer's financial advisors. The Company offers subaccounting services to broker/dealers on both a remote (ASP) and full service (BPO) basis. A broker/dealer providing subaccounting services may provide these services to multiple fund companies. In 2002, the Company enhanced TA2000 to meet the complex reconciliation and system interfaces required by broker/dealers. The Company believes using the same core processing functionality for both transfer agency shareowner recordkeeping (registered accounts) and subaccounting should further the clients' objectives of consistent accounting for shareowner positions, since the recordkeeping is done by one system TA2000.

On July 31, 2007, DST acquired TASS. TASS provides subaccounting services on a full service basis to the broker/dealer industry. TASS uses the TA2000 subaccounting platform ("TA2000 Subaccounting") to perform these services for its customers.

Revenues for subaccounting services are generally based on the number of subaccounts serviced, and, because of the level of services provided directly by the broker/dealer, fewer of TA2000's features are required. This results in per account revenue for subaccounts being less than what the Company derives from its mutual fund shareowner processing services for registered accounts.

Subaccounts serviced by the Company were 14.3 million at December 31, 2010, an increase of 3.1 million from December 31, 2009.

**Retirement Plan & Participant Recordkeeping**

The Company's TRAC system provides participant recordkeeping and administration for defined contribution plans, including 401(k), 403(b), 457, money purchase and profit sharing plans that invest in mutual funds, company stock, guaranteed investment contracts, annuities and other investment

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products. The Company offers TRAC on a full-service (BPO) and remote (ASP) basis. The Company believes the defined contribution market is a significant growth opportunity for its services and products because (i) that market continues to experience significant expansion as more employers shift away from defined benefit programs, (ii) the federal government has policies that encourage, and the retirement industry has a strong desire to expand, coverage to include the estimated 78 million Americans not participating in a retirement savings program today, and (iii) potential participation is likely to increase as retirement plan sponsors adopt auto enrollment and guaranteed income features for new employees.

In 2008, DST formed DST Retirement Solutions LLC ("DSTRS"), a wholly-owned subsidiary of DST, to help meet the needs of defined contribution service providers. The new entity combines the Company's TRAC technology solution with Boston Financial Data Services, Inc.'s ("BFDS") defined contribution full service plan administration and recordkeeping unit. From application service provider ("ASP") to business process outsourcing ("BPO"), DSTRS offers a variety of selective outsourcing options, including front- and back-office technology solutions for financial service organizations offering retirement plan recordkeeping for plans of any size. As of December 31, 2010, DSTRS serviced 4.5 million plan participants on the TRAC platform, an increase of 0.3 million from December 31, 2009. Revenues from these services are primarily based on the number of participants in the defined contribution plans.

**Distribution Support Solutions**

The Company offers products designed to assist clients in meeting the expanding needs associated with distributing U.S. investment products through financial intermediaries. The array of solutions supporting distribution of investment products is expanding to address regulatory, service, and information needs of the financial service industry.

*DST Vision*

DST Vision is an aggregating Web site designed exclusively for financial advisors and broker/dealer back-office operations. The site enables mutual fund companies, Real Estate Investment Trusts, and variable annuity companies to reduce operational expense by replacing costly support phone calls from intermediaries with Web-based self-servicing. Providing over 120,000 financial advisors access to more than 300 participating investment product manufacturers, Vision is an industry leading source of customer information. Having access to consolidated account information across all of an investor's product relationships provides significant customer support efficiencies to the financial intermediaries' operations. Advisors can also utilize portfolio management tools, access electronic shareholder statements, and initiate transaction processing. All Vision charges are paid by the product companies through a combination of user access charges and activity related fees. Beginning in 2010, the Company began providing additional services to advisors affiliated with independent broker/dealers. Through a new offering called Vision Professional, advisors have access to presentation ready, automated and consolidated quarter-end shareholder reporting with supplemental product and holdings analytics. The fees are paid by the advisors under a subscription service.

*FAN Mail*

FAN Mail (Financial Advisor Network) is a centralized data delivery source for investor account detail from mutual fund, variable annuity, and Real Estate Investment Trusts companies. FAN Mail provides advisors and broker/dealer back-offices the transactional and position information necessary to populate proprietary data-bases and software applications. Daily automated downloads streamline back-office administrative tasks, reporting, and compliance oversight. FAN Mail is compatible with the industries' most popular portfolio management and compliance software applications. With participation from more than 180 product manufacturers, FAN Mail is one of the industries' most comprehensive sources

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of investor account detail and transactional information. All FAN Mail charges are paid by the product companies based on the volume of account and transaction records delivered to the underlying intermediary.

While Vision and FAN Mail largely service the same audience, there are distinct reasons an intermediary would use one or both products. Vision, as a web site, is designed to provide a real-time view of the underlying recordkeeping detail and is frequently used to resolve operations based servicing issues or to execute transactions or account maintenance. FAN Mail is used by intermediaries that need to take possession of the data to source proprietary software applications. Consequently, almost all FAN Mail users also use Vision.

*Omnibus Transparency*

Omnibus Transparency offers a solution that provides mutual fund companies the ability to request and receive supplemental trade data from intermediaries for compliance with Rule 22c-2 of the Investment Company Act of 1940. Clients use these tools to perform their oversight obligations relative to subaccounts not held on the Funds' recordkeeping platform. Features include data storage structure, and analytics/reporting for market timing, and best pricing of trades. Revenues from Omnibus Transparency are based generally on the number of transactions or positions requested and analyzed.

*SalesConnect*

SalesConnect assists fund companies with identifying and servicing the financial intermediaries that distribute the client's investment products. SalesConnect combines sales reporting and client relationship management software with a trade resolution and data management service. The data management service leverages a continuously updated universal database to provide clients with timely branch and representative updates and reconciled trading activity for use within their transfer agent and distributor organizations. Revenues from SalesConnect are based generally on the number of transactions, positions, and affiliated advisors.

**Boston Financial Data Services, Inc. ("BFDS")**

BFDS, a 50% owned joint venture with State Street, is an important distribution channel for the Company's services and products. BFDS combines use of the Company's proprietary applications and output solutions capabilities with the marketing capabilities and custodial services of State Street to provide full-service and shared-service shareowner recordkeeping to approximately 111 U.S. mutual fund companies. BFDS also offers settlement administration services, full service proxy solutions, teleservicing and full-service support for defined contribution plans using the Company's TRAC system, and provides REIT participant accounting services. BFDS's revenues are primarily derived on a per account, number of fund and transaction basis. BFDS also derives revenues from maintaining and managing, as agent for its clients, such bank accounts as necessary for the performance of its services.

BFDS is the Financial Services Segment's largest customer, accounting for approximately 11.4% of the Segment's operating revenues in 2010, and 7.7% of the Company's total operating revenues in 2010.

**International Mutual Fund / Unit Trust Shareowner Processing**

The Company provides international shareholder processing through joint venture companies of the Company and State Street, which are as follows:

**International Financial Data Services, U.K. ("IFDS U.K.")**

IFDS U.K. offers full, remote and shared service processing for Open Ended Investment Companies ("OEIC") unit trusts and related products serving 7.1 million OEIC unit holdings at December 31,

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2010. It is the largest third party provider of such services in the U.K. IFDS U.K. has developed FAST, an OEIC and unit trust recordkeeping system. The largest remote client of IFDS U.K., representing approximately 2.2 million or 30% of the total unitholder accounts at December 31, 2010, is Cofunds, Ltd. ("Cofunds"), a mutual fund supermarket. Cofunds, which is the U.K.'s largest independent investment platform has approximately \$46.0 billion of assets under administration at December 31, 2010. IFDS U.K. has a non-controlling equity investment in Cofunds of approximately 21% and accounts for its Cofunds investment using the equity method.

IFDS U.K. derives revenues from its shareowner accounting services through use of its proprietary software systems, clerical processing services and other related products. Fees are generally charged on a per unitholder account and per transaction basis although certain revenue is also derived from fixed fees and, in part, by the level of funds under management of certain client companies.

**International Financial Data Services, L.P. ("IFDS L.P.")**

IFDS, L.P. is a U.S. partnership with State Street that wholly owns the following operating joint ventures:

*International Financial Data Services, Canada ("IFDS Canada")*

IFDS Canada provides full, remote and shared service processing to the Canadian mutual fund industry and U.S. offshore funds. IFDS Canada uses iFAST, its proprietary mutual fund recordkeeping system, to support Canadian mutual fund processing and TA2000 to support U.S. offshore fund processing. Revenues are derived from providing remote, shared and full service mutual fund shareowner processing services based upon assets under management or the number of shareowner accounts and transactions. IFDS Canada also receives time and material fees for client-specific enhancements and support to remote processing.

*International Financial Data Services, Ireland ("IFDS Ireland")*

IFDS Ireland provides transfer agency services to State Street Ireland under an outsourcing agreement. Client servicing activities are focused on supporting State Street's services to fund promoters and investment managers who provide offshore funds. Revenues are derived from an agreement with State Street which encompasses a combination of fixed monthly fees and per transaction fees. IFDS Ireland completed the purchase of 100% of Percana Group Limited ("Percana") in June 2010 (having previously held a 46.6% equity interest). Percana is a software development company that provides policy holder servicing systems to the international life assurance industry using its proprietary Eclipse insurance processing software. In addition, Percana provides consultancy and outsourcing services to its clients. Revenues at Percana are derived from the sale of software licenses, support and maintenance, business process outsourcing and professional consultancy.

*International Financial Data Services, Luxembourg ("IFDS Luxembourg")*

IFDS Luxembourg provides transfer agency services to State Street Luxembourg under an outsourcing agreement. Client servicing activities are focused on supporting State Street's services to fund promoters and investment managers in the Luxembourg and Continental European market. Revenues are derived from an agreement with State Street which encompasses a combination of fixed monthly fees and per transaction fees.

**Business Process Management through AWD**

AWD is an enterprise-scale business process management ("BPM") platform. AWD supports the capture of all inbound work at the point of contact (mail, telephone call, Internet, e-mail, fax, etc.). It then manages the work steps required to complete the request. The system assigns work, based on

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priority, to the resource most qualified to complete the current work step. AWD's sealed audit trail tracks all activities associated with completing each item of work, providing a valuable tool for compliance with internal and external regulations. By enforcing standard business processes regardless of the origin of the request, the system ensures every AWD user within a customer organization is consistently working on the most important item that he or she has the training and experience to complete.

AWD's automation services allow customers to streamline tasks in which human interaction is not required, resulting in increased productivity. In addition, AWD's orchestration services allow customers to seamlessly link business processes that cross multiple application systems. AWD also enables customers with multiple service centers to seamlessly move work between locations, minimizing geography as a barrier to productivity gains. The AWD platform also includes imaging and content management, business intelligence and monitoring, a contact center desktop with proactive call scripting, intelligent character and word recognition capabilities and correspondence/communication tools.

Initially introduced to enhance the Company's mutual fund shareowner recordkeeping system, AWD was designed to interface with a wide range of high volume application processing systems. AWD's services oriented architecture ("SOA") operates on Linux, Sun Solaris, Microsoft and IBM platforms utilizing Windows and browser-based desktops. The Company's best practice templates are designed for quick implementation of the solution, providing the opportunity for a rapid return on investment. The Company's integration toolkit, catalog of adapters and support for J2EE application servers are designed to allow AWD to easily interface with customers' existing application systems and operating environments. Classified as a "business process management" (BPM) solution by technology industry analysts, AWD is a mission-critical application implemented in many different industries including mutual funds, life insurance, variable annuities, healthcare providers and payers, property and casualty insurance, banking, mortgage, brokerage and video/broadband/telephony. AWD customers are located in over twenty countries including the U.S., Canada, U.K., continental Europe, Australia, South Africa, India, China, Taiwan and Japan.

The Company's value proposition combines AWD with hosting services and business process outsourcing for AWD clients. The Company also offers hosting services of the licensed AWD software in the Company's AWD Data Center, which is fully redundant with the Company's primary data center the Winchester Data Center.

The Company derives AWD revenues from multi-year service and usage agreements based on the number of users accessing the software and fixed fee license agreements that may include provisions for additional license payments in the event that usage increases. The Company also derives AWD revenues from fees for implementation services, custom programming, annual software maintenance and AWD Data Center operations.

### **Electronic File Solution**

The Company's Electronic File Solution ("EFS") is designed to be a reliable and secure electronic system for long-term records management. EFS allows for the scanning, indexing, storage and retrieval of important documents according to each client's unique business requirements. Industries using this solution include mutual funds, law, real estate management, and insurance. In addition, many other industries may use this solution including, for example, healthcare, banking, mortgage, staffing firms and third party administrators. EFS also provides archival, audit and oversight features. Client selected records are electronically stored in the Company's redundant data centers, with the Company providing hardware, maintenance and support for the EFS. The Company markets EFS as a software-as-a-service and anticipates recognizing revenues for data conversion projects and a monthly rental charge for data storage used.



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**Investment Management Solutions & Services**

DST Global Solutions Group Services Limited ("DST Global Solutions" and formerly DST International), a wholly owned U.K. company, provides primarily investment management software applications, implementation and other professional services. It has offices in the U.K., U.S., Australia, Canada, China, Dubai, Hong Kong, Singapore, South Africa, Switzerland and Thailand. Its development centers are presently in the U.K. and Australia.

On November 14, 2008, the Company acquired BlueDoor, a private company based in Melbourne, Australia, that provides software solutions to funds and fund managers who perform participant accounting and recordkeeping for the retirement savings ("superannuation") market in Australia. It is also being extended to support "wrap" platforms in Australia.

**Investment Management Solutions ("IMS")**

DST Global Solutions' investment management solutions service clients in two primary markets:

Asset managers covering a wide range of traditional investment strategies for registered funds, insurance funds, manager of managers and separately managed accounts, and

Third-party administrators serving these asset managers.

The core of these solutions are middle and back office software applications and services:

Back office is based on asset servicing and portfolio accounting applications sold as software applications

Middle office applications include performance measurement and attribution analysis, risk analytics for post-trade, data management, front end integration technology and an institutional client reporting toolkit. Middle office applications are offered both on an ASP and license basis.

The Company believes that DST Global Solutions' offerings are uniquely positioned because they extensively penetrate both of these segments. The connectivity required between these segments is essential for these firms to reduce both operational risks and operating costs.

DST Global Solutions has continued its commitment to expand its middle office applications, with an emphasis on support for alternative investments such as OTC derivatives. Its background in business process management and workflow applications are expected to provide a unique solution set compared to both traditional competitors as well as new entrants.

DST Global Solutions also offers solutions to support the distribution of investment products in select markets. The Company has an offering for transfer agency that is used in seven developing market countries. As a result of the BlueDoor acquisition in 2008, it is competing extensively in participant services for superannuation funds in Australia. DST Global Solutions is looking to extend this offering into other countries with similar pension fund market structures.

The Company derives revenues from the above solutions and services, from license fees, fees for customized installation and programming services and annual maintenance fees, which include ASP solutions.

**Healthcare Administration Solutions**

DST HealthCare Holdings, Inc. has two subsidiary businesses focused on providing solutions to meet the information processing, quality of care and cost management needs of healthcare organizations. DST Health Solutions, LLC ("DSTHS") provides proprietary software and processing services to the healthcare payer industry. Service offerings of DSTHS include claims and data processing solutions and software and support. Argus Health Systems, Inc. ("Argus") is principally engaged in the business of



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providing pharmacy claims processing and other related services to help clients manage pharmacy benefit programs. On March 31, 2009, DST acquired the 50% equity interest in Argus that it did not already own.

DST HealthCare Holdings is positioned to respond to the continued consolidation of companies in the health plan industry. As health plans consolidate it becomes increasingly difficult for them to merge non-complimentary infrastructures such as current systems, data centers and business processes to achieve post acquisition operational and cost efficiency. By outsourcing operational processing functions to DST HealthCare Holdings, and leveraging the analytics and decision support solutions of DSTHS and Argus, health plans can streamline integration, leverage the cost efficiencies of large scale service providers and maintain focus on their core customer-facing initiatives.

**DST Health Solutions**

DSTHS provides software solutions, application service provider (ASP) and business process outsourcing (BPO) services for the U.S. healthcare industry. DSTHS' integrated solutions include claims processing, member and provider management, benefit plan management, new product development, care management and medical management, and decision support/analytics for nearly 244 clients representing 22.9 million covered lives. DSTHS supports diverse lines of business to national health plans including HMO, PPO, POS, CDH, dental, vision, behavioral health and government-sponsored initiatives (e.g. Medicare Advantage, Medicare Part D and Medicaid).

DSTHS derives revenues by using its proprietary software systems to provide services on a BPO, ASP and turnkey (license) basis. Fees are generally charged based on a per member/ per month ("PMPM") basis and transactional basis for BPO services. DSTHS also receives PMPM revenues from ASP agreements, which are multi-year service and usage agreements that allow users to access the DSTHS proprietary software hosted in DST data centers. DSTHS realizes revenue from fixed-fee license agreements that include provisions for ongoing support and maintenance and for additional license payments in the event that usage or members increase. DSTHS also derives professional service revenues from fees for implementation services, custom programming and data center operations.

*Health Plan Payor Solutions*

In the healthcare payor market, DSTHS has increased its investment in platform-independent, service-oriented component applications that are designed to enable clients to accelerate customer acquisition and deliver new, profitable products to market rapidly and cost-effectively. It facilitates the administration of consumer-directed healthcare, improves enterprise workflow and enhances health payer revenue cycles. All these areas can be deployed as part of a core replacement project including DSTHS' core administration engines (PowerMHC, PowerMHS, PowerSTEPP and AMISYS Advance) or as stand-alone component solutions that extend a health plans' existing core systems.

*Health Plan Business Process Outsourcing ("BPO") Solutions*

DSTHS provides claims administration BPO services that including mail receipt and processing, imaging/optical character recognition/data capture, eligibility and enrollment management, benefit plan management, claims processing, overflow, fulfillment, utilization management, case management and customer service, and can be delivered as discrete, a la carte services or as a comprehensive administrative solution.

DSTHS' outsourcing solutions focus on the following areas:

Care Management

Government Solutions

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Health Plan Analytics and Decision Support

Business Process Management

Consumer-Directed Healthcare ("CDH")

DSTHS' care management, medical utilization management and case management solutions aid health plans in controlling medical costs, delivering quality care and automating paperwork associated with these processes. Additionally, by centralizing member information that represents the sum of the member's healthcare experiences via integrated care, utilization, case and disease management, the health plan facilitates the coordination of care provided which improves both the continuity and quality of care and lowers the costs of delivered care.

DSTHS' portfolio of government solutions support the administrative requirements for processing government health plan member populations, including Medicare Advantage, Medicare Part D, Medicaid and other assistance programs. Segmenting the Medicare Advantage, Medicare Part D and Medicaid line of business offers predictable costs while positioning health plans to proactively address the needs of members and the ever-changing demands of market and government regulations. DSTHS' government solution portfolio includes sales and marketing, eligibility and CMS payment/revenue reconciliation and Hierarchical Condition Categories (HCC) analytics.

DSTHS' analytics and decision support solutions help health plans select members who will benefit most from care management. The unique analytic approach combines elements of care opportunities, risk and provider effectiveness to provide a more complete member assessment within a single integrated tool. By combining predictive modeling, Healthcare Effectiveness Data and Information Set, or HEDIS, and Pay for Performance, health plans are provided a common classification for quality managers, finance/actuarial, underwriting and sales/marketing. DSTHS' solutions were designed to engage multiple participants in managing healthcare quality and resources: the case manager, employer, provider and member.

DSTHS is the exclusive distributor of a patient classification system developed by Johns Hopkins University, Johns Hopkins' ACG System. Johns Hopkins' Adjusted Clinical Groups ("ACG") System is a software tool for provider profiling, predictive modeling, resource management and reimbursement rate adjustment. The ACG System markers are used to identify individual patient risk for the evaluation and forecasting of healthcare utilization and costs.

Using AWD, DSTHS' BPO Centers of Excellence achieve greater efficiency, functionality and scalability. The integration with AWD also offers health plan clients real-time operational efficiency for core administration systems through automation and continuous process improvement in order to provide higher quality and reduce manual touch points. BPM functionality includes support for claims routing, quality audits, customer service, correspondence processing and imaging.

DSTHS' CDH solutions allow individuals to manage healthcare costs by bringing critical financial and healthcare transactions and information together into a single, integrated platform. Through the DSTHS' array of FSA, HSA and HRA administrative services, health plans can establish operational efficiency while mitigating risk and expense.

*Physician Practice Management and Billing Solutions*

Designed to enhance physician practice profitability, DSTHS' suite of applications and reporting tools work in tandem with provider office staff in order to provide operational control and enhance decision-making capabilities. DSTHS' solutions for physician practices provide revenue cycle management, from scheduling to reimbursement. The flexible BPO or ASP solutions assist in optimizing reimbursement, reducing claims denials and forecasting operational costs.

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DSTHS can support practice groups of various sizes and specialties, including physician networks, hospital-based physicians, hospital emergency departments and management services organizations (MSOs).

**Argus Health Systems, Inc. ("Argus")**

Argus Health Systems, Inc. is a leading independent provider of health care information management services supporting commercial, Medicaid and Medicare Part D. Argus serves a wide range of clients and key health care organizations including managed care organizations, pharmacy benefit managers and pharmaceutical manufacturers. Argus became a wholly-owned, consolidated subsidiary of DST on March 31, 2009 when DST purchased the remaining 50% equity interest in Argus. Prior to March 31, 2009, Argus was an unconsolidated affiliate of DST and was accounted for as an equity investment.

Argus is one of the largest pharmacy claims processors in the industry. In 2010, Argus adjudicated more than 509 million claims, resulting in approximately 380 million paid claims to pharmacies and members. As of December 2010, Argus provided claims processing for over 25 million members, including 5 million Medicare Part D members, approximately 16.8% of Medicare Part D enrollees nationwide.

Argus provides claims processing, information services and administrative support to help clients manage pharmacy benefit programs, including Medicare Part D. These services include pharmacy and member reimbursements, call center, pharmacy network management, clinical information services, rebate contracting and rebate processing. Argus' business model is to provide full disclosure and reporting of pass through drug ingredient and disbursement costs to our customers. Customers may participate in an Argus contracted national pharmacy network with over 63,000 participating locations, or may contract their own pharmacy network.

Argus' proprietary claims processing system, the Integrated Pharmacy Network System ("IPNS"), is an interactive, database managed processing system for administration of prescription drug claims, pharmacy and member reimbursement and drug utilization review. IPNS, which provides substantial flexibility to accommodate varying provider requirements, allows point-of-sale monitoring and control of pharmacy plan benefits with on-line benefit authorization and can provide information to dispensing pharmacists that helps ascertain potential medication problems arising from such factors as duplicate prescriptions, incorrect dosage and drug interactions.

Argus operates IPNS at the Company's Winchester and AWD Data Centers. Argus' primary clients are providers of pharmacy benefit plans including insurance companies, health maintenance organizations, preferred provider organizations, other pharmacy benefit managers, pharmaceutical manufacturers and distributors.

Argus derives revenue from pharmacy claims processing services provided to managed care organizations, pharmacy benefit managers and pharmaceutical manufacturers. Argus also derives revenue from the management of pharmacy networks, call center services, pharmaceutical rebate contracting and administration, and clinical programs and management reporting for the benefit of their customers, as well as investment earnings related to client cash balances maintained in the Company's bank accounts.

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**Insurance Programs**

Vermont Western Assurance, Inc. ("Vermont Western"), a single parent captive insurance company domiciled in Vermont, is engaged in a variety of insurance programs.

Vermont Western provides insurance to the Company and its affiliates under a deductible reimbursement insurance program for workers' compensation and writes direct coverage for an excess layer of the Company's group health program. The Company and its affiliates obtain property insurance from a commercial insurance company and Vermont Western reinsures the commercial insurer for a layer of coverage in excess of the Company's deductible. Premiums paid by the Company and its affiliates to Vermont Western are generally consistent and competitive with industry pricing practices.

Vermont Western also writes reinsurance coverages for surety programs that are provided in association with the corporate securities processing services of Computershare Ltd. Computershare assists shareholders of corporate securities to obtain lost instrument surety bond coverage when the shareholders want to replace certificates for shares they own that have been lost, stolen or destroyed. Bonds may also be issued in-lieu of probate. Typically, the surety coverage is provided by a commercial surety company under an arrangement with Computershare and then Vermont Western assumes a substantial amount of the surety exposure through a reinsurance arrangement with that surety company. Vermont Western revenues for the lost instrument surety bond coverage come in the form of reinsurance premiums paid to it by the commercial surety companies that are the primary providers of the coverage. Lost instrument surety bond coverage premium is typically paid by the shareholders who are seeking the replacement of the lost, stolen or destroyed certificates. Premiums are designed to be consistent and competitive with industry pricing practices. Vermont Western has an agreement to continue providing lost instrument surety bond coverage to Computershare through 2017.

**Information Processing Facilities and Services**

The data processing needs of the Company's Financial Services Segment and certain products of the Output Solutions Segment are provided by two data centers in Kansas City, Missouri, and a Recovery Data Center in St. Louis, Missouri.

The Winchester Data Center ("Winchester") is the Company's primary central computer operations and data processing facility. Winchester has a total of 163,000 square feet, of which 76,000 square feet is raised floor computer room space. Winchester runs mainframe computers with a combined processing capacity of more than 32,000 million instructions per second ("MIPS") and direct access storage devices with an aggregate storage capacity that exceeds 273 terabytes. Winchester also contains more than 1,000 servers with over 1.1 petabytes of storage capacity supporting Windows, UNIX and iSeries small and midrange computing environments. These servers are used to support the Company's products and processing for certain of the Company's affiliates. The physical facility is seismically braced and designed to withstand tornado-force winds.

The AWD Data Center supports the Company's AWD Image processing services. The facility has a total of 13,800 square feet. The computer room houses IBM iSeries computers, disk-based storage systems, and optical storage systems (over 980 million images), which support more than 39,000 AWD users. In addition to the Company's full-service mutual fund operations, AWD users include clients in the healthcare, insurance and brokerage industries. The AWD Data Center also houses over 550 servers supporting various Company products and Winchester's remote tape storage using IBM's automated tape libraries. The Company derives revenues from its AWD Data Center based upon data center capacity utilized, which is significantly influenced by the volume of transactions and the number of users.

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The Company's Disaster Recovery Data Center is essentially equivalent in size to the Winchester Data Center. It houses mainframe technology equivalent to Winchester, including mainframe computers that have the capacity to run over 30,000 MIPS and the capacity to store more than 332 terabytes of DASD (direct access storage devices). The Company's data communications network is linked to the Recovery Data Center to enable client access to the center. The iSeries processors at the AWD Data Center and the iSeries processors at Winchester provide contingency plan capabilities for each other's processing needs. The Company regularly tests disaster recovery processes.

All three data centers are staffed 24 hours a day, seven days a week and have self-contained power plants with mechanical and electrical systems designed to operate virtually without interruption in the event of commercial power loss. The data centers utilize redundant telecommunications networks serving the Company's clients.

**Customer Concentration**

The Financial Services Segment's five largest customers accounted for 31.0% of Segment operating revenues in 2010, including 11.4% from its largest customer.

**Marketing / Distribution**

The Company identifies potential users of its Financial Services Segment products and services and tailors its marketing programs to focus on their needs. The Segment's marketing efforts also include cross-selling the Company's wide range of products and services to its existing clients. The Financial Services Segment's sales efforts are closely coordinated with the Company's joint venture and strategic alliance partners.

Sources of new business for the Financial Services Segment include (i) existing clients, particularly with respect to complementary and new products and services; (ii) companies relying on their own in-house capabilities and not using outside vendors; (iii) companies using competitors' systems; and (iv) new entrants into the markets served by the Company. The Company considers its existing client base to be one of its best sources of new business.

The Company markets its U.S. Investment Recordkeeping Solutions' systems and related products and services to investment company sponsors, plan recordkeepers and financial intermediaries. The shareowner recordkeeping systems and services support open and closed-end mutual funds, REITs and various forms of tax advantaged savings vehicles. Generally, mutual fund products are promoted and distributed in fund groups, which provide investors with a variety of mutual fund investments and the ability to transfer investments from one fund to another within the group. This often means that a single service agent, such as the Company, is used for all funds in the group. Investor attraction to a wide array of mutual fund investment products (to address different investment objectives) with increasingly specialized features has increased the number of shareowner accounts, the volume of transactions and the complexity of recordkeeping. In addition, new technologies have changed the service requirements and distribution channels of the mutual fund market. The Company has made significant investments in computer capacities and systems functionality to handle the increasing marketplace demands in order to maintain its market position and to improve quality and productivity. The Company markets mutual fund shareowner recordkeeping services to brokerage firms which perform subaccounting for mutual fund accounts that have been sold by the broker/dealer's financial advisors. The Company markets its participant recordkeeping and plan administration services for defined contribution plans to investment company sponsors and plan recordkeepers. The Company markets its distribution support solutions to financial intermediaries.

The Company markets its AWD product directly to mutual fund and other investment management firms, life insurance companies, healthcare providers and payers, property and casualty insurance companies, banks, mortgage operations, brokerage firms and video/broadband/telephony operators. The

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Company maintains a sales and marketing staff, including professional services and technical support teams to target these markets. Computer Sciences Corporation ("CSC") distributes the Company's AWD product to life and property and casualty insurance companies worldwide.

The Company markets its EFS product to mutual fund companies, insurance companies, professional service (legal, accounting and others) firms and other companies that have record management needs.

DST Global Solutions markets its solutions and services directly to its end clients, which are generally asset managers and third party administrators. Many of the applications require integration into the client's environment. This results in demand for implementation support, such as testing, training and process flow documentation. DST Global Solutions is continuing to improve its capabilities to provide these services to clients, which is a competitive advantage versus other competitors when servicing large global clients with dispersed operations and larger local clients in certain developing markets.

DST Health Solutions' business process outsourcing services and solutions are marketed to health insurance companies, health plans, benefits administrators, private physician practices and hospital-based physician groups. Argus markets its claims processing services to pharmacy benefit managers, managed care organizations, insurance companies, health maintenance organizations, preferred provider organizations, pharmaceutical manufacturers and distributors, and third party administrators.

The insurance programs provided by the Company are internal or are developed and offered as integral parts of other Financial Services Segment products and services. Therefore, there are no separate, external marketing or distribution activities for insurance programs.

### **Competition**

The Company believes that competition in the markets in which the Financial Services Segment operates is based largely on price, quality of service, features offered, the ability to handle rapidly changing volumes, product innovation, and responsiveness. The Company believes there is significant competition in its markets. The Company's ability to compete effectively is dependent in part on its access to capital.

The Company's U.S. Investment Recordkeeping Solutions compete not only with third party providers but also with in-house systems. Financial institutions competing with the Company may have an advantage because they can take into consideration the value of their clients' funds on deposit or under management in pricing their services. The Company believes its most significant competitors for third party shareowner accounting systems and subaccounting systems are Bank of New York Mellon Corp. and SunGard Data Systems, Inc. The Company believes its most significant competitors for retirement savings plan accounting and recordkeeping services are SunGard Data Systems, Inc., Ascensus and GreatWest. The Company believes its most significant competitor for REIT processing services is Phoenix American.

The Company's AWD products compete with BPMS vendors, other data processing and financial software vendors. Competitive factors include features and adaptability of the software, level and quality of customer support, software development expertise, and price. The Company believes that it can compete effectively in those markets the Company chooses to pursue. The Company believes its most significant AWD competitors are IBM/Lombardi, PegaSystems, Progress/Savvion and TIBCO Software, Inc.

The Company's EFS product competes with providers of document storage solutions. The Company believes its most significant EFS competitors are SourceCorp, Iron Mountain and Recall.

DST Global Solutions' competitors vary by market segment and solution set. The Company believes that its most significant competitors in investment and fund accounting solutions globally include SunGard Data Systems, Inc., Simcorp and IGEFI. In the middle office the competitors include



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RiskMetrics and Algorithmics in risk analytics, and StatPro and Bisam in performance measurement. The Company expects that the mix of competitors will shift over time as the industry changes from more traditional investment strategies around equities and fixed income instruments to encompass alternative investment products. The primary competitors in distribution solutions include GBST, Bravura, and FNZ in markets such as Australia. The Company believes that it has a unique combination of capabilities against this array of competitors because of its expertise in specific application areas such as large-scale accounting and record-keeping applications.

DST Health Solutions' competitors vary by the healthcare market segment. In the health plan insurance market, DSTHS competes with Trizetto (MyHealthBank), Perot Systems, ACS, EDS, TMG Health, Fiserv (Caregain) and ConnectYourCare. These competitors' solutions are primarily based on complete replacement of a payer's core system. DSTHS believes that a component application approach shifts the focus away from core application replacement to one in which clients have more alternatives for modernization of the business operation. With a component approach, health payer clients can still choose core application replacement if warranted, or adopt component applications that address only those areas of the business that are in the highest need of improvement, resulting in protection of the client's current IT investment and less overall disruption to its business operation. In the healthcare provider market, including physician networks, hospital-based physicians, hospital emergency departments, and management services organizations (MSOs), DSTHS competes with Misys, Cerner, GE Healthcare and McKesson. DSTHS believes there is a competitive advantage in providing physician practice management services that have been enhanced with AWD in an outsourcing model.

Argus' claims processing services compete with other third party providers. For certain product offerings, competitors include companies who perform their services in-house with licensed or internally developed systems and processes. A significant competitive factor is the level and quality of customer support provided. The Company believes that it competes effectively in the market by its ongoing investment in its products and the development of new products to meet the needs of managed care organizations, pharmacy benefit managers, pharmaceutical manufacturers and distributors, and third party administrators. Another competitive difference is Argus' business model provides a transparent drug pricing transaction between Argus customer and the pharmacy with no markup between the price paid by our customer and the negotiated charge from the pharmacy. Some competitors derive revenue through spread pricing whereby the drug cost charged to customers is higher than the negotiated rate with pharmacies. In addition, some competitors own mail order facilities which enables them to earn spread revenue on the drug transaction and may result in conflicts in objectives of the servicer to drive members to mail order vs. objectives of the customer to offer more competitive rates for other alternatives, such as 90 day at retail. The Company believes its most significant third party competitors for claims processing services are Medco, Express Scripts, Systems Excellence and CVS Caremark.

### **Intellectual Property**

The Company holds U.S. patents, U.S. copyrights, and various trademarks covering various aspects of the information processing and computer software services and products provided by the Financial Services Segment. The duration of the patent term is generally 20 years from its earliest application filing date. The patent term is not renewable. The durations of the copyrights depend on a number of factors, such as who created the work and whether he or she was employed by the Company at the time. The trademark rights generally will continue for as long as the Company maintains usage of the trademarks. The Company believes its copyrights are adequate to protect its original works of authorship. The Company believes that although the patents, trademarks and copyrights related to Financial Services are valuable, the success of Financial Services primarily depends upon its product and service quality, marketing and service skills. Despite patent, trademark and copyright protection, the Company may be vulnerable to competitors who attempt to imitate the Company's systems or

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processes. In addition, other companies and inventors may receive patents that contain claims applicable to the Company's systems and processes.

**Agreements**

The service agreements the Company separately negotiates with Financial Services Segment clients are typically multi-year agreements. The agreements sometimes contain service standards and/or allow clients to terminate for convenience with the payment of a termination fee. The domestic agreements typically obligate the Company to indemnify the client for damages from third party claims arising from the Company's breach and obligate the client to indemnify the Company for damages from third party claims arising from the Company's performance of services in accordance with the terms and conditions of the agreement. The agreements typically limit the Company's aggregate liability for performing the services and allow either party to avoid automatic renewal by notice to the other.

The Company has historically licensed its optical storage, investment portfolio, business and work process management systems (but not its transfer agency systems) and certain healthcare administration processing systems on a perpetual basis. The Company is currently transitioning, where feasible, the investment management and healthcare administration processing licenses from principally up-front, perpetual licenses to term licenses. Customers typically execute ancillary service and maintenance agreements in connection with perpetual licenses, which must be current for the Company to have any continuing maintenance obligations under the license. Customer use of the Company's products in certain industries, however, is frequently based on a model under which the customer's business operations are hosted in a DST data center and the customer accesses the system on a remote basis.

Other than terms and conditions that evolve as a result of new laws, regulations, industry practices and contract administration procedures, the terms and conditions contained in typical Financial Services Segment client agreements have not changed materially over the last three years.

**OUTPUT SOLUTIONS SEGMENT**

The Company's Output Solutions Segment provides single source, integrated print and electronic statement and billing output solutions, including customized statement and bill production, direct marketing and personalization services, fulfillment, postal optimization, and electronic presentment, payment and distribution solutions. These capabilities enable the Output Solutions Segment to provide services to industries that place a premium on customer communications that require high quality, accurate and timely statement and billing output processing.

On July 30, 2010, DST, through its wholly-owned U.K. subsidiary, Innovative Output Solutions Limited ("IOS"), acquired dsicmm Group Limited ("dsicmm"), a provider of print/mail services in the U.K., for cash and the issuance of IOS stock. After completion of the transaction, DST owns 70.5% of IOS and the remaining 29.5% is owned by a group of former stockholders of dsicmm. DST has consolidated the financial results of the combined IOS business from the closing date and has reflected the 29.5% owned by the former stockholders of dsicmm as a non-controlling interest.

The Output Solutions Segment conducts its operations from four operating facilities located throughout North America and six operating facilities located throughout the U.K. DST Output is one of the largest users of continuous, high-speed, full-color inkjet printing systems and among the largest First-class mailers in the U.S. IOS is among the largest direct communications manufacturers in the U.K.

The information in Part II, Item 8 (Financial Statements and Supplementary Data), in Note 14 (Segment and Geographic Information) is incorporated by reference in partial response to this Item 1.

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The following table provides key operating data, including sources of revenue by major industry served, for the Output Solutions Segment:

<b>Output Solutions Operating Data</b>	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Revenues (in millions)</b>			
<b>U.S. operating revenues</b>			
Mutual fund/investment management	\$ 104.9	\$ 108.9	\$ 116.8
Telecommunications, video and utilities	225.8	193.5	208.7
Healthcare related services	20.7	21.2	21.3
Other financial services	66.2	54.1	70.9
Other	28.3	34.4	37.8
	445.9	412.1	455.5
<b>International operating revenues</b>			
Investment management and other financial services(1)	51.0	36.8	38.3
Telecommunications, video and utilities(1)	34.8	29.4	26.5
Other(1)	32.4	4.0	7.9
	118.2	70.2	72.7
<b>Total operating revenues</b>	<b>564.1</b>	<b>482.3</b>	<b>528.2</b>
<b>Out-of-pocket reimbursements(2)</b>	<b>575.8</b>	<b>571.5</b>	<b>537.2</b>
<b>Total revenues</b>	<b>\$ 1,139.9</b>	<b>\$ 1,053.8</b>	<b>\$ 1,065.4</b>
<b>Images produced (billions)(3)</b>	<b>11.1</b>	<b>12.9</b>	<b>13.6</b>
<b>Items mailed (billions)(3)</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>

- (1) Includes operating revenues of dsicmm Group Limited from the acquisition date of July 30, 2010.
- (2) Principally postage expenditures, which are reimbursed by the customer.
- (3) Excludes dsicmm Group Limited operating volume statistics.

### **Statement and Bill Production Services**

Statement and bill production services are supported by integrated and automated production environments that rapidly and cost-effectively transform electronic data received from clients into customized statements that can be delivered in print or electronic format in accordance with individual client preferences. The highly automated production environment allows increased postal savings and minimized delivery time.

For the Financial Services industry, products and services include electronic printing, variable and selective insertion and distribution of custom designed shareowner and other account-based communications, including transaction confirmations, dividend checks, account statements and year-end tax reports. These clients are offered the capability of personalizing their individual customer communications through proprietary segmentation tools that facilitate targeted messaging and utilization of syndicated content and full color. The Output Solutions Segment is integrated in part with and uses processing functions of the Company's TA2000 system and the Company's information data processing facilities.

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Single source statement and bill production services are provided to the Mutual Fund, Retirement, Brokerage, Banking, Consumer Finance, Video/Broadband, Telecommunications, Healthcare, Insurance, Utilities, Package Delivery and other service industries.

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Advanced high-speed, full-color digital printing solutions and targeted messaging and graphics management tools provide clients with additional capabilities to develop marketing campaigns, cross-sell services, and improve customer loyalty.

Advanced statement consolidation capabilities, which combine data from multiple services and funds into a single integrated statement, offer clients potentially significant savings both in paper and mailing costs while creating a marketing tool for companies seeking to establish brand name recognition and sell combined services.

Output's Customer Portal enables clients to access multiple tools that support their statement and bill production services. These tools include campaign management, online job auditing, job and mail tracking, etc. In addition, clients can use near real-time reports and inquiries to monitor production activities including job tracking, postage expense amounts and insert counts throughout the production process.

The Output Solutions Segment offers a full range of technical support. Customized programming tools have been developed that allow electronic information streams from a variety of client systems to be received without the need to make changes to the client's software. These tools are to enable rapid and smooth transitions when clients outsource their statement processing and electronic functions.

The Output Solutions Segment derives revenues from its statement and bill production services based generally on the number of images processed and the range of customization and personalization options chosen by the clients.

**Postal Optimization**

As one of the largest First-Class mailers in the United States, the Output Solutions Segment provides a range of postal services for clients to optimize mail efficiencies and streamline postage expenses. The Output Solutions Segment affiliate, DST Mailing Services, Inc., focuses on managing postage-related services including postal compliance, automated postage payment, postage advance accounts (deposits and escrow accounts) and management of presort vendors and international mail. These postal processing services include address quality, postage payment, commingling and tracking.

In response to recent changes in postal regulations, the Output Solutions Segment has expanded its postal processing offerings. A value-added service called Smart Commingling combines multiple clients' First-Class mail to qualify for finer ZIP Code sortation. Combining clients' mail pieces enables more mail to meet the volumes established by the USPS for three-digit and five-digit priority processing. The service enables the Company to bypass traditional postal processing touch-points resulting in faster delivery times, which can enhance customer satisfaction and help clients get a return response or paid faster. New capital equipment investments were made in 2008 and 2009 to support the processes and are among the largest and most advanced in existence. The Segment processed more than 677 million pieces in 2010 through its advanced commingling solution in the U.S. operating facilities.

In 2010, the Output Solutions Segment in the U.S. deployed automated returned mail processing. This provides clients with account level details for customers' whose mail was undeliverable. Additionally, solutions were integrated to improve address quality a leading reason for non-delivery of mail. Together, these help clients reduce postage expense while delivering mail in a more timely, accurate manner.

The Output Solutions Segment deployed the Intelligent Mail barcode for all U.S. clients. The Segment's Full Service Intelligent Mail solution enables clients to pay the best available postage rates for their mail volume and postal density. And with its continuous mail processing capability the Segment can release mail expeditiously into the postal stream throughout the day.

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Mail piece tracking software integrated with the U.S. Postal Service allows clients to predict incoming mail volumes and confirm consumer delivery in order to prevent unnecessary past due notices or calls and thus to save costs and enhance customer satisfaction. By having information to assist in predicting mail delivery, this software provides clients the ability to make decisions about how to properly staff their processing and call centers.

The Company believes that having a single entity focused on print and mail processing and one focused on postage management provides advantages to address ongoing U.S. Postal Service initiatives to improve quality and lower costs.

The Output Solutions Segment derives revenues from its postal optimization services based generally on the number of mail pieces processed through each service option chosen by the clients.

In the U.K., IOS provides postal optimization of both U.K. and International mail. The U.K. market is deregulated, with a number of alternate postal providers in addition to the Royal Mail. The processing of data allows the optimization of postage through the lowest cost routing solution. The consolidation and pre-sortation of international-destined mail via a network of overseas postal providers provides savings to IOS' clients.

**Marketing and Personalization Services**

*Targeted Marketing*

The Company's Campaign Manager offering allows clients to segment their customer databases for targeting variable campaigns through selective inserting, personalized messaging and the targeted use of syndicated content to selected audiences across multiple output media. The offering includes a graphical workflow management capability that enables clients to create, target, and schedule text graphics that are dynamically placed on the color statements for both print and electronic distribution. This solution facilitates customer acquisition, response rates, nurturing and retention, product cross selling and brand awareness.

The DPT platform, when combined with campaign management capabilities, enables affordable integration of transactional printing with proactive promotional marketing offers based on customer demographics and buying habits. TransPromo opportunities allow clients to target and customize content and graphic images at the individual statement level for their printed as well as electronic customer communications.

Revenue is derived from the number of images, statements and inserts processed.

*Direct Marketing*

Direct marketing solutions provide highly personalized and targeted mail pieces to clients' target audiences. Services include database list management, development and programming, print production, postal processing, personalization, inkjet addressing, inserting and other direct marketing production services.

Variable data printing technology allows individual mail pieces to be personalized in order to drive response rates, increase average order values and boost sales. Solutions allow for monthly short runs to large cross-country campaigns according to the clients' needs.

In the U.K., IOS delivers tailored one-to-one communication to their clients, driven by transactional history and a client's profile. Content is delivered using the most appropriate technology, including offset litho, laser, and inkjet output plus eDelivery. This provides clients with ability to deliver relevant communication via text and graphics.

Revenue for these services is generally based on the number of distributed mail pieces.

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*Fulfillment*

In 2010, the Output Solutions Segment completed the purchase of assets of Capital Fulfillment Group, Inc. ("CFG"), a marketing and technology solutions company that specializes in the development and implementation of marketing, fulfillment, and compliance automation services. Its marketing and sales platform provides a suite of solutions that includes the proliferation and distribution of financial content, fund fact sheet creation, portfolio illustration, variable data printing services, and comprehensive literature and product fulfillment services.

In the U.K., IOS provides services similar to CFG, as well as the fulfillment of magazines in response to subscriptions, fulfillment of books and learning products for a government learning initiative, and product fulfillment for charities.

**Electronic Solutions**

The Output Solutions Segment has created an automated information and technology infrastructure that electronically formats data and manages presentation over the Web, and provides alternative media in the form of encrypted CD/DVD and computer output microfiche ("COM"). As electronic statements and payment solutions have become more widely expected by consumers and intermediaries, communications service providers, utility companies, financial services firms, healthcare insurers, and other companies continue to implement electronic presentment capabilities. To fulfill this requirement, the Company offers a broad range of electronic solutions designed to meet the needs of electronic statement presentment, payment, and distribution.

The need for customer service retrieval of statements is addressed by the Company's presentment solutions. These products provide customer service representatives with a searchable, indexed statement image that matches the print or electronic version sent to consumers, which can enable faster customer service calls and improved first-call resolution rates. In addition to retention via Web presentment solutions, encrypted CD/DVD, microfilm and microfiche capabilities are also available for longer-term storage and archival.

A number of key alliances have been established with industry-leading companies to extend the reach and value of the Output Solutions Segment's electronic solutions. Because of its industry-leading volumes, state-of-the-art processing systems and client relationships, the Company is a full-service supplier of fully integrated print and electronic statement and billing output solutions that enable clients to build lasting one-to-one relationships with their customers. The company stresses the benefits of a single input file to seamlessly migrate end customers from print to electronic presentment including support for both biller direct and consolidated distribution models.

The Output Solutions Segment has one of the largest and most scalable electronic statement presentment solutions in the market. The presentment platform can be quickly extended with new product features and functionality to continuously enhance the experience of their client's customers. The architecture scales to support client volume and is designed to seamlessly integrate with back-end systems, as well as DST Systems' solutions. Electronic delivery can save clients money, help them make money and meet their customers' demands, helping to increase electronic adoption. Revenues from electronic statement and payment solutions are generally based on the number of statements processed, loaded, viewed, distributed, and payments processed electronically. These revenues are influenced by both new account acquisitions and consumer adoption rates. Revenue is also derived from the number of images processed to alternative media.

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*Digital Postal Mail*

The Output Solutions Segment offers Digital Postal Mail, which is a digital facsimile of paper mail, generated from the same print stream used to create paper mailings and tied to a recipient's street address.

**Production Facilities**

The Output Solutions Segment conducts its operations from four operating facilities located throughout North America and six operating facilities located throughout the U.K. DST Output is among the largest users of continuous, high-speed, full-color inkjet printing systems and among the largest First-class mailers in the U.S. Innovative Output Solutions ("IOS") is among the largest direct communications manufacturers in the U.K.

The Output Solutions Segment has proprietary processes and technologies that provide a fully integrated, computerized and automated production environment. The production system (i) processes, logs, verifies and authenticates customer data, (ii) creates automated production controls for a statement, including form bar codes, weight and thickness parameters, unique statement tracking numbers, "due out" dates, address correction, carrier route/delivery point bar codes and postal processing parameters, (iii) models production runs on-line before printing or electronic transmission and (iv) enables postal processing, sorting and discounting to be performed electronically.

The Company continues to expand its DPT printing and inserting platform for its U.S.-based Output Solutions Segment operations. In connection with the platform, the Segment implemented new DPT printers to expand its full-color variable data printing capabilities including higher resolution digital-color printing with variable processing options such as integrated Punch/Perforation, Selective Perforation, and in-line MICR production. The Segment achieved CPSA (Check Payment Systems Association) certification for enhanced check printing security feature capabilities.

IOS production facilities in the U.K. deliver a range of output types, including offset litho printing, high-quality digital printing, and toner- and inkjet-based printing.

**International Operations**

Outside of the United States, the Output Solutions Segment offers statement and output solution services to the Canadian and U.K. markets.

DST Output Canada offers custom communications and document automation solution and is among the largest providers of services for paper-intensive businesses in Canada.

IOS was created from the combination of DST Output Ltd. and dsicmm Group Limited. IOS's predecessors were among the early adopters of both laser and inkjet color technologies and IOS continues to push the boundaries of dynamic communication. IOS provides personalized print and electronic communications and introduced the use of high-volume, full color variable digital solutions within the U.K. transactional print and mail market. These solutions can be tailored for clients. With the ability to customize the message for each end customer and a full range of color and graphics, client communications on statements and invoices can be enhanced to provide one-to-one marketing. An expanded scope from the U.S. represents an opportunity to fully leverage the Output Solutions Segments' innovations including an inkjet technology platform, integrated print and electronic capabilities, and postal solutions.

**Customer Concentration**

The Output Solutions Segment's five largest clients accounted for 33.2% of segment operating revenues in 2010, including 13.0% from its largest client.



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**Marketing / Distribution**

The Output Solutions Segment offers its services directly to clients and through relationships in which its services are combined with or offered concurrently through providers of data processing services. The Output Solutions Segment's services are also distributed or bundled with product offerings to clients of the Financial Services Segment. The Output Solutions Segment maintains a field operations sales staff, including client services, technical support teams and design resources, to target these markets. Key marketing alliances have been established with industry-leading companies to extend the reach and value of the Output Solutions Segment's print and electronic statement and billing output solutions.

**Environmental Initiatives**

The Output Solutions Segment advocates preserving natural resources and more efficient use of energy while supporting measures that enhance the health and safety of its associates and communities. The segment works with its clients to reduce paper wastage and carbon emissions, as well as recycle paper waste. In the U.S. DST Output was one of the original signatories to the Carbon Disclosure Project, which is a global voluntary carbon footprint disclosure effort by corporations initiated in 2000. Examples of "green" and environmentally friendly initiatives in the U.S. include switching from toner-based to water-based inkjet ink that is non-hazardous and made of 95 percent to 98 percent water. DST Output orders paper stock for the Company's U.S. production facilities from sustainable, managed forests under the guidance of the Sustainable Forestry Initiative and the Forest Stewardship Council, which call for the responsible management and stewardship of forested environments. DST Output's U.S. and U.K. facilities received chain of custody certification through the Programme for the Endorsement of Forest Certification (PEFC), the Sustainable Forestry Initiative (SFI) and the Forestry Stewardship Council (FSC) to print the SFI and FSC logos on forms and envelopes when the Segment purchases certified paper. In the U.S. DST Output's DPT platform utilizes plain white paper, as opposed to pre-printed stock, which reduces obsolete inventory. The DPT platform also has the ability to use recycled paper. DST Output has been recognized by the State of California Integrated Waste Management board and Waste Reduction Award Program on four occasions for its commitment to improving the environment by reducing waste. DST Output has also initiated several conservation and energy saving measures that reduce its use of water and electricity.

**Competition**

The key competitive factors for the Output Solutions Segment in the U.S. are price, the ability to offer single source print and electronic statement and billing output solutions, postage capabilities allowing more efficient delivery and potential cost savings, the range of customization options available for personalizing communications and their ease of application, the quality and speed of services provided, the multi-channel delivery capability based on customer preference, the quality of customer support, and the ability to handle large volumes efficiently and cost effectively. The most significant competitors for print or electronic statement and billing output solutions are (i) those companies that provide these services on an in-house basis, (ii) local companies in the cities where the Segment's printing operations are located and (iii) national competitors, including R.R. Donnelly, Inc., FiServ, Inc., Broadridge, Inc., and CSG Systems International, Inc.

In the U.K., IOS has been successful in moving away from commodity-based, price sensitive services and into delivering wider, more intelligent service-based solutions. This is where IOS can add value and deliver real return on investment for clients. The U.K. market remains competitive with a mature print management model and smaller competitors operating in niches. Key competitors include: Adare, Communisis, RR Donnelly, Howard Hunt, Polestar Plc., and St Ives Plc.

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**Intellectual Property**

The Company holds U.S. patents, U.S. copyrights, and various trademarks covering various aspects of the statement and mail processing services and technology provided by the Output Solutions Segment. In addition, the Company is engaged in a continuing effort to patent the new technology it develops for the Output Solutions Segment. The duration of each patent term is generally 20 years from its earliest application filing date. A patent term is not renewable. The durations of the copyrights depend on a number of factors, such as who created the work and whether he or she was employed by the Company at the time. The trademark rights generally will continue for as long as the Company maintains usage of the trademarks. The Company believes its copyrights are adequate to protect its original works of authorship. The Company believes that although the patents, trademarks and copyrights related to the Output Solutions Segment are valuable, the success of the Output Solutions Segment primarily depends upon its product and service quality, marketing and service skills. Despite patent, trademark and copyright protection, the Company may be vulnerable to competitors who attempt to imitate the Company's systems or processes. In addition, other companies and inventors may receive patents that contain claims applicable to the Company's systems and processes.

**Agreements**

The Company's subsidiaries in the Output Solutions Segment typically enter into multi-year agreements with their clients. Separately negotiated written agreements (a) contain service standards, and (b) sometimes allow clients to terminate for convenience with the payment of a termination fee. They typically obligate the Company's subsidiary to indemnify the client for damages arising from the subsidiary's breach, limit the subsidiary's liability for performing the services, and allow either party to avoid automatic renewal by notice to the other. Other than terms and conditions that evolve as a result of technology capabilities, new laws, regulations, industry practices and contract administration procedures, the terms and conditions contained in typical Output Solutions Segment client agreements have not changed materially over the last three years.

**INVESTMENTS AND OTHER SEGMENT**

The Investments and Other Segment is comprised of the Company's real estate subsidiaries and affiliates, investments in equity securities, private equity funds, and other financial interests. The assets held by the Investments and Other Segment are primarily passive in nature. In the U.S. and U.K., the Company and its real estate subsidiaries own approximately 1.3 million square feet of office and retail space and 1.4 million square feet of production facilities, which are held primarily for lease to the Company's other business Segments. The real estate subsidiaries also hold master leases in certain properties, which are leased to the Company's operating segments. The Company's real estate subsidiaries also own a number of parking facilities, various developed and undeveloped properties, a residential apartment facility and an underground facility. The Company is a partner in certain real estate joint ventures that lease office space to the Company, certain of its unconsolidated affiliates and unrelated third parties. The Company is a 50% partner in a limited purpose real estate joint venture which developed and leased approximately 1.1 million square feet of office space to the U.S. government. The Investments and Other Segment holds investments in available-for-sale equity securities with a market value of approximately \$828.6 million at December 31, 2010, including approximately 10.3 million shares of State Street Corporation, 15.0 million shares of Computershare Ltd. and 1.9 million shares of Euronet Worldwide, Inc., with a market value of \$478.7 million, \$165.5 million and \$32.9 million respectively, based on closing exchange values at December 31, 2010. The information in Part II, Item 8 (Financial Statements and Supplementary Data), in Note 14 (Segment and Geographic Information) is incorporated by reference in partial response to this Item 1.

Table of Contents**SOFTWARE DEVELOPMENT AND MAINTENANCE**

The Company's software development and maintenance efforts are focused on introducing new products and services, as well as ongoing enhancement of its existing products and services. The following table summarizes software development and maintenance and enhancements, and capitalized software development costs (in millions):

	Year Ended December 31,		
	2010	2009	2008
Software development, maintenance and enhancements	\$ 162.1	\$ 176.1	\$ 155.1
Capitalized software development costs	\$ 27.8	\$ 27.7	\$ 20.4

**EMPLOYEES**

As of December 31, 2010, the Company and its majority owned subsidiaries employed approximately 11,200 employees, including approximately 7,300 in the Financial Services Segment and 3,900 in the Output Solutions Segment. In addition, unconsolidated affiliates of the Company and its subsidiaries employed approximately 5,500 employees, including approximately 2,700 at BFDS, 2,100 at IFDS U.K., 500 at IFDS Canada and 200, in aggregate, at IFDS Luxembourg and IFDS Ireland. None of the Company's employees are represented by a labor union or covered by a collective bargaining agreement. The Company considers its employee relations to be good.

**Item 1A. Risk Factors**

There are many risks and uncertainties that can affect our future business, financial performance or share price. Many of these are beyond our control. A description follows of some of the important factors that could have a material negative impact on our future business, operating results, financial condition or share price. This discussion includes a number of forward-looking statements. You should refer to the description of the qualifications and limitations on forward-looking statements in the first paragraph under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

Unless otherwise indicated or the context otherwise requires, reference in this section to "we," "ours," "us" or similar terms means the Company, together with its subsidiaries. The level of importance of each of the following trends and risks may vary from time to time, and the trends and risks are not listed in any specific order of importance. These risks, however, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

*Trends or events affecting our clients or their industries could decrease the demand for our products and services.*

We derive our consolidated revenues from the delivery of products and services to clients in the mutual fund, brokerage, investment management, healthcare, telecommunications and utilities, cable TV, other financial service (i.e. insurance, banking, financial planning and mortgage) and other industries. A decline or lack of growth in demand for our products and services in any of the industries we serve could adversely affect our business and earnings. Demand for our products and services among companies in those industries could decline for many reasons. Consolidation or limited growth in an industry could reduce the number of our clients and potential clients.

Events that adversely affect our clients' businesses, rates of growth or numbers of customers they serve, including decreased demand for our customers' products and services, adverse conditions in our

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customers' markets or adverse economic conditions generally could decrease demand for our products and services and the number of transactions we process. We cannot always predict the needs of changing industries or whether potential customers will accept our products or services. Concentrating our resources based on trends or events that do not occur as we expected could negatively impact any of our various businesses.

***An increase in subaccounting services performed by brokerage firms could adversely impact our revenues.***

Our mutual fund clients may decide to allow a broker/dealer who has assisted with the purchase or sale of mutual fund shares to perform subaccounting services. A brokerage firm typically maintains an "omnibus" account with the fund's transfer agent that represents the aggregate number of shares of a mutual fund owned by the brokerage firm's customers. The omnibus account structure results in fewer mutual fund shareowner accounts on our systems, which adversely affects our revenues.

We offer subaccounting services to brokerage firms that perform mutual fund shareowner subaccounting. As the recordkeeping functions in connection with subaccounting are more limited than traditional shareowner accounting, the fees charged are generally lower on a per unit basis. Brokerage firms that obtain agreements from our mutual fund clients to use an omnibus accounting structure could cause accounts currently on our traditional recordkeeping system to convert to our subaccounting system, or to the subaccounting systems of other service providers, which could result in lower revenues.

***The demand for our products and services could decrease if we do not continually address our clients' technology and capacity requirements.***

Our clients use computer technology based products and services in the complex and rapidly changing markets in which they operate. We must substantially invest in technology and systems to meet customer demand for transaction processing and volume capacities. If we do not meet clients' technology and capacity demands in advance of our competitors or if the investments we make are not cost-effective or do not result in successful products or services, our businesses could be adversely affected.

***Damage to our facilities or declining real estate values could impact our operations or financial condition.***

We own, lease and manage real estate as part of our business. The performance of our services also depends upon facilities that house central computer operations or operating centers or in which we process information, images, bills or statements. Declining property values in the markets in which we own investment properties may adversely affect our financial condition. Significant damage to any of our operating facilities could interrupt the operations at those facilities and interfere with our ability to serve customers.

***We may be unable to attract and retain capable technical personnel for our processing businesses or quality executives to manage the complex structure of our business.***

Our success depends on recruiting and retaining adept management and personnel with expertise in software and systems development and the types of computer hardware and software we utilize. Losing key personnel or not hiring qualified personnel could have a material adverse effect on our operations. Companies in our industry compete fiercely for qualified management and technical personnel. We cannot guarantee that we will be able to adequately compete for or keep qualified personnel. Lack of qualified management could increase the risk of unfavorable business strategies, especially in a complex business like ours with multiple segments and operating entities. Lack of qualified technical personnel could also affect our ability to develop the systems and services our clients demand.

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***Our businesses are subject to substantial competition.***

We are subject to intense competition from other established service providers in all industries we serve. Some of our competitors are able to bundle service offerings and offer more appealing pricing structures. Some of our clients, or the clients they serve, may develop, have developed or are developing the in-house capacity to perform the transaction processing, recordkeeping, and output services they have paid us to perform. Some of our competitors and clients have greater financial and human resources and access to capital than we do.

Our failure to successfully compete in any of our operating segments could have a material adverse effect on our financial results. Competition could also affect the revenue mix of services we provide, resulting in decreased revenues in lines of business with higher profit margins.

***We and companies in which we own a significant interest are subject to government regulation. Any regulatory violations, changes or uncertainties could adversely affect our business.***

A number of our businesses are subject to U.S. or foreign regulatory oversight, as well as privacy, licensing, processing, recordkeeping, reporting and related obligations. Any violation of those obligations or related laws or regulations could expose us or those businesses to costly fines or sanctions or damage our reputation, which could adversely affect our business or financial performance. Governmental changes and uncertainties surrounding services we provide could increase our costs of business or diminish business, which could materially and adversely affect the Company's financial results.

***Our clients are subject to government regulation that could affect our business.***

Our clients are subject to extensive government regulation, including investment adviser, broker/dealer and privacy regulations applicable to services we provide to the financial industry, and insurance, privacy and other regulations applicable to services we provide to the healthcare industry. Any violation by our clients of applicable laws and regulations could diminish their business or financial condition and thus their demand for our products and services. Demand could also decrease if we do not continue to offer products and services that help our clients comply with regulations.

***We operate internationally and are thus exposed to foreign political, economic and other conditions that could adversely affect our revenues from or support by foreign operations.***

Consolidated revenues from our subsidiaries in Asia, Australia, Canada, Europe and elsewhere outside the U.S. are an important element of our revenues. Inherent risks in our international business activities could decrease our international sales and have a material adverse effect on our overall financial condition, results of operations and cash flow. These risks include potentially unfavorable foreign economic conditions, political conditions or national priorities, foreign government regulation, potential expropriation of assets by foreign governments, the failure to bridge cultural differences, and limited or prohibited access to our foreign operations and the support they provide. We may also have difficulty repatriating profits or be adversely affected by exchange rate fluctuations in our international business.

***Various events may cause our financial results to fluctuate from quarter to quarter or year to year. The nature of these events might inhibit our ability to anticipate and act in advance to counter them.***

We cannot always control when and whether events occur, that could cause varying financial results. Unfavorable results may occur that we did not anticipate or take advance action to address. The various reasons our quarterly and annual results may fluctuate include unanticipated economic conditions, and costs for starting up significant client operations, for hiring staff, and for developing products. Our results may also vary as a result of pricing pressures, increased cost of supplies, timing of

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license fees, the evolving and unpredictable markets in which our products and services are sold, changes in accounting principles, and competitors' new products or services.

***Investment decisions with respect to cash balances, market returns or losses on those investments, and limits on insurance applicable to cash balances held in bank and brokerage accounts, including as agent on behalf of our clients, could expose us to losses of such cash balances and adversely affect revenues attributable to cash balance deposit investments.***

As part of our transaction processing and other services, we maintain and manage large bank and investment accounts containing client funds which we hold as agent as well as operational funds. Our revenues include investment earnings related to client fund cash balances. Our choices in selecting investments, or market conditions that affect the rate of return on or the availability of investments, could have an adverse effect on the level of such revenues. The amounts held in our operational and client deposit accounts could exceed the limits of government insurance programs of organizations such as the Federal Deposit Insurance Corporation and the Securities Investors Protection Corporation.

***Our revenues and profit margins could decrease if clients cancel contracts, fail to renew contracts, renegotiate contracts or use our services at less than anticipated rates.***

Client contract terminations, non-renewals, renegotiations or under-utilization of our services could decrease our revenues and profit margins. We derive revenue by selling products and services under long-term contracts. We cannot unilaterally extend the terms of these contracts when they expire. Some of these contracts contain "termination for convenience" clauses, which enable clients to cancel the agreements by providing written notice to us. Any failure to extend these contracts under their current terms, or any early termination of these contracts by customers, could adversely affect our business.

***Claims against us, including claims for the lost market value of securities and class action claims, could cause significant liability and damage our reputation and business prospects.***

Our proprietary applications and related services involve the processing of financial transactions for our clients and their customers. The dollar amount of transactions processed is vastly higher than the revenues derived from providing these services. We may be subject to claims, including class actions, for reimbursements, losses or damages arising from any transaction processing or operational error, or from process mismanagement, that causes, among other potential issues, processing delays, disclosure of protected information, miscalculations, failure to follow a clients' instructions, failure of third parties to recognize our role as our clients' agent, or mishandling of pass-through disbursements or other processes. Because of the sensitive nature of the financial and healthcare transactions we process, our liability and alleged damages may significantly exceed the fees we receive for performing the service at issue. Litigation could include class action claims based, among other theories, upon various regulatory requirements and consumer protection and privacy laws that class action plaintiffs may attempt to use to assert private rights of action. Any of these claims and related settlements or judgments could affect our profitability, damage our reputation, decrease demand for our services, or cause us to make costly operating changes.

***We are substantially dependent on our intellectual property rights, and a claim for infringement or a requirement to indemnify a client for infringement could adversely affect us.***

We have made substantial investments in software and other intellectual property on which our business is highly dependent. Any loss of our intellectual property rights, or any significant claim of infringement or indemnity for violation of the intellectual property rights of others, could have a material adverse effect on our financial condition, results of operations and cash flow. We rely on patent, trade secret and copyright laws, nondisclosure agreements, and other contractual and internal security measures to protect our proprietary technology. We cannot guarantee these measures will be

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effective. Our products and services rely on technology developed by others, including open source software, and we have no control over possible infringement of someone else's intellectual property rights by the provider of this technology. The owner of the rights could seek damages from us rather than or in addition to the persons who provide the technology to us. We could be subject at any time to intellectual property infringement claims that are costly to evaluate and defend. Our clients may also face infringement claims, allege that such claims relate to our products and services, and seek indemnification from us.

***Failure to protect the confidential information of our clients could hurt our business.***

We electronically maintain trade secrets and proprietary information, including sensitive financial and personal health information of our clients' customers, electronically. A material breach of our security systems and procedures could lead to significant claims for liability, cause our customers to reconsider using our services and products, damage our reputation, or otherwise have a material adverse effect on us. We maintain systems and procedures to protect against unauthorized access to electronic information and computer viruses, but we cannot guarantee these systems and procedures will always protect us. Rapid advances in technology may prevent us from anticipating all potential security threats, and the limits of technology and skills or the prohibitive cost of more advanced security solutions might prevent us from addressing these threats.

***We do not control certain businesses in which we have significant ownership.***

We invest in joint ventures and other unconsolidated affiliates as part of our business strategy, and part of our net income is derived from our pro rata share of the earnings of those businesses. Despite owning significant equity interests in those companies and having directors on their boards, we do not control their operations, strategies or financial decisions. The other owners may have economic, business or legal interests or goals that are inconsistent with our goals or the goals of the businesses we co-own. Our pro rata share of any losses due to unfavorable performance of those companies could negatively impact our financial statements.

***We own interests in companies under agreements that may inhibit our ability to sell our interests and the other owners may ask us to increase our investment.***

We own interests in unconsolidated entities including Boston Financial Data Services, International Financial Data Services Limited Partnership, International Financial Data Services Limited, and various real estate joint ventures, and in consolidated entities owned less than 100% by the Company. Our interests in such unconsolidated and in certain consolidated entities are subject to buy/sell arrangements, which may restrict our ability to sell our interests when we believe it is prudent to do so. These arrangements may also allow us to purchase the other owners' interests to prevent someone else from acquiring them and we cannot control the timing of occasions to do so. The businesses or other owners may encourage us to increase our investment in or make contributions to the businesses at an inopportune time.

***The financial results of our reinsurance subsidiary could be adversely affected if actual loss experience exceeds estimated loss experience.***

Our subsidiary, Vermont Western Assurance, Inc., which we refer to as Vermont Western, reinsures a portion of the risk in connection with replacing lost stock certificates for registered shareholders of unrelated companies. Vermont Western utilizes underwriting procedures and actuarial advisors to assess risk and establish reserves against loss. Vermont Western does not control clients' loss experience. Vermont Western could inaccurately assess risk at any time and actual loss experience could exceed estimates. Vermont Western's results, if unfavorable, could have a material adverse effect on our financial condition, operating results or cash flow.

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***We hold equity investments in companies that operate in various industries, and the value of those investments could decrease.***

We hold significant investments in available-for-sale equity securities of other companies or other financial interests that are subject to fluctuations in market prices. A significant decline in the value of our equity investments could have a material adverse effect on our financial condition or results of operations. We may not always be able to sell those investments at higher prices than we paid for them or than the value of the consideration used to acquire them.

***We hold significant investments in illiquid private equity funds.***

We are a limited partner in various private equity funds and have significant future capital commitments related to certain private equity fund investments. These investments are illiquid. Generally, private equity fund securities are non-transferable or are subject to long holding periods, and withdrawals from the private equity firm partnerships are typically not permitted. Even when transfer restrictions do not apply, there is generally no public market for the securities. Therefore, we may not be able to sell the securities at a time when we desire to do so.

***Various plans, agreements, laws and organizational documents may make more difficult or prevent a change in control.***

Provisions in our Certificate of Incorporation, Bylaws, certain plans and agreements, and applicable laws could make it more difficult for a party to make a tender offer for our shares or complete a takeover, which is not approved by our Board of Directors. The provisions include:

super-majority stockholder approval required for certain actions

staggered terms for directors

specific procedures for stockholders to nominate new directors

cumulative voting in election of directors

the Board's authority to issue and set the terms of preferred stock

a stockholders' rights plan giving stockholders' rights to purchase preferred stock if certain changes in our ownership occur

various rights of debenture holders, joint venture co-owners, lenders and certain customers and executives in the event of a change in control

public reporting of ownership and of changes in ownership by stockholders with at least a 5% interest in us

legal restrictions on business combinations with certain stockholders

***Because of contractual commitments, a change in control could affect our operating results and weaken our management retention and incentive tools.***

A change in control of the Company would trigger various rights and obligations in service agreements with our customers, in agreements governing our joint ventures, and in incentive award and employment agreements with our management. A change in control could also allow some clients to terminate their agreements with us or to obtain rights to use our processing software. We are parties to joint venture agreements that allow other co-owners to buy our equity interests if we undergo a change in control. A change in control or a termination of employment without "cause" or their resignation for "good reason" (each as defined in applicable agreements) after a change in control could accelerate certain restricted stock and other awards we have granted to our management employees. This award





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vesting may decrease an employee's incentive to continue employment with us. Certain executive officers have agreements with us that require us to continue to employ them for three years after a change in control or to pay certain amounts if we terminate their employment without cause or they resign for good reason following a change in control. The executives might not be incented to achieve results for the new owners of our business, and the cost of keeping the executives on the payroll might deter potential new owners from acquiring us or hinder new owners from hiring replacement management.

***Our equity incentive and stockholders' rights plans could have a dilutive effect on our common stock.***

Our directors, officers and certain managers have received restricted stock units and options to purchase our common stock as part of their compensation. These equity grants could have a dilutive effect on our common stock. A change of control would trigger the right of stockholders under our stockholders' rights plan to purchase 1/1000th shares of our preferred stock for each share of our common stock, which could be dilutive in value to common stockholders who do not exercise those rights.

***Conversion or settlement of our debentures could have a dilutive effect on our common stock or affect our liquidity.***

The Company has issued convertible senior debentures. Issuing common stock to settle conversions could be dilutive to the price of our common stock, and settlement of debentures for cash could affect our financial condition, operating results and cash flow. The debentures are convertible into shares of common stock under specified circumstances, which we refer to as Conversion Triggers. We cannot accurately predict when certain Conversion Triggers outside of our control may occur. To satisfy a conversion notice subsequent to a Conversion Trigger, we must deliver our common stock unless we properly notify the holder that we will settle with cash or a combination of cash and shares of common stock. A conversion notice settled with shares will cause additional dilution to existing common shareholders, while a conversion notice settled in cash may require the Company to access credit markets or sell its investments.

***We may not pay cash dividends on our common stock in the future.***

In 2010, we began paying cash dividends on our common stock. Future cash dividends will depend upon our financial condition, earnings and other factors deemed relevant by our Board of Directors. Payment of dividends is subject to applicable laws and to restrictions in applicable debt agreements.

**Item 1B. Unresolved Staff Comments**

None.

Table of Contents**Item 2. Properties**

The following table provides certain summary information with respect to the principal properties owned or leased by the Company. The Company believes the facilities, office space and other properties owned or leased are adequate for its current operations.

<b>Location</b>	<b>Use(1)</b>	<b>Owned/ Leased(2)</b>	<b>Square Feet</b>
<b>Financial Services Segment(3)</b>			
Kansas City, MO	Office Space	Leased	333,000
Kansas City, MO	Office Space	Owned(4)	510,000
Kansas City, MO	Data Center	Owned	163,000
St. Louis, MO	Data Center	Owned	108,000
Jefferson City, MO	Office Space	Leased	28,000
Harrisburg, PA	Office Space	Leased	217,000
Birmingham, AL	Office Space	Leased	98,000
Lawrence, KS	Office Space	Owned(4)	49,000
New York, NY	Office Space	Leased	15,000
Southfield, MI	Office Space	Leased	16,000
Boston, MA	Office Space	Leased	24,000
Minneapolis, MN	Office Space	Leased	15,000
Hyderabad, India	Office Space	Leased	95,000
Bangkok, Thailand	Office Space	Leased	92,000
London, United Kingdom	Office Space	Owned	56,000
London, United Kingdom	Office Space	Leased	4,000
Melbourne, Australia	Office Space	Leased	40,000
Sydney, Australia	Office Space	Leased	6,000
Johannesburg, South Africa	Office Space	Owned	8,000
Eight other smaller properties	Office Space	Leased	15,000
<b>Output Solutions Segment(3)</b>			
El Dorado Hills, CA	Production	Owned(4)	580,000
El Dorado Hills, CA	Office Space	Leased	47,000
Kansas City, MO	Production	Owned(4)	305,000
Kansas City, MO	Office Space	Owned(4)	66,000
Hartford, CT	Production	Owned(4)	302,000
Weymouth, MA	Production	Leased	75,000
Bristol, United Kingdom	Production	Owned	126,000
Dagenham, United Kingdom	Production	Leased	175,000
Jarrow, United Kingdom	Production	Leased	100,000
Manchester, United Kingdom	Production	Leased	75,000
Peterborough, United Kingdom	Production	Leased	50,000
Northampton, United Kingdom	Production	Leased	38,000
Toronto, Canada	Production	Owned	113,000
Ottawa, Canada	Production	Leased	13,000
<b>Investments and Other Segment(5)</b>			
Kansas City, MO	Office Space	Owned(4)	493,000
Kansas City, MO	Retail	Owned	46,000
Kansas City, MO	Office Space	Leased	4,000
Kansas City, MO	Production	Owned	177,000
El Dorado Hills, CA	Office Space	Owned	65,000
Rochester, United Kingdom	Office Space	Owned	19,000
Johannesburg, South Africa	Office Space	Owned	7,000

(1) Property specified as being used for production includes space used for manufacturing operations and warehouse space.



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- (2) In addition, but not included in the above table, the Company: 1) owns a number of surface parking facilities, a 120 unit apartment building, various developed and undeveloped properties, and an underground facility with 536,000 square feet leased to third parties, all located in Kansas City, Missouri; 2) owns approximately 200 acres of undeveloped land adjacent to its buildings in El Dorado Hills, California; 3) leases space in Singapore, Beijing, Hong Kong and Shanghai, China, Zurich, Switzerland, and Dubai, United Arab Emirates; and 4) leases approximately 89,000 square feet of office and production space in the U.K., for which the Company plans to sublease or exit.
- (3) Includes approximately 2.3 million square feet of property owned or leased by the Company's real estate subsidiaries, which are part of the Investments and Other Segment. These properties are primarily leased to other segments of the Company, including approximately 1.0 million square feet in the Financial Services Segment and 1.3 million square feet in the Output Solutions Segment. The Financial Services Segment has subleased 99,000 square feet of office space to third parties. The Output Solutions Segment has sub-leased 72,000 sq. ft. of office space to third-parties.
- (4) Several owned properties are mortgaged with aggregate indebtedness of \$111.8 million as of December 31, 2010.
- (5) The Company, through its real estate subsidiaries, leases office and production space to various third-party tenants in Kansas City, MO, El Dorado, CA, United Kingdom, and South Africa. The number of square footage leased to third-parties in office, retail and production facilities is 331,000, plus the approximately 480,000 in square footage leased to third parties at the underground facility.

**Investments and Other Segment**

The Company and its real estate subsidiaries own approximately 1.3 million square feet of office and retail space and 1.4 million square feet of production facilities which are held primarily for lease to the Company's other business segments. The real estate subsidiaries also hold master leases in certain properties which are leased to the Company's operating segments. The Company's real estate subsidiaries also own a number of parking facilities, various developed and undeveloped properties, a residential apartment facility and an underground facility.

**Item 3. Legal Proceedings**

The Company and its subsidiaries are involved in various legal proceedings arising in the normal course of their businesses. While the ultimate outcome of such legal proceedings cannot be predicted with certainty, management believes, after consultation with legal counsel, that the final outcome in such proceedings, in the aggregate, would not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company.

**Item 4. (Removed and Reserved)**

**Executive Officers of the Company**

Pursuant to General Instruction G(3) of Form 10-K and instruction 3 to paragraph (b) of Item 401 of Regulation S-K, the following list is included as an unnumbered Item in Part I of this Annual Report on Form 10-K in lieu of being included in the Company's Definitive Proxy Statement in connection with its annual meeting of stockholders scheduled for May 10, 2011.

All executive officers are elected by and serve at the discretion of the Company's Board of Directors. Certain of the executive officers have employment agreements with the Company. There are no arrangements or understandings between the executive officers and any other person pursuant to which he was or is to be selected as an officer, except with respect to the executive officers who have entered into employment agreements, which agreements designate the position or positions to be held by the executive officer. None of the executive officers are related to one another or to any of the members of the Board of Directors.

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**Thomas A. McDonnell**, age 65, has served as director of the Company since 1971. He has served as Chief Executive Officer of the Company since October 1984, and he served as President of the Company from 1973 through mid-2009 (except for a 30 month period beginning in 1984 and ending in 1987). He served as Treasurer of the Company beginning in 1973 and ending in 1995 and as Vice Chairman of the Board beginning in 1984 and ending in 1995. He is a director of Euronet Worldwide, Inc. and Kansas City Southern Industries, Inc. Within the past five years, he was also a director of Blue Valley Ban Corp., Garmin Ltd. and Commerce Bancshares, Inc.

**Stephen C. Hooley**, age 47, joined the Company in mid-2009 as its President and Chief Operating Officer. His responsibilities include U.S. Investment Recordkeeping Solutions, Automated Work Distributor products, information systems, product sales and marketing, data centers, and human resources. He served from 2004 through mid-2009 as President and Chief Executive Officer of Boston Financial Data Services ("Boston Financial"). In 2009, he began serving as non-executive Chairman of Boston Financial. Beginning in 2007, he has served as Chief Executive Officer of IFDS, L.P.

**Jonathan J. Boehm**, age 50, joined the Company in 1977. He became an Executive Vice President during 2009. Prior to his current position, he served since 1997 as Group Vice President Mutual Funds Full Service. He is responsible for the Company's subsidiaries DST Health Solutions and Argus Health Systems.

**Robert L. Tritt**, age 55, joined the Company in 1977. He became Executive Vice President of DST's U.S. Investment Recordkeeping Solutions business in 2009. Prior to his current position, he served since 1989 as Group Vice President with responsibility for product development and customer relationships for remote processing mutual fund customers. He is responsible for the development and operations of the company's proprietary applications supporting recordkeeping for mutual fund shareholders, defined contribution retirement plans, and brokerage firms performing subaccounting of open end mutual funds. Additionally, he is responsible for both ASP (Remote) and Full Service customer operations using such applications.

**Thomas R. Abraham**, age 59, began serving in 2007 as Chief Executive Officer of DST Global Solutions, an indirect wholly-owned subsidiary. Prior to joining the Company, Mr. Abraham served at Citibank, N.A. from 2001 as Managing Director and Head of Strategic Solutions Global Transaction Services.

**Steven J. Towle**, age 53, has served since 2004 as President and Chief Executive Officer of the Company's subsidiary DST Output. Prior to joining the Company, he was Boston Financial's President and Chief Operating Officer during 2000 through 2003 and its Senior Vice President during 1997 through September 2000.

**Gregg Wm. Givens**, age 50, joined the Company in 1996 as an officer and has served as Vice President and Chief Accounting Officer since 1999.

**Kenneth V. Hager**, age 60, began serving the Company in 1988 as Vice President and Chief Financial Officer and in 1995 as Treasurer. He is responsible for the financial function of the Company.

**Randall D. Young**, age 54, joined the Company as a Vice President in 1995 and has served as Vice President, General Counsel and Secretary of the Company since 2002.

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock trades under the symbol "DST" on the New York Stock Exchange ("NYSE"). As of February 22, 2011, there were approximately 34,500 beneficial owners of the Company's common stock.

The Company has historically retained its earnings for use in its business and did not pay dividends from its formation in 1995 through 2009. In 2010, the Company began paying cash dividends on its common stock. Future cash dividends will depend upon financial condition, earnings and other factors deemed relevant by DST's Board of Directors. Payment of dividends is subject to applicable laws and to restrictions in applicable debt agreements. On February 24, 2011, DST's Board of Directors declared a cash dividend of \$0.35 per share on its common stock. The dividend will be payable April 8, 2011, to shareholders of record at the close of business on March 18, 2011.

	Dividend	High	Low
<b>2010</b>			
1st Quarter	\$ 0.30	\$ 45.62	\$ 37.44
2nd Quarter		44.40	35.91
3rd Quarter		44.55	35.45
4th Quarter	0.30	46.37	41.79
<b>2009</b>			
1st Quarter	\$	\$ 40.93	\$ 25.89
2nd Quarter		39.26	35.01
3rd Quarter		47.31	34.95
4th Quarter		45.09	41.71

The prices set forth above do not include commissions and do not necessarily represent actual transactions. The closing price of the Company's common stock on the NYSE on December 31, 2010, was \$44.35.

**Stock Repurchases**

The following table sets forth information with respect to shares of Company common stock purchased by the Company during the quarter ended December 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 - October 31	124(1)	\$ 44.76	0	499,010(2)
November 1 - November 30	113,264(1)	\$ 43.32	100,000	399,010(2)
December 1 - December 31	63,191(1)	\$ 44.64	0	1,000,000(2)
Total	176,579	\$ 43.79	100,000	1,000,000

(1)

For the three months ended December 31, 2010, the Company purchased, in accordance with the 2005 Equity Incentive Plan (formerly the 1995 Stock Option and Performance Award Plan), 76,579 shares of its common stock for participant income tax withholding in conjunction with stock option exercises or from the vesting of restricted stock shares, as requested by the participants. These purchases were not made under the publicly-announced repurchase plans or programs, but were





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allowed by the rules of the Compensation Committee of the DST Board of Directors. Of these shares, 124 shares were purchased in October 2010, 13,264 shares were purchased in November 2010, and 63,191 shares were purchased in December 2010.

(2)

On December 8, 2010, DST's Board of Directors authorized the repurchase of an additional 600,990 shares under the existing share repurchase authorization plan. The plan allows, but does not require, the repurchase of common stock in open market and private transactions through December 31, 2012. The Company may enter into one or more plans with its brokers or banks for pre-authorized purchases within defined limits pursuant to Rule 10b5-1 to effect all or a portion of such share repurchases.

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**Stock Performance Graph**

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph shows the changes in value since December 31, 2005 of an assumed investment of \$100 in: (i) DST Common Stock; (ii) the stocks that comprise the S&P 400 MidCap index(1); and (iii) the stocks that comprise a peer group of companies ("Peer Group")(2). The table following the graph shows the dollar value of those investments as of December 31, 2010 and as of December 31 for each of the five preceding years. The value for the assumed investments depicted on the graph and in the table has been calculated assuming that cash dividends, if any, are reinvested at the end of each quarter in which they are paid.

**Comparison of Cumulative Five Year Total Return**

	As of December 31,					
	2005	2006	2007	2008	2009	2010
DST Systems, Inc	\$ 100.00	\$ 104.54	\$ 137.79	\$ 63.40	\$ 72.69	\$ 75.08
S&P MidCap 400 Index	100.00	110.32	119.12	75.96	104.36	132.16
Peer Group	100.00	113.21	113.62	82.40	102.03	114.11

(1) Standard & Poor's Corporation, an independent company, prepares the S&P 400 MidCap Index.

(2) The companies included in the Peer Group are Affiliated Computer Services, Alliance Data Systems Corporation, Automatic Data Processing, Inc., Broadridge Financial Solutions, Inc., Convergys Corporation, CSG Systems International, Inc., Fiserv, Inc., IMS Health Incorporated, NCR Corporation, Paychex, Inc, SEI Investments Co., TeleTech Holdings, Inc., and Total System Services, Inc.

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Also included in the Peer Group data for earlier years of the five year period are the following companies: Ceridian Corporation (included through 2006 as it was acquired by Thomas H. Lee Partners in November 2007), Choicepoint Inc. (included through 2007 as it was acquired by Reed Elsevier in September 2008), First Data Corporation (included through 2006 as it was acquired by Kohlberg Kravis in September 2007), and Perot Systems Corporation (included through 2008 as it was acquired by Dell in 2009).

DST selected the Peer Group based on comparable company information for DST's industry developed by an independent compensation consultant with the input of the Company's CFO.

Table of Contents**Item 6. Selected Financial Data**

The following table sets forth selected consolidated financial data of the Company. The selected consolidated financial data should be read in conjunction with and are qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K and the Company's audited consolidated financial statements, including the notes thereto, and the report of the independent registered public accounting firm thereon and the other financial information included in Item 8 of this Form 10-K.

	Years Ended December 31,				
	2010(1)	2009(2)	2008(3)	2007(4)	2006(5)
	(dollars in millions, except per share amounts)				
Operating revenues	\$ 1,713.6	\$ 1,595.4	\$ 1,675.5	\$ 1,695.4	\$ 1,556.2
Out-of-pocket reimbursements(6)	614.9	622.5	609.9	607.1	679.6
<b>Total revenues</b>	<b>2,328.5</b>	<b>2,217.9</b>	<b>2,285.4</b>	<b>2,302.5</b>	<b>2,235.8</b>
Costs and expenses	1,848.5	1,813.2	1,813.6	1,828.0	1,800.6
Depreciation and amortization	135.4	130.4	125.3	130.6	129.9
Income from operations	344.6	274.3	346.5	343.9	305.3
Interest expense	(46.1)	(42.2)	(55.4)	(60.3)	(139.6)
Other income (expense), net	141.7	85.1	(15.5)	45.0	50.0
Gain on sale of Asurion and lock\line				998.0	52.8
Equity in earnings of unconsolidated affiliates	36.4	37.3	34.7	62.6	47.7
<b>Income before income taxes and non-controlling interest</b>	<b>476.6</b>	<b>354.5</b>	<b>310.3</b>	<b>1,389.2</b>	<b>316.2</b>
Income taxes	159.1	112.9	67.4	514.5	82.2
<b>Net income</b>	<b>317.5</b>	<b>241.6</b>	<b>242.9</b>	<b>874.7</b>	<b>234.0</b>
Net loss attributable to non-controlling interest	1.0				
<b>Net income attributable to DST Systems, Inc.</b>	<b>\$ 318.5</b>	<b>\$ 241.6</b>	<b>\$ 242.9</b>	<b>\$ 874.7</b>	<b>\$ 234.0</b>
Basic earnings per share	\$ 6.78	\$ 4.87	\$ 4.53	\$ 13.80	\$ 3.41
Diluted earnings per share	\$ 6.73	\$ 4.84	\$ 4.21	\$ 12.14	\$ 3.17
Cash dividends per share of common stock	\$ 0.60				
Non-GAAP diluted earnings per share(7)	\$ 4.43	\$ 3.59	\$ 3.71	\$ 3.48	\$ 2.96
Total assets	\$ 3,339.4	\$ 2,912.8	\$ 2,509.4	\$ 3,395.9	\$ 3,119.1
Total debt	\$ 1,209.4	\$ 1,221.9	\$ 1,435.3	\$ 1,061.1	\$ 1,441.2
Ratio of earnings to fixed charges(8)	8.6	7.6	5.1	18.1	2.9

(1)

In 2010, the Company recognized \$73.4 million of contract termination payment operating revenues resulting from the early termination of two client processing agreements. In connection with the contract terminations, the company recorded \$3.1 million of costs and expenses and asset impairment charges of \$3.1 million which were recorded in depreciation and amortization expense. The aggregate income tax expense associated with the net contract termination payments was approximately \$26.2 million. The Company recognized termination benefit expenses of \$20.9 million associated with reductions in workforce, which were included in costs and expenses. The aggregate income tax benefit associated with these costs was approximately \$8.2 million. The Company incurred expenses and net gains related to securities and other investments dispositions in 2010. Expenses were associated with a charitable donation of marketable securities in the amount of \$10.2 million by the Investments and Other Segment, which was included in costs and expenses. The Company recorded \$70.8 million of net gains on securities and other investments, which were included in other income (expense), net. The aggregate income tax expense associated

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with the expenses and net gains was approximately \$19.7 million. The Company recognized dividend income from a private equity investment of \$54.7 million which was included in other income (expense), net. The income tax expense associated with this dividend was approximately \$12.6 million. The Company recognized a net loss, in the amount of \$6.4 million, associated with the repurchase and extinguishment of senior convertible debentures, which was included in other income (expense), net. The income tax benefit associated with this net loss was approximately \$2.4 million. The Company recognized an income tax benefit of approximately \$2.3 million related to the release of a valuation allowance previously established on deferred income tax assets of DST Output Limited (U.K.) resulting from the acquisition of dsicmm Group. Innovative Output Solutions Limited ("IOS") was the beneficiary of this income tax benefit, and accordingly DST's share of the benefit was 70.5% or \$1.6 million. The remaining portion of the income tax benefit (29.5% or \$0.7 million) was attributed to the non-controlling interest.

- (2) In 2009, the Company recognized a \$41.7 million gain in other income (expense), net associated with the purchase of the remaining 50% equity interest of Argus on March 31, 2009 for \$57.0 million in cash. The income tax benefit associated with this transaction was approximately \$0.9 million related to the elimination of deferred tax liabilities previously established for equity in earnings of Argus. In accordance with authoritative accounting guidance for income taxes, no income taxes were recorded on the \$41.7 million gain. The Company recognized a \$5.9 million gain in other income (expense), net associated with the repurchase of senior convertible debentures. The income tax expense associated with this gain was approximately \$2.2 million. The Company recorded an income tax benefit of approximately \$5.7 million resulting from a reduction in income tax related liabilities principally associated with the completion of an IRS examination for the tax years ended December 2002 through 2005. The Company recorded net gains on securities and other investments of \$17.2 million in other income (expense), net. The income tax expense associated with this investment gain was approximately \$6.9 million. The Company recorded a \$4.5 million gain in equity in earnings of unconsolidated affiliates associated with the consolidation and change in value of an equity method investment held by an unconsolidated affiliate. The income tax expense associated with this gain was approximately \$1.8 million. The Company recorded interest expense associated with financing costs from the 2009 convertible senior debenture exchange transactions in the amount of \$4.7 million. The income tax benefit associated with this expense was approximately \$1.9 million.
- (3) In 2008, the Company recognized a \$10.8 million gain in other income (expense), net associated with the repurchase of senior convertible debentures. The income tax expense associated with this gain was approximately \$4.2 million. During 2008, the Company recorded an income tax benefit of approximately \$48.2 million associated with a reduction in income tax related liabilities in accordance with accounting guidance for uncertain income tax positions. In addition, the Company recorded net losses on securities and other investments of \$41.8 million in other income (expense), net during 2008. The income tax benefit associated with this investment loss was approximately \$15.5 million.
- (4) In 2007, the Company recognized a \$998.0 million net gain from sale of Asurion on July 3, 2007. The income tax expense associated with this gain was approximately \$381.7 million. Also included in 2007 is a net gain resulting from the sale of office buildings, in the amount of \$12.4 million, that was recorded as a reduction in costs and expenses. The income tax expense associated with this net property gain was approximately \$4.9 million.
- (5) In 2006, the Company recognized a \$52.8 million net gain from the lockline merger with Asurion on January 1, 2006. The income tax expense associated with this gain was approximately \$23.1 million. In addition, DST acquired Amisys Synertech, Inc. on October 2, 2006. In 2006, the Company incurred interest expense of \$12.7 million resulting from the write-off of the Company's convertible debenture debt issuance costs.

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- (6) The Company's significant Out-of-Pocket ("OOP") expenditures include postage and telecommunication costs which are reimbursed by the customer. OOP expenses are included in costs and expenses.
- (7) Non-GAAP diluted earnings per share have been calculated by taking into account the impact of certain items that are not necessarily ongoing in nature, do not have a high level of predictability associated with them or are non-operational items. Management believes the exclusion of these items provides a useful basis for evaluating underlying business unit performance, but should not be considered in isolation and is not in accordance with, or a substitute for, evaluating business unit performance utilizing GAAP financial information. A reconciliation of diluted earnings per share and non-GAAP diluted earnings per share is included below. In addition, a detailed description of the items removed from net income for the three years ended December 31, 2010 are included in Item 7, Use of Non-GAAP Financial Information.
- (8) For purposes of calculating the ratio of earnings to fixed charges, earnings consists of pretax income less equity in earnings (losses) of unconsolidated affiliates, plus distributed earnings of unconsolidated affiliates, plus consolidated fixed charges, plus amortization of capitalized interest, less capitalized interest. Fixed charges include gross interest expense, amortization of deferred financing expenses and an amount equivalent to interest included in rental charges. The Company has assumed that one-third of rental expense is representative of the interest factor.

**Reconciliation of Reported Diluted Earnings per Share to non-GAAP Diluted Earnings per Share**

	Year Ended December 31,				
	2010	2009	2008	2007	2006
GAAP Diluted Earnings per Share	\$ 6.73	\$ 4.84	\$ 4.21	\$ 12.14	\$ 3.17
Contract termination payments, net	(0.87)			(0.03)	
Termination benefit expenses	0.27				
Disposition of businesses				(8.56)	(0.40)
Business acquisitions		(0.85)			
Net (gains) losses on securities and other investments	(0.87)	(0.21)	0.46	(0.02)	(0.15)
Dividends from private equity investment	(0.89)				
Gain on sale of property			(0.01)	(0.10)	
Loss (gain) on extinguishment of convertible debentures	0.09	(0.07)	(0.11)		
Financing fee on the convertible debentures exchange and other debenture related interest costs		0.05			0.63
Equity in earnings of unconsolidated affiliates items		(0.05)		0.04	0.12
Other				0.06	(0.05)
Income tax items	(0.03)	(0.12)	(0.84)	(0.05)	(0.36)
Non-GAAP Diluted Earnings per Share	\$ 4.43	\$ 3.59	\$ 3.71	\$ 3.48	\$ 2.96

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The discussions set forth in this Annual Report on Form 10-K contain statements concerning potential future events. Such forward-looking statements are based upon assumptions by the Company's management, as of the date of this Annual Report, including assumptions about risks and uncertainties faced by the Company. In addition, management may make forward-looking statements orally or in other writings, including, but not limited to, in press releases, in the annual report and in the Company's other filings with the Securities and Exchange Commission. Readers can identify these forward-looking statements by the use of such verbs as expects, anticipates, believes or similar verbs or conjugations of such verbs. If any of management's assumptions prove incorrect or should unanticipated circumstances arise, the Company's actual results could materially differ from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors including, but not limited to, those factors identified in Item 1A, "Risk Factors" of this Form 10-K. Readers are strongly encouraged to consider those factors when evaluating any forward-looking statements concerning the Company. The Company undertakes no obligation to update any forward-looking statements in this Annual Report on Form 10-K to reflect future events or developments.

**Introduction**

Originally established in 1969, the Company is a leading global provider of sophisticated information processing and computer software services and products to the financial services industry (primarily mutual funds and investment managers), healthcare industry, telecommunications industry and other service industries. The Company's business units are reported as two operating Segments (Financial Services and Output Solutions). In addition, the Company's real estate subsidiaries and affiliates, investments in equity securities, private equity investments and other financial interests have been aggregated into the Investments and Other Segment.

The Financial Services Segment's revenues are derived primarily from remote or full service transfer agency or third party administration product offerings that utilize the Company's proprietary software applications being processed at the Company's data centers. The Financial Services Segment's revenues are generally based on the number of accounts/members or transactions processed. The Company's mutual fund revenues are dependent upon the number of accounts or transactions processed. The Financial Services Segment's healthcare administration processing revenues are generally earned on a per member, per month basis for BPO services and ASP agreements. Argus derives revenue from pharmacy claims processing services and from investment earnings related to client balances maintained by Argus. The Company also derives revenues from transfer agency asset balances invested and investment earnings related to customer cash balances maintained in Company investment accounts. The Company also licenses its business process management ("BPM") software, healthcare administration processing systems software, certain investment management and, outside the U.S., certain mutual fund shareowner accounting systems. Revenues for licensed software products are primarily comprised of: (i) license fees; (ii) consulting and development revenues based primarily on time and materials billings; and (iii) annual maintenance fees. The license fee component of these revenues is not significant. The Company provides data processing services to certain clients who utilize the Company's AWD products. Revenues are primarily based upon data center capacity utilized, which is significantly influenced by the volume of transactions or the number of users. The Financial Services Segment records investment income (dividends, interest and net gains (losses) on investment securities) within Other income (expense), net.

The Financial Services Segment derives part of its income from its pro rata share in the earnings (losses) of certain unconsolidated affiliates, including BFDS, IFDS U.K. and IFDS L.P.

The Output Solutions Segment's revenues are derived from presentation and delivery (either printed or electronic) and archival of customer documents, and are based generally on the number of images

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processed and the range of customization and personalization options chosen by the client. Formatting and custom programming revenues are based on time and materials billings or on the number of images produced.

The Investments and Other Segment's revenues are derived from rental income from Company owned and third party real estate leases. Rental income from Company owned real estate is recorded as revenue when earned, which is based on lease terms, but is eliminated in consolidation for the portion that relates to real estate leased to the Company's other consolidated subsidiaries. The Investments and Other Segment records investment income (dividends, interest and net gains (losses) on investment securities) within Other income (expense), net.

**Significant Events**

*Acquisition of dsicmm Group Limited*

On July 30, 2010, DST, through its wholly-owned U.K. subsidiary, Innovative Output Solutions Limited ("IOS"), acquired dsicmm Group Limited ("dsicmm") for \$3.7 million in cash and the issuance of IOS stock. Prior to closing the transaction, IOS held DST's debt-free U.K. print/mail operations. After completion of the transaction, DST owns approximately 70.5% of IOS and the remaining 29.5% is owned by a group of the former stockholders of dsicmm. DST has consolidated the financial results of the combined IOS business from the closing date and has reflected the 29.5% owned by former stockholders of dsicmm as a non-controlling interest.

dsicmm provides integrated print and communication solutions in the U.K. DST believes that the acquisition of dsicmm complements its existing Output Solutions business in the U.K., increases the overall size of the business, broadens the service/product offerings and expands and diversifies the client base.

The Company has not yet finalized its accounting for the acquired assets of dsicmm; when finalized, it is possible that net assets acquired will be adjusted. DST has preliminarily recognized identifiable intangible assets (comprised of customer relationships of \$11.0 million and proprietary software of \$4.7 million) and goodwill, resulting from the acquisition. DST estimates annual amortization for acquired dsicmm intangible assets will be approximately \$2.4 million.

*Loss of Output Solutions client*

An Output Solutions telecommunications client, representing approximately 6.6% of 2009 annual Output Solutions Segment operating revenues, terminated its contract and internalized its bill production processing on April 30, 2010. DST received a contract termination payment of approximately \$63.0 million in connection with this termination.

*Debt activities*

During 2010, the Company entered into a new \$600 million revolving credit agreement in April and renewed and increased its revolving promissory note with BFDS from \$100 million to \$140 million in October. Both of these revolving credit facilities mature on July 1, 2013. In August, the Company issued \$370 million of Senior Notes with a weighted average interest rate and life of 5.06% and 8.25 years, respectively. After issuing the Senior Notes, the Company called and redeemed the Series A and Series B senior convertible debentures, fully retiring these series of debentures. During 2010, the Company paid \$498.5 million to repurchase or redeem Series A, B and C senior convertible debentures. As of December 31, 2010, \$94.1 million of aggregate principal remains outstanding on the Series C senior convertible debentures. In May, the Company renewed its accounts receivable securitization program, which matures on May 19, 2011, and decreased the maximum size of the program from \$175 million to \$150 million. The Company entered into a new \$50 million equipment



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credit facility with a vendor that can be used for equipment, software and service purchases from the vendor during the draw period, which ends on December 31, 2012.

*Acquisition of Argus Health Systems, Inc.*

Prior to March 31, 2009, DST owned a 50% equity interest in Argus, which provides pharmacy claims processing and other related services to help clients manage pharmacy benefit programs. On March 31, 2009, DST purchased the remaining 50% interest of Argus for \$57.0 million in cash. As a result, Argus is no longer an unconsolidated affiliate, but rather is a wholly owned subsidiary resulting in DST consolidating the results of Argus after March 31, 2009 rather than recording equity in earnings of Argus. The acquisition of the remaining 50% of Argus was treated as a step acquisition. Accordingly, DST remeasured its previously held equity interest in Argus to fair value, in the amount of \$57.0 million, and recorded a gain of \$41.7 million, which is included in Other income (expense), net in the Consolidated Statement of Income. DST has recognized identifiable assets (comprised of proprietary software of \$26.0 million, customer relationships of \$14.0 million and other intangible assets of \$1.0 million) and goodwill resulting from the acquisition of the remaining 50% Argus interest and the remeasurement of its previously held equity interest. Based on the purchase price allocation, DST estimates that annual amortization expense from Argus acquired intangible assets will be approximately \$4.2 million. The Company believes that the acquisition of Argus complements its existing DST Health Solutions business, increases the size of its healthcare processing capabilities and will enable the Company to provide broader product offerings to new and existing customers.

*Acquisition of BlueDoor Technologies*

On November 14, 2008, DST completed the acquisition of BlueDoor Technologies Pty Ltd ("BlueDoor"), which provides software solutions for participant accounting for the funds management and retirement savings ("superannuation") markets in Australia. The acquisition was accounted for as a purchase and the consideration paid for BlueDoor on the acquisition date consisted of approximately \$10.3 million of cash and 85,006 shares of DST common stock at an approximate value of \$3.1 million. DST believes the expansion of its software solution offerings will provide broader product offerings to existing and new customers.

**Workforce Reduction**

On January 29, 2010, DST implemented a plan to reduce its workforce during 2010. This plan was necessitated by the extended economic downturn which negatively impacted the financial services industry. The plan resulted in a reduction of approximately 7% of the employee workforce, affecting all DST domestic and international business units. As a result of this workforce reduction, the Company incurred a pre-tax charge in 2010 of approximately \$20.9 million in connection with its payment of related termination benefits. The plan was completed in December 2010.

**Off-Balance Sheet Arrangements**

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity, or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company.

The Company believes that its guarantee arrangements will not have a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, capital expenditures, capital resources, liquidity or results of operations. These arrangements are described in Note 13 to the consolidated financial statements included in Item 8 of this report.

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In January 2009, the Company entered an interest rate swap with a bank to fix the interest rate on its syndicated real estate credit agreement at approximately 4.49% (includes 1.75% applicable margin rate) beginning January 2010. This interest rate swap qualifies as a derivative instrument.

The Company's interest rate swap is a cash flow hedge of future interest payments under the Company's real estate credit agreement and uses a pay-fixed, receive-variable, forward starting interest rate swap. The Company's risk management objective and strategy for undertaking this hedge is to eliminate the variability of interest cash flows related to the Company's floating-rate real estate credit agreement. Changes in the cash flows of the interest rate swap are expected to offset the changes in cash flows attributable to fluctuations in the one-month LIBOR benchmark interest rate. The derivative instrument is a receive floating, pay 2.74% fixed, forward starting interest rate swap with an effective date of January 4, 2010 and a maturity date of September 16, 2013. Effectiveness of the hedge relationship is assessed on a quarterly basis both prospectively and retrospectively using the "cumulative dollar offset" method, in which the cumulative changes in the value of the hedging instrument are directly compared with the cumulative change in the fair value or cash flows of the hedged item. A dollar offset ratio of between 0.80 and 1.25 is required in order to qualify for hedge accounting treatment. At inception of the hedge, the cumulative dollar offset ratio is 1.00 since the terms of the perfect hypothetical swap match those of the actual swap. The derivative accounting guidance indicates that hedge effectiveness occurs only if the cumulative gain or loss on the derivative hedging instrument exceeds the cumulative change in the expected future cash flows of the hedged transaction. At December 31, 2010 and 2009, the fair value of the Company's pay-fixed, receive-variable, forward starting interest rate swap was a liability of \$5.0 million and \$1.9 million, respectively, which is included in other non-current liabilities in the Consolidated Balance Sheet. The Company determined there was no ineffectiveness during the years ended December 31, 2010 and 2009, which resulted in the changes in fair value of this swap being recorded in other comprehensive income.

Accounting and reporting guidance for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value, and that the changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

The Company may have obligations arising out of variable interests in unconsolidated entities. See the discussion included in Note 2 to the consolidated financial statements included in Item 8 of this report.

In addition, the Company has \$94.1 million of convertible senior debentures outstanding at December 31, 2010. The debentures are convertible under specified circumstances into shares of the Company's common stock.

**New Authoritative Accounting Guidance**

*Variable Interest Entities*

On January 1, 2010, the Company adopted new authoritative accounting guidance related to variable interest entities. Among other items, this accounting guidance responds to concerns about the application of certain key provisions of the current accounting guidance for variable interest entities, including those regarding the transparency of the involvement with variable interest entities. The adoption of this new accounting guidance did not have a significant impact on the consolidated financial statements.

*Multiple-Element Revenue Arrangements*

In October 2009, the FASB issued new authoritative accounting guidance related to multiple element revenue arrangements. This update provides guidance on whether multiple elements (deliverables)

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exist, how the deliverables should be separated and how the consideration should be allocated. The new guidance established a hierarchy for determining the selling price of a deliverable. For DST, the new authoritative guidance is effective prospectively for revenue arrangements entered into or materially modified after January 1, 2011. Early adoption is permitted. The Company has not determined the impact this new authoritative accounting guidance may have on the consolidated financial statements.

*Certain Revenue Arrangements That Include Software Elements*

In October 2009, the FASB issued new authoritative accounting guidance related to certain revenue arrangements that include software elements. This new guidance changes the accounting model for revenue arrangements that include both tangible products and software elements and also provides guidance on how consideration should be allocated in an arrangement that includes both tangible products and software. For DST, the new authoritative guidance is effective prospectively for revenue arrangements entered into or materially modified after January 1, 2011. Early adoption is permitted. The Company has not determined the impact this guidance may have on the consolidated financial statements.

*Earnings per Share Proposed Accounting Standard*

In August 2008, the FASB issued a revised exposure draft, that would amend current earnings per share accounting guidance to clarify guidance for mandatorily convertible instruments, the treasury stock method, contingently issuable shares, and contracts that may be settled in cash or shares. The final authoritative accounting guidance has yet to be issued. In April 2009, the FASB decided to pause the earnings per share project.

The proposed guidance, which is designed for convergence with international accounting standards, would require the use of the "if-converted" method from the date of issuance of the convertible debentures. The proposed guidance would remove the ability of a company to support the presumption that the convertible securities will be satisfied in cash and not converted into shares of common stock. Under this "if converted" method, GAAP diluted earnings per share would have been \$5.95 and \$4.15 (versus GAAP reported earnings of \$6.73 and \$4.84) for the year ended December 31, 2010 and 2009, respectively. Accordingly, the Company's stated intention to settle conversions of its convertible debentures with cash for the principal and accrued and unpaid interest and issue common stock for any conversion value amount over the principal and accrued and unpaid interest amounts would no longer be accepted under the proposed guidance. Retrospective application would be required for all changes, except that retrospective application would be prohibited for contracts that were either settled in cash prior to adoption or modified prior to adoption to require cash settlement. For DST, adoption of this accounting guidance, as proposed, will require retroactive restatement of the Company's diluted earnings per share calculations subsequent to the issuance of the convertible debentures. The revised exposure draft also contains other EPS computational changes (e.g., treasury stock method considerations) that may have an effect on the Company's diluted earnings per share calculation. DST is continuing to monitor the FASB's progress towards finalizing this proposed accounting guidance.

The proposed change in accounting principle would affect the calculation of diluted earnings per share during the period the debentures are outstanding, but would not affect DST's ability to ultimately settle the convertible debentures in cash, shares or any combination thereof.

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition, results of operations and cash flows are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect

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the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements: revenue recognition; software capitalization and amortization; depreciation of fixed assets; valuation of long-lived and intangible assets and goodwill; accounting for investments; and accounting for income taxes.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition**

The Company derives over 90% of its revenues as a result of providing processing and services under contracts. The majority of the amount is billed on a monthly basis generally with thirty-day collection terms. Revenues are recognized for monthly processing and services upon performance of the services. In the event a portion of the Company's revenues are due 12 months or more from the invoice date, the Company accounts for the revenue as not being fixed and determinable. In these cases, the revenue is recognized as it becomes due.

The Company recognizes revenue when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. If there is a customer acceptance provision in a contract or if there is uncertainty about customer acceptance, the associated revenue is deferred until the Company has evidence of customer acceptance.

Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables (items) can be divided into more than one unit of accounting. An item can generally be considered a separate unit of accounting if all of the following criteria are met: 1) the delivered item(s) has value to the customer on a standalone basis; 2) there is objective and reliable evidence of the fair value of the undelivered item(s); and 3) if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. Once separate units of accounting are determined, the arrangement consideration is allocated to each unit based on the unit's proportion of the fair value of all the units in the arrangement. In cases where there is objective and reliable evidence of the fair value of the undelivered item(s) in an arrangement but no such evidence for the delivered item(s), the residual method is used to allocate the arrangement consideration. For units of accounting which include more than one deliverable, the Company generally defers all revenue for the unit of accounting until the period over which the last undelivered item is delivered.

The Company's standard business practice is to bill monthly for development, consulting and training services on a time and materials basis. In some cases the Company bills a fixed fee for development and consulting services. For fixed fee arrangements, the Company recognizes revenue on a "percentage of completion" basis.

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The Company derives less than 10% of its revenues from licensing products. The Company licenses its asset management products and its AWD (BPM) product generally to non-mutual fund customers and international customers, its healthcare administration processing software solutions to domestic customers and its customer billing software solution products to international and domestic customers. Perpetual software license revenues are recognized at the time the contract is signed, the software is delivered and no future software obligations exist. Deferral of software license revenue billed results from delayed payment provisions, disproportionate discounts between the license and other services or the inability to unbundle certain services. Term software license revenues are recognized ratably over the term of the license agreement.

The Company recognizes revenues for maintenance services ratably over the contract term, after collectability has been assured.

The Company has entered into various agreements with related parties, principally unconsolidated affiliates, to utilize the Company's data processing facilities and computer software systems. The Company believes that the terms of its contracts with related parties are fair to the Company and are no less favorable than those obtained from unaffiliated parties.

The Company assesses collection based on a variety of factors, including past collection history with the customer and the credit-worthiness of the customer. The Company generally does not request collateral from its customers. If it is determined that collection of revenues is not reasonably assured, revenue is deferred and is recognized at the time it becomes reasonably assured, which is generally upon receipt of cash. Allowances for billing adjustments are determined as revenues are recognized and are recorded as reductions in revenues. Doubtful account expense for the Company is immaterial.

**Software capitalization and amortization**

The Company makes substantial investments in software to enhance the functionality and facilitate the delivery of its processing and services as well as its sale of licensed products. Purchased software is recorded at cost and is amortized on a straight-line basis over the estimated economic lives of three to five years. The Company also develops a large portion of its software internally. The Company is required to capitalize software development costs under the authoritative accounting guidance related to accounting for the costs of computer software developed or obtained for internal use, which requires capitalization of certain development costs after the design has been approved and management is committed to funding the project. The authoritative accounting guidance related to accounting for the costs of computer software to be sold, leased or otherwise marketed applies to software that will be sold or delivered to third parties and requires capitalization of research and development costs after technological feasibility has been established and management is committed to funding the project. The capitalized software development costs are generally amortized on a straight-line basis, based on an estimated economic life, which is dependent on the nature of the project. The Company has assigned lives of three to five years for capitalized software development.

Significant management judgment is required in determining what projects and costs associated with software development will be capitalized and in assigning estimated economic lives to the completed projects. Management specifically analyzes software development projects and analyzes the percentage of completion as compared to the initial plan and subsequent forecasts, milestones achieved and the commitment to continue funding the projects. Significant changes in any of these items may result in discontinuing capitalization of development costs, as well as immediately expensing previously capitalized costs. The Company reviews, on a quarterly basis, its capitalized software for possible impairment.

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**Depreciation of fixed assets**

The Company's approach on personal property, specifically data processing, printing and inserting equipment, is to own the property as opposed to leasing it where practicable. The Company believes this approach provides it better flexibility for disposing or redeploying the asset as it nears the completion of its economic life. The Company depreciates data processing equipment using accelerated depreciation methods over the following lives: (1) non-mainframe equipment three years; (2) mainframe central processing unit four years; and (3) mainframe direct access storage devices and tape devices five years. The Company depreciates furniture and fixtures over estimated useful lives, principally three to five years, using accelerated depreciation methods. The Company depreciates large printing and inserting equipment used by the Output Solutions Segment over a five to seven year life using accelerated depreciation methods. The Company depreciates leasehold improvements using the straight-line method over the lesser of the term of the lease or life of the improvements. Management judgment is required in assigning economic lives to fixed assets. Management specifically analyzes fixed asset additions, remaining net book values and gain/loss upon disposition of fixed assets to determine the appropriateness of assigned economic lives. Significant changes in any of these items may result in changes in the economic life assigned and the resulting depreciation expense.

**Valuation of long-lived and intangible assets and goodwill**

The Company assesses the impairment of goodwill at least annually and assesses identifiable intangibles, long-lived assets and related assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of the Company's use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. When it is determined that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company assesses actual impairment based on gross cash flows.

The Company and its unconsolidated affiliates do not amortize goodwill and intangible assets that have indefinite useful lives, instead these assets are tested for impairment annually (as of October 1) and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. No impairments have been identified as a result of these annual tests. The fair value of the reporting units was estimated using the expected present value of future cash flows.

At December 31, 2010, the Company had \$847.6 million of long-lived and intangible assets and goodwill on its Consolidated Balance Sheet.

**Accounting for investments**

The Company has three significant types of investments that require accounting judgment: 1) investments in available-for-sale securities, which are comprised principally of investments in State Street, Computershare and Euronet Worldwide, Inc.; 2) investments in unconsolidated affiliates, which is comprised principally of BFDS, IFDS U.K., IFDS L.P. and certain real estate joint ventures; and 3) investments in private equity funds and other investments accounted for under the cost method.

The Company accounts for investments in corporations, for which it owns less than 20% and does not have significant influence, in accordance with authoritative guidance related to accounting for certain investments in debt and equity securities, which requires the Company to designate its investments as trading or available-for-sale. At December 31, 2010, the Company had approximately \$905.8 million of available-for-sale securities. Available-for-sale securities are reported at fair value with unrealized gains and losses excluded from earnings and recorded net of deferred taxes directly to stockholders' equity as accumulated other comprehensive income. At December 31, 2010, the Company's available-for-sale

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securities had gross unrealized holding gains of \$555.7 million, gross unrealized holding losses of \$0.6 million and unrealized gains from foreign currency exchange rates of \$23.3 million.

The impact of a 10% change in fair value of the Company's available-for-sale investments would be approximately \$55.5 million to comprehensive income. The Company records an investment impairment charge for an investment with a gross unrealized holding loss resulting from a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future, which could have a material effect on the Company's financial position.

The equity method of accounting is used for investments in corporations in which the Company or its subsidiaries have at least a 20% voting interest and significant influence but does not control, and for all investments in partnerships and similar interests which the Company has at least 5% ownership and does not control. The Company classifies these investments as unconsolidated affiliates. Under the equity method, the Company recognizes income or losses from its pro-rata share of these unconsolidated affiliates' net income or loss, which changes the carrying value of the investment of the unconsolidated affiliate. In certain cases, pro-rata losses are recognized only to the extent of the Company's investment and advances to the unconsolidated affiliate.

Partnership and similar investment interests (including investments in private equity funds where the Company is a limited partner) in which the Company has at least a 5% ownership are accounted for on an equity method basis based on the Company's pro-rata ownership; the cost method of accounting is used for these investments when the Company has a de-minimus ownership percentage and no ability to exercise significant influence. The Company's cost method investments are held at the lower of cost or market.

**Accounting for income taxes**

The Company accounts for income taxes in accordance with authoritative accounting guidance. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns (e.g., realization of deferred tax assets, changes in tax laws or interpretations thereof).

In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact the consolidated financial statements. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. In accordance with authoritative accounting guidance related to accounting for uncertainty in income taxes, the Company recognizes liabilities for anticipated tax audit issues based on its estimate of whether, and the extent to which, additional taxes may be required. If the Company ultimately determines that payment of these amounts is unnecessary, then it reverses the liability and recognizes a tax benefit during the period in which it determines that the liability is no longer necessary. The Company also recognizes tax benefits to the extent that it is more likely than not that its positions will be sustained if challenged by the taxing authorities. To the extent the Company prevails in matters for which liabilities have been established, or is required to pay amounts in excess of its liabilities, the Company's effective tax rate in a given period may be materially affected. An unfavorable tax settlement would require cash payments and may result in an increase in the Company's effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in its effective tax rate in the year of resolution. The Company reports interest and penalties related to uncertain income tax positions as income taxes.

Table of Contents**Results of Operations**

The following table summarizes the Company's operating results (millions, except per share amounts):

	Year Ended December 31,		
	2010	2009	2008
<b>Revenues</b>			
<b>Operating revenues</b>			
Financial Services	\$ 1,156.7	\$ 1,115.2	\$ 1,142.7
Output Solutions	564.1	482.3	528.2
Investments and Other	57.8	59.4	61.8
Elimination Adjustments	(65.0)	(61.5)	(57.2)
	1,713.6	1,595.4	1,675.5
% change from prior year	7.4%	(4.8)%	(1.2)%
<b>Out-of-pocket reimbursements</b>			
Financial Services	44.6	54.3	72.6
Output Solutions	575.8	571.5	537.2
Investments and Other	0.4	0.7	0.7
Elimination Adjustments	(5.9)	(4.0)	(0.6)
	614.9	622.5	609.9
% change from prior year	(1.2)%	2.1%	0.5%
<b>Total revenues</b>	<b>\$ 2,328.5</b>	<b>\$ 2,217.9</b>	<b>\$ 2,285.4</b>
% change from prior year	5.0%	(3.0)%	(0.7)%
<b>Income from operations</b>			
Financial Services	\$ 273.6	\$ 248.6	\$ 304.0
Output Solutions	78.8	22.7	36.7
Investments and Other	0.1	10.7	13.4
Elimination Adjustments	(7.9)	(7.7)	(7.6)
	344.6	274.3	346.5
Interest expense	(46.1)	(42.2)	(55.4)
Other income (expense), net	141.7	85.1	(15.5)
Equity in earnings of unconsolidated affiliates	36.4	37.3	34.7
<b>Income before income taxes and non-controlling interest</b>			
	476.6	354.5	310.3
Income taxes	159.1	112.9	67.4
<b>Net income</b>			
	317.5	241.6	242.9
Net loss attributable to non-controlling interest	1.0		
<b>Net income attributable to DST Systems, Inc.</b>			
	<b>\$ 318.5</b>	<b>\$ 241.6</b>	<b>\$ 242.9</b>
Basic earnings per share	\$ 6.78	\$ 4.87	\$ 4.53
Diluted earnings per share	\$ 6.73	\$ 4.84	\$ 4.21
Non-GAAP diluted earnings per share	\$ 4.43	\$ 3.59	\$ 3.71
Cash dividends per share of common stock	\$ 0.60		
<b>Consolidated revenues</b>			



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Consolidated total revenues (including Out-of-Pocket ("OOP") reimbursements) increased \$110.6 million or 5.0% during the year ended December 31, 2010 as compared to December 31, 2009 and decreased \$67.5 million or 3.0% during the year ended December 31, 2009 as compared to December 31, 2008. Consolidated operating revenues increased \$118.2 million or 7.4% in 2010 as compared to 2009 and decreased \$80.1 million or 4.8% in 2009 as compared to 2008. The increase in consolidated operating revenues during 2010 was attributable to increases of \$41.5 in Financial Services and \$81.8 million in Output Solutions, both as compared to 2009. In 2010, the Company received a

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contract termination payment for a subaccounting client of \$10.4 million (\$9.1 million in the Financial Services Segment and \$1.3 million in the Output Solutions Segment). In addition, an Output Solutions telecommunications client, representing approximately 6.6% of 2009 annual Output Solutions operating revenues, terminated its contract and internalized its bill production processing in April 2010, which resulted in a contract termination payment to the Company of approximately \$63.0 million. In addition, the Company acquired dsicmm Group Limited ("dsicmm"), a provider of print/mail services in the U.K., on July 30, 2010, which contributed \$44.1 million of operating revenues to the Output Solutions Segment post acquisition. The consolidation of Argus Health Systems ("Argus") for a full year in 2010 versus nine months in 2009 increased operating revenues by approximately \$26.0 million. Excluding contract termination payments of \$9.1 million in Financial Services and \$64.3 million in Output Solutions, Output Solutions operating revenues resulting from the acquisition of dsicmm of \$44.1 million and net incremental Financial Services operating revenues of \$26.0 million resulting from consolidating Argus for a full year in 2010, but only nine months in 2009, consolidated operating revenues during 2010 decreased \$25.3 million or 1.6%, compared to the same period in 2009. On this basis, Financial Services Segment operating revenues increased \$6.4 million or 0.6% and Output Solutions decreased \$26.6 million or 5.5% during 2010 as compared to 2009. On this basis, the increase in Financial Services operating revenues is attributable to changes in foreign currency rates which increased operating revenues by approximately \$10.2 million and higher DST Global Solutions and Argus revenues, partially offset by lower revenues from DST Health Solutions and U.S. Investment Recordkeeping. On this basis, the decrease in Output Solutions operating revenues resulted from the loss of revenues from a terminated telecommunications client in April 2010, lower volumes from existing clients and lower revenue per unit (images produced and items mailed) processed, partially offset by an increase in revenues of \$3.8 million attributable to changes in foreign currency rates.

The \$80.1 million decrease in consolidated operating revenues during 2009 was attributable to declines of \$45.9 million in Output Solutions and \$27.5 million in Financial Services, both as compared to 2008. The declines in Output Solutions reflect lower images produced, lower revenue per unit (packages and images) processed and the effects of changes in foreign currency exchange rates. Absent \$74.9 million of net incremental operating revenues resulting from both the consolidation of Argus and a full year of BlueDoor Technologies ("BlueDoor"), Financial Services operating revenues decreased \$102.4 million during 2009 as compared to 2008. On this basis, the declines in Financial Services resulted from lower international revenues from decreased demand for professional services and changes in foreign currency exchange rates, reductions in revenues from U.S. Investment Recordkeeping Solutions, lower DST Health Solutions professional services revenues, AWD software license revenues and lower data processing support revenue.

Consolidated OOP reimbursements decreased \$7.6 million or 1.2% in 2010 as compared to 2009 and increased \$12.6 million or 2.1% in 2009 as compared to 2008. The net decrease in consolidated OOP reimbursement revenue in 2010 was primarily due to a \$9.7 million reduction in Financial Services OOP reimbursements due to lower volumes, partially offset by an increase in Output Solutions OOP reimbursements of \$4.3 million, attributable to \$15.2 million of dsicmm revenues, which were partially offset by lower processing volumes and the client loss described above. The increase in consolidated OOP reimbursement revenue in 2009 was primarily due to an increase in the number of clients where Output Solutions procures postage on behalf of the client.

**Income from operations**

Consolidated income from operations increased \$70.3 million or 25.6% to \$344.6 million during the year ended December 31, 2010 as compared to 2009 and decreased \$72.2 million or 20.8% to \$274.3 million during the year ended December 31, 2009 as compared to 2008. U.S. income from operations increased \$43.3 million or 14.4% in 2010 as compared to 2009 and decreased \$56.5 million or 15.8% in 2009 as compared to 2008. International income from operations increased \$27.0 million or

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103.1% in 2010 as compared to 2009 and decreased \$15.7 million or 151.7% in 2009 as compared to 2008. The \$70.3 million increase in consolidated income from operations is attributable to \$25.0 million in Financial Services and \$56.1 million in Output Solutions. Absent the contract termination payments of \$9.1 million in Financial Services and \$64.3 million in Output Solutions, expenses associated with client contract terminations of \$6.2 million (\$4.6 million in Output Solutions and \$1.6 million in Financial Services), termination benefit costs of \$20.9 million related to an announced reduction in workforce (\$14.3 million in Financial Services and \$6.6 million in Output Solutions) and a \$10.2 million charitable donation of marketable securities by the Investment and Other Segment, consolidated income from operations increased \$34.2 million or 12.5% during 2010 as compared to 2009. On this basis, Financial Services income from operations increased \$31.8 million or 12.8% to \$280.4 million for 2010 from higher revenues and lower operating expenses. On this basis, Output Solutions income from operations increased \$3.0 million or 13.2% to \$25.7 million for 2010 from lower operating expenses, partially offset by lower operating revenues in North America and the consolidation of \$5.1 million of operating losses from dsicmm in 2010.

The \$72.2 million decrease in consolidated income from operations during 2009 is attributable to declines of \$55.4 million in Financial Services and \$14.0 million in Output Solutions, both as compared to 2008. Excluding incremental revenues from the consolidation of Argus and acquisition of BlueDoor, operating revenues for Financial Services decreased \$102.4 million in 2009. Argus and BlueDoor had minimal effect on operating income during 2009. Lower operating revenues from other financial services operations had a negative impact on operating income during 2009. Software license revenues declined approximately \$10.0 million, which has a direct impact on operating income. Also contributing to the decline in operating income during 2009 were increased deferred compensation costs of approximately \$20.9 million (the effect of which is offset as unrealized appreciation on trading securities in other income, net), severance costs incurred in international operations from reductions in staffing levels, software impairments of approximately \$2.5 million and lower levels of data processing support revenues. These decreases in income from operations were partially offset by lower compensation and benefit related costs from lower staffing levels, lower incentive compensation accruals, lower share based compensation costs of approximately \$6.9 million and lower travel related costs. In addition, costs and expenses during 2008 included higher compensation costs related to the achievement of goals from prior business acquisitions and higher costs related to a new client subaccount conversion in 2008. Output Solutions decrease in income from operations during 2009 primarily resulted from lower operating revenues, primarily from lower images produced.

**Interest expense**

Interest expense was \$46.1 million, \$42.2 million and \$55.4 million during the years ended December 31, 2010, 2009 and 2008, respectively. Interest expense increased during 2010 primarily from higher weighted average interest rates on the Company's syndicated revolving credit facility which was renewed on April 16, 2010 and the privately placed senior notes issued in August 2010, and from recording accounts receivable securitization program costs as interest expense beginning January 1, 2010, partially offset by lower average debt balances during 2010. Interest expense decreased \$13.2 million during 2009, as compared to 2008, attributable to lower average interest rates and lower average debt balances, partially offset by \$4.7 million of financing costs associated with the Series A for Series C convertible senior debentures exchange transactions that occurred in fourth quarter 2009.

Table of Contents**Other income (expense), net**

The components of other income (expense) are as follows (in millions):

	Year Ended December 31,		
	2010	2009	2008
Net realized gains from the disposition of available-for-sale securities	\$ 67.0	\$ 46.0	\$ 32.1
Other than temporary impairments / unrealized losses on available-for-sale securities	(1.3)	(27.3)	(53.1)
Net gains (losses) on private equity funds and other investments	5.1	(1.8)	(20.8)
Gain (loss) on extinguishment of senior convertible debentures	(6.4)	5.9	10.8
Dividend income from a private equity investment	54.7		
Dividend income	10.1	10.4	24.6
Interest income	5.6	5.7	7.4
Gain on equity interest in Argus Health Systems		41.7	
Miscellaneous items	6.9	4.5	(16.5)
Other income (expense), net	\$ 141.7	\$ 85.1	\$ (15.5)

Other income (expense), net was income of \$141.7 million and \$85.1 million during the years ended December 31, 2010 and 2009, respectively, and expense of \$15.5 million during the year ended December 31, 2008.

Net realized gains from disposition of available-for-sale securities were \$67.0 million, \$46.0 million and \$32.1 million during the years ended December 31, 2010, 2009 and 2008, respectively. Included in the \$67.0 million of net realized gains during 2010 is a \$42.5 million gain from the disposition of approximately 7.3 million shares of Computershare Ltd and \$24.5 million of net realized gains from the disposition of other securities. Included in the \$46.0 million of net realized gains during 2009 are \$31.5 million of gains from the disposition of approximately 7.3 million shares of Computershare Ltd. and \$14.5 million of net realized gains from the disposition of other securities. The Company holds 15.0 million shares of Computershare Ltd. at December 31, 2010.

The Company records investment impairment charges for available-for-sale securities with gross unrealized holding losses resulting from a decline in value that is other than temporary. During the years ended December 31, 2010, 2009 and 2008, the Company recorded impairments of \$1.3 million, \$27.3 million and \$53.1 million, respectively. The decrease in impairments compared to 2009 is from improved financial market conditions.

The Company recorded a net gain on private equity funds and other investments of \$5.1 million during the year ended December 31, 2010 and a net loss from these investments during 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, the Company recorded \$1.8 million and \$20.8 million, respectively, of net impairments on private equity fund and other investments related to adverse market conditions and from poor performance of the underlying investment. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future, which could have a material effect on the Company's financial position.

The Company recorded \$6.4 million in net losses on the repurchase of senior convertible debentures during the year ended December 31, 2010 and \$5.9 million and \$10.8 million in net gains during the years ended December 31, 2009 and 2008, respectively.

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The Company recorded dividend income from a private equity investment of \$54.7 million during the year ended December 31, 2010. The gross amount of the cash dividends was \$57.7 million, but approximately \$3.0 million of the dividend was applied to the Company's cost basis investment.

The Company receives dividend income from certain investments held, including its investments in State Street and Computershare common stock. Dividend income was \$10.1 million, \$10.4 million and \$24.6 million during the years ended December 31, 2010, 2009 and 2008, respectively. Dividends from State Street common stock were \$0.4 million for both 2010 and 2009, respectively, and \$10.6 million during 2008. State Street reduced its quarterly dividend in first quarter 2009 to \$0.01 per share as compared to \$0.24 per share in fourth quarter 2008 which resulted in \$10.2 million of lower dividend income for DST during 2009. In addition, approximately \$4.0 million of lower dividend income from other investments was recorded during 2009 as compared to 2008, attributable to a reduction of dividends in other available-for-sale securities held. The sale of approximately 7.3 million shares of Computershare Ltd. in both 2010 and 2009, is expected to have a negative impact on the Company's future dividend income.

Interest income was \$5.6 million, \$5.7 million and \$7.4 million during the years ended December 31, 2010, 2009 and 2008, respectively. The \$1.7 million decrease in interest income in 2009, as compared to 2008, is attributable to lower amounts of short-term investments and lower interest rates.

The Company recorded a gain of \$41.7 million during 2009 related to its purchase of the remaining 50% interest of Argus for \$57.0 million. In accordance with new authoritative accounting guidance on business combinations, the acquisition of the remaining 50% of Argus on March 31, 2009 was treated as a step acquisition. Accordingly, DST remeasured its previously held equity interest in Argus to fair value, in the amount of \$57.0 million, and recorded a gain of \$41.7 million.

Miscellaneous items include unrealized gains and losses on marketable securities designated as trading securities, program fees related to the Company's accounts receivable securitization program during 2009 and 2008, realized foreign currency gains and losses, amortization of deferred non-operating gains and other non-operating items. Miscellaneous items had income of \$6.9 million and \$4.5 million during the years ended December 31, 2010 and 2009, respectively, and a loss of \$16.5 million during the year ended December 31, 2008. The increase in Miscellaneous items from 2010 to 2009 is primarily attributable to the absence of accounts receivable securitization program costs which are now recorded in interest expense beginning January 1, 2010, partially offset by lower unrealized appreciation on marketable securities designated as trading (the effect of which is offset in Financial Services Segment as an decrease in costs and expenses). Miscellaneous items income increased \$21.0 million during 2009 as compared to 2008. The increase in Miscellaneous other income items from 2009 to 2008 is primarily attributable to unrealized appreciation on marketable securities designated as trading (the effect of which is offset in the Financial Services Segment as an increase in costs and expenses), partially offset by \$0.8 million associated with renewal fees incurred upon renewing the accounts receivable securitization program.

Table of Contents**Equity in earnings (losses) of unconsolidated affiliates**

Equity in earnings (losses) of unconsolidated affiliates, net of income taxes provided by the unconsolidated affiliates is as follows (in millions):

	Year Ended December 31,		
	2010	2009*	2008
BFDS	\$ 14.8	\$ 12.1	\$ 16.4
IFDS U.K.	15.9	9.2	10.6
IFDS L.P.	6.2	10.9	5.8
Argus		(1.5)	0.7
Other	(0.5)	6.6	1.2
	\$ 36.4	\$ 37.3	\$ 34.7

\*

Equity in losses of Argus Health Systems, Inc. is for the period January 1, 2009 through March 31, 2009, the date DST acquired the remaining 50% equity interest and consolidated Argus.

For the year ended December 31, 2010, DST's equity in earnings of unconsolidated affiliates was \$36.4 million, a decrease of \$0.9 million as compared to 2009, primarily attributable to lower equity in earnings of other unconsolidated affiliates and IFDS, L.P., partially offset by higher equity in earnings of IFDS U.K. and BFDS. For the year ended December 31, 2009, DST's equity in earnings of unconsolidated affiliates was \$37.3 million, an increase of \$2.6 million as compared to 2008, attributable to increases at IFDS L.P. and other unconsolidated affiliates, partially offset by decreased earnings at BFDS and IFDS U.K. DST acquired the remaining 50% equity interest in Argus on March 31, 2009 and no longer records equity in earnings of Argus, but consolidates Argus' results into DST's consolidated financial statements.

DST's equity in earnings of BFDS increased \$2.7 million during the year ended December 31, 2010 as compared to 2009. The increase is attributable to lower occupancy costs from vacating a facility in 2009, lower bank fees, improvements in operations and the release of a previously established income tax valuation allowance, partially offset by decreased revenues from lower levels of shareowner accounts serviced. DST's equity in earnings of BFDS decreased \$4.3 million during the year ended December 31, 2009 as compared to 2008. The decline in earnings is primarily attributable to lower investment earnings resulting principally from lower interest rates on cash balances maintained by BFDS on behalf of customers, lease abandonment costs of approximately \$1.7 million (DST's share) incurred in 2009 associated with consolidating operational facilities and higher bank fees, partially offset by lower compensation and benefit related costs from lower staffing levels and from improvements in operations. Average daily balances invested by BFDS were \$997.3 million and \$856.2 million during the years ended December 31, 2010 and 2009, respectively. Average interest rates earned on the balances declined from 0.22% in 2009 to 0.18% in 2010. The aggregate effect of these fluctuations resulted in a minimal impact in interest earnings by BFDS during 2010.

DST's equity in earnings of IFDS U.K. increased \$6.7 million during the year ended December 31, 2010, as compared to 2009. The increase in equity in earnings is primarily attributable to higher levels of shareowner accounts serviced from both new and existing clients and improvements in operations. Accounts serviced by IFDS U.K. were 7.1 million at December 31, 2010, an increase of 0.5 million accounts or 7.6% from December 31, 2009. DST's equity in earnings of IFDS U.K. decreased \$1.4 million during the year ended December 31, 2009, as compared to 2008. The decrease is attributable to the foreign currency exchange effects between the U.S. Dollar and British Pound, partially offset by higher shareowner processing revenues from higher accounts serviced and increased operating efficiencies. Accounts serviced by IFDS U.K. were 6.6 million at December 31, 2009, an increase of 0.7 million accounts or 11.9% from December 31, 2008.

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DST's equity in earnings of IFDS L.P. (which includes IFDS Canada, Ireland and Luxembourg) decreased \$4.7 million during the year ended December 31, 2010, as compared to 2009. Absent a \$4.5 million gain (DST's share) in 2009 from the consolidation of an equity method investment by IFDS L.P., as the existing investment was remeasured to fair value upon consolidation, DST's equity in earnings of IFDS L.P. decreased \$0.2 million in 2010 as compared to 2009, attributable to lower earnings at IFDS Ireland and Luxembourg, partially offset by improvements in the Canadian operations. Accounts serviced by IFDS Canada were 10.7 million at December 31, 2010, an increase of 0.5 million accounts or 4.9% from December 31, 2009. DST's equity in earnings of IFDS L.P. increased \$5.1 million during the year ended December 31, 2009, as compared to 2008, mostly attributable to the \$4.5 million gain mentioned above. Absent this \$4.5 million gain, equity in earnings of IFDS L.P. increased \$0.6 million during 2009 as compared to 2008. On that basis, the increase is attributable to the foreign currency exchange effects between the U.S. dollar, the Canadian dollar and other currencies. Accounts serviced by IFDS Canada were 10.2 million at December 31, 2009, a decrease of 0.4 million accounts or 3.8% from December 31, 2008.

The Other category in the unconsolidated affiliates table above includes principally real estate joint ventures. Equity in earnings of other unconsolidated affiliates was a loss of \$0.5 million during the year ended December 31, 2010, a decrease of \$7.1 million as compared to 2009, attributable to unfavorable market conditions in 2010 for the Company's broker/dealer investment. Equity in earnings of other unconsolidated affiliates was \$6.6 million during the year ended December 31, 2009, an increase of \$5.4 million as compared to 2008, attributable to improvements in operations and improved market conditions for the Company's broker/dealer investment.

**Income taxes**

The Company's effective tax rate was 33.4%, 31.8% and 21.7% for the years ended December 31, 2010, 2009 and 2008, respectively. The Company's income tax rate for 2010 included a benefit from a dividend received deduction on approximately 50% of a \$57.7 million cash dividend received from a private equity investment. In addition, the release of \$2.3 million of international valuation allowance against certain international deferred tax assets, which resulted from the acquisition of dsicmm Group Limited, lower levels of international operating losses requiring valuation allowances and higher benefits from foreign tax credits favorably impacted the Company's tax rate in 2010.

The effective tax rate for 2009 was greater than 2008 but less than the statutory federal income tax rate of 35% primarily from certain items in both periods that were given discrete period treatment, which were partially offset by valuation allowances against international operating losses and lower dividend income in 2009. During 2009, DST recorded a \$41.7 million book gain on its equity interest in Argus with no related income tax expense, reversed approximately \$0.9 million of deferred tax liabilities related to the elimination of deferred tax liabilities previously established for equity in earnings of Argus, recorded an income tax benefit of approximately \$5.7 million resulting from a reduction in income tax related liabilities principally associated with the completion of an IRS examination in February 2009 for the tax years ended December 31, 2002 through 2005, and had increased utilization of foreign tax credits, which were partially offset by increased valuation allowances for higher international loss carryforwards.

The tax rates in each of the three years ended December 31, 2010 were affected by tax benefits relating to certain international operations and recognition of state tax benefits associated with income apportionment rules.

Excluding the effect of discrete period items, the Company expects its tax rate to be approximately 36.0% in 2011. The 2011 tax rate can be affected as a result of variances among the estimates and amounts of 2011 sources of taxable income (e.g., domestic consolidated, joint venture and/or international), the realization of tax credits (e.g., historic rehabilitation, research and experimentation and state incentive), adjustments which may arise from the resolution of tax matters under review and the Company's assessment of its liability for uncertain tax positions.

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**YEAR TO YEAR BUSINESS SEGMENT COMPARISONS**

**FINANCIAL SERVICES SEGMENT**

**Revenues**

Financial Services Segment total revenues of \$1,201.3 million increased \$31.8 million or 2.7% in 2010 as compared to 2009. Financial Services Segment operating revenues of \$1,156.7 million increased \$41.5 million or 3.7% in 2010 as compared to 2009. U.S. Financial Services operating revenues increased \$25.1 million or 2.5% to \$1,039.1 million in 2010 as compared to 2009. As mentioned above, a client terminated its processing contract in connection with a corporate merger and converted approximately 5.0 million subaccounts to a non-DST subaccounting platform during 2010. DST received a termination payment of approximately \$10.4 million (\$9.1 million was recorded in Financial Services and \$1.3 million was recorded in Output Solutions) and incurred approximately \$1.6 million of costs in connection with the contract termination, resulting in a \$8.8 million net pretax gain associated with this event. Absent the \$9.1 million client contract termination payment mentioned above and \$26.0 million of net incremental operating revenues from consolidating Argus for a full year in 2010 versus nine months in 2009, Financial Services operating revenues for 2010 increased \$6.4 million or 0.6% as compared to 2009. On this basis, the increase in Financial Services operating revenues is attributable to changes in foreign currency rates which increased operating revenues by approximately \$10.2 million and higher DST Global Solutions and Argus revenues, partially offset by lower revenues from DST Health Solutions and U.S. Investment Recordkeeping.

Revenues of DST Global Solutions increased during 2010 from changes in foreign currency exchange rates, higher professional services and higher software license revenues. Argus revenues increased from higher fees per pharmacy claim paid and increased pharmacy claims related services. DST Health Solutions experienced lower demand for professional services and lower volumes of transaction processing, partially offset by higher software license revenues. Absent the \$9.1 million contract termination payment mentioned above, operating revenues for U.S. Investment Recordkeeping Solutions during 2010 were lower than for the same period in 2009 attributable to decreased shareowner processing revenues from lower levels of registered accounts, partially offset by increased revenues from higher retirement participant recordkeeping services, higher volumes of subaccounts serviced and higher distribution support solutions volumes. Financial Services Segment operating revenues from international operations for 2010 increased \$16.4 million or 16.2% to \$117.6 million, primarily from the change in foreign currency exchange rates compared to the same period in 2009 and from higher professional services.

Financial Services Segment total revenues of \$1,169.5 million decreased \$45.8 million or 3.8% in 2009 as compared to 2008. Financial Services Segment operating revenues of \$1,115.2 million decreased \$27.5 million or 2.4% in 2009 as compared to 2008. U.S. Financial Services operating revenues increased \$13.3 million or 1.3% to \$1,014.0 million in 2009 as compared to 2008. Absent \$68.2 million of net incremental operating revenues resulting from the consolidation of Argus on March 31, 2009, U.S. Financial Services operating revenues decreased \$54.9 million during 2009 as compared to 2008. On this basis, the decrease in U.S. Financial Services operating revenues is attributable to lower U.S. Investment Recordkeeping Solutions revenues, lower DST Health Solutions professional services revenues, lower AWD software license revenues and lower data processing support services.

The net decrease in mutual fund shareowner processing service revenues during 2009 resulted from lower levels of registered accounts serviced, including the deconversion of a full-service mutual fund client which occurred during second quarter 2009, and lower TRAC participants processed (principally from a client internalizing its participant accounting operations at the end of third quarter 2008), which were partially offset by higher levels of subaccounts serviced. The decrease in DST Health Solutions professional services revenue is attributable to lower client demand for professional services, the expiration of a client processing agreement in mid 2009 and from the 2008 recognition of \$2.5 million



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of previously deferred professional services revenues. The decline in AWD software license fees is primarily attributable to lower demand in 2009. Data processing support revenues decreased by approximately \$5.0 million due to the expiration of a contract in June 2008. Financial Services Segment operating revenues from international operations for 2009 decreased \$40.8 million or 28.7% to \$101.2 million. Professional services provided to international financial services clients decreased from continued lower demand for these services and from changes in foreign currency exchange rates, which reduced operating revenues by approximately \$11.8 million, as compared to 2008. The decrease of international operating revenues was partially offset by \$6.7 million of incremental operating revenues from the acquisition of BlueDoor.

Financial Services Segment software license fee revenues are derived principally from AWD (business process management BPM), DST Global Solutions (investment management) and DST Health Solutions (medical claims processing). Operating revenues include approximately \$45.9 million of software license fee revenues for the year ended December 31, 2010, an increase of \$3.6 million as compared to 2009. The 2010 increase is primarily due to higher investment management and medical claims software license revenues, partially offset by lower AWD software license revenues. Operating revenues include approximately \$42.3 million of software license fee revenues for the year ended December 31, 2009, a decrease of \$10.0 million as compared to 2008. The 2009 decrease is primarily due to lower AWD and investment management software license fee revenues. While license revenues are not a significant percentage of DST's total operations, they can significantly impact earnings in the period in which they are recognized. Revenues and operating results from individual license sales depend heavily on the timing, size and nature of the contract.

**Costs and expenses**

Financial Services Segment costs and expenses (including OOP costs) for the year ended December 31, 2010 were \$848.3 million, an increase of \$7.7 million as compared to 2009. Costs and expenses in the Financial Services Segment are primarily comprised of compensation and benefits costs, but also include reimbursable operating expenses and other costs. Reimbursable operating expenses included in costs and expenses were \$44.6 million for the year ended December 31, 2010, a decrease of \$9.7 million as compared to 2009. Excluding reimbursable operating expenses, costs and expenses of Argus during the three months ended March 31, 2010 of \$27.6 million, termination benefit expenses of \$14.3 million related to a reduction in force and expenses incurred in connection with terminating a client contract mentioned above of \$1.6 million, costs and expenses decreased \$26.1 million or 3.3% to \$760.2 million during 2010. On this basis, the decrease in costs and expenses is attributable to lower compensation and benefit related costs from lower staffing levels, lower deferred compensation costs of \$1.9 million (the effect of which is offset in other non-operating income), partially offset by higher costs from foreign currency exchange effects of approximately \$9.8 million.

Financial Services Segment costs and expenses (including OOP costs) for the year ended December 31, 2009 were \$840.6 million, an increase of \$9.9 million as compared to 2008. Reimbursable operating expenses included in costs and expenses were \$54.3 million for the year ended December 31, 2009, a decrease of \$18.3 million compared to 2008. Incremental costs and expenses during 2009 attributable to the consolidation of Argus and the acquisition of BlueDoor were approximately \$80.6 million. Excluding reimbursable operating expenses during 2009 and 2008 and incremental costs associated with Argus and BlueDoor during 2009, costs and expenses decreased \$52.4 million or 6.9% to \$704.8 million for 2009. On this basis, the decrease in costs and expenses is primarily attributable to lower compensation and benefit related costs from lower staffing levels, lower incentive compensation accruals, lower travel related costs, and the foreign currency exchange effects between the U.S. Dollar and other currencies of approximately \$14.5 million, partially offset by higher deferred compensation costs of approximately \$20.9 million (the effect of which is offset as unrealized appreciation on trading

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securities in other income, net) and higher costs associated with reductions in international staffing levels.

**Depreciation and amortization**

Financial Services Segment depreciation and amortization costs for the year ended December 31, 2010 was \$79.4 million, a decrease \$0.9 million or 1.1% as compared to 2009. The decrease in depreciation and amortization is primarily related to a \$2.5 million impairment of internally developed software in 2009, partially offset by higher purchase accounting amortization expense from a full year of Argus in 2010.

Financial Services Segment depreciation and amortization expense for the year ended December 31, 2009 was \$80.3 million, a decrease of \$0.3 million or 0.4% as compared to 2008. Incremental depreciation and amortization costs attributable to the consolidation of Argus and the acquisition of BlueDoor were \$6.9 million for 2009. Excluding incremental costs of Argus and BlueDoor, depreciation and amortization decreased \$7.2 million during 2009. On that basis, the decrease in depreciation and amortization is attributable to certain assets becoming fully depreciated in 2009, the Company's use of accelerated depreciation methods and lower costs associated with foreign currency exchange effects, partially offset by a \$2.5 million impairment of international internally developed software recorded in 2009.

**Income from operations**

Financial Services Segment income from operations was \$273.6 million, an increase of \$25.0 million or 10.1% as compared to 2009. Excluding the impact of 2010 termination benefit expenses of \$14.3 million, contract termination revenues of \$9.1 million and costs associated with this contract termination of \$1.6 million, income from operations increased \$31.8 million to \$280.4 million for 2010 as compared to 2009. On this basis, Financial Services income from operations increased from higher revenues and lower operating expenses, principally personnel related costs from the reduction in force. In addition, Financial Services incurred approximately \$1.9 million of lower deferred compensation costs in 2010 as compared to 2009.

Financial Services Segment income from operations was \$248.6 million, a decrease of \$55.4 million or 18.2% as compared to 2008. Approximately \$20.9 million of the decrease is attributable to an increase in deferred compensation costs (the effect of which is offset as unrealized appreciation on trading securities in other income, net). Other significant factors were costs associated with reductions in staffing levels, software impairments of approximately \$2.5 million, \$10.0 million of lower software license revenues, lower levels of data processing support revenues and other lower operating revenues. These decreases in income from operations were partially offset by lower compensation and benefit related costs from lower staffing levels, lower incentive compensation accruals, lower share based compensation costs of approximately \$6.9 million and lower travel related costs.

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The following table summarizes changes in registered accounts and subaccounts serviced (in millions):

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
<b>Registered Accounts</b>			
Beginning balance	109.9	111.2	117.2
New client conversions	1.7	1.6	2.6
Subaccounting conversions	(12.3)	(3.2)	(6.4)
Conversions to non-DST platforms		(0.6)	
Organic growth (decline)	0.1	0.9	(2.2)
Ending balance	99.4	109.9	111.2
<b>Subaccounts</b>			
Beginning balance	11.2	8.9	1.9
New client conversions	2.8	1.0	6.8
Conversions from DST's registered accounts	4.6	0.9	1.1
Conversions to non-DST platforms	(5.0)		
Organic growth (decline)	0.7	0.4	(0.9)
Ending balance	14.3	11.2	8.9
<b>Total</b>	<b>113.7</b>	<b>121.1</b>	<b>120.1</b>

Total shareowner accounts serviced at December 31, 2010 were 113.7 million, a decrease of 7.4 million accounts or 6.1% as compared to December 31, 2009. Total shareowner accounts serviced at December 31, 2009 were 121.1 million, an increase of 1.0 million accounts or 0.8% as compared to December 31, 2008.

Registered accounts serviced at December 31, 2010 decreased 10.5 million accounts or 9.6% from the comparable amount at December 31, 2009. Registered accounts serviced at December 31, 2009 decreased 1.3 million accounts or 1.2% from the comparable amount at December 31, 2008.

Tax-advantaged accounts were 44.6 million at December 31, 2010, a decrease of 1.7 million accounts or 3.7% as compared to December 31, 2009. The decrease in tax-advantaged accounts during 2010 is primarily attributable to a DST client's loss of a state's Section 529 program to a competitor who is not a DST client. Tax-advantaged accounts were 46.3 million at December 31, 2009, an increase of 0.5 million accounts or 1.1% as compared to December 31, 2008. The increase is primarily attributable to net organic growth in existing client accounts. Tax-advantaged accounts represent 44.9% of total registered accounts serviced at December 31, 2010 as compared to 42.1% at December 31, 2009.

Subaccounts serviced at December 31, 2010 increased 3.1 million accounts or 27.7% from the comparable amount at December 31, 2009. Subaccounts serviced at December 31, 2009 increased 2.3 million accounts or 25.8% from the comparable amount at December 31, 2008. Revenues from subaccounting services are generally based on the number of subaccounts serviced and, as a result of the level of services provided directly by the broker/dealer, the per account revenue is less than what DST derives from its traditional mutual fund shareowner processing services because fewer of TA2000's features are required.

At December 31, 2010, the Company had new client commitments representing approximately 0.3 million registered accounts which are expected to convert to TA2000 in 2011.

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As previously announced, an existing subaccounting client with approximately 0.6 million subaccounts intends to terminate its processing contract in connection with a corporate merger and convert to a non-DST subaccounting platform in first quarter 2011.

Projections of registered accounts converting to subaccounts are based on information obtained from DST's clients and are subject to change. Based on information provided by its clients, the Company currently expects the subaccounting trend to continue in 2011 and conversions of registered accounts to subaccounts in 2011 are expected to approximate the levels experienced in 2010. The Company's current outlook for 2011 includes the expectation that a client managing a single state Section 529 plan will permit a single brokerage firm to subaccount approximately 0.8 million registered Section 529 plan accounts. The actual number of accounts estimated to convert to and from various DST platforms, as well as the timing of those events, is dependent upon a number of factors. Actual results could differ from the Company's estimates.

The following table summarizes changes in defined contribution participants serviced (in millions):

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
<b>Defined Contribution Participants</b>			
Beginning balance	4.2	3.7	4.8
New client conversions	0.5	0.5	
Client deconversions			(1.0)
Organic growth (decline)	(0.2)		(0.1)
Ending balance	4.5	4.2	3.7

Defined contribution ("DC") participants represent the number of active participants processed on DST's TA2000/TRAC platform. DC participants were 4.5 million at December 31, 2010, an increase of 0.3 million or 7.1% from December 31, 2009 attributable to new client conversions. DC participants were 4.2 million at December 31, 2009, an increase of 0.5 million or 13.5% from December 31, 2008. The Company has previously reported new client commitments that will convert approximately 1.4 million new participants from 2011 through 2013, including 0.6 million in the second half of 2011.

Pharmacy claims paid by Argus were 380.4 million for the year ended December 31, 2010. Pharmacy claims paid by Argus were 285.0 million from March 31, 2009 (acquisition date) through December 31, 2009.

DST Health Solutions covered lives were 22.9 million at December 31, 2010, a decrease of 0.6 million lives or 2.6% as compared to December 31, 2009. Covered lives were 23.5 million at December 31, 2009, an increase of 0.1 million or 0.4% as compared to December 31, 2008.

Active U.S. AWD workstations were 163,500 at December 31, 2010, an increase of 2,500 as compared to December 31, 2009. Active U.S. AWD workstations were 161,000 at December 31, 2009, an increase of 1,400 as compared to December 31, 2008. Active international AWD workstations were 32,400 at December 31, 2010, a decrease of 0.3% as compared to December 31, 2009. Active international AWD workstations were 32,500 at December 31, 2009, a decrease of 8.7% as compared to December 31, 2008.

Table of Contents**OUTPUT SOLUTIONS SEGMENT****Revenues**

Output Solutions Segment total revenues were \$1,139.9 million and \$1,053.8 million for the years ended December 31, 2010 and 2009, respectively. Operating revenues increased \$81.8 million or 17.0% to \$564.1 million for the year ended December 31, 2010 as compared to 2009. On July 30, 2010, the Company, through its wholly-owned U.K. subsidiary Innovative Output Solutions ("IOS") acquired dsicmm Group Limited ("dsicmm"), a provider of print/mail services in the U.K., for cash and the issuance of IOS stock. After completion of the transaction, DST owns approximately 70.5% of IOS and the remaining 29.5% is owned by a group of the former stockholders of dsicmm. DST has consolidated the financial results of the combined IOS business from the closing date and has reflected the 29.5% owned by the former stockholders of dsicmm as a non-controlling interest. Operating revenues from dsicmm post acquisition were \$44.1 million. As mentioned above, an Output Solutions telecommunications client, representing approximately 6.6% of 2009 annual Output Solutions Segment operating revenues, terminated its contract and internalized its bill production processing on April 30, 2010, which resulted in a contract termination payment to the Company of approximately \$63.0 million. Output Solutions received a \$1.3 million contract termination payment in third quarter 2010 after a subaccounting client terminated its processing agreement. Absent \$64.3 million of operating revenues from termination payments and \$44.1 million of operating revenues from the dsicmm acquisition, Output Solutions operating revenues for 2010 decreased \$26.6 million or 5.5% to \$455.7 million, as compared to 2009. On this basis, the decrease in Output Solutions operating revenues resulted from the loss of revenues from a terminated telecommunications client in April 2010, lower volumes from existing clients and lower revenue per unit (images produced and items mailed) processed, partially offset by an increase in revenues of \$3.8 million attributable to changes in foreign currency rates.

Output Solutions Segment total revenues were \$1,053.8 million and \$1,065.4 million for the years ended December 31, 2009 and 2008, respectively. Operating revenues decreased \$45.9 million or 8.7% to \$482.3 million for the year ended December 31, 2009 as compared to 2008. The decrease in operating revenues was primarily due to lower images produced, lower revenue per unit (packages and images) processed and the effects of changes in foreign currency exchange rates. The decrease in revenue per unit is attributable to higher relative volumes from clients with lower unit pricing. In addition, foreign currency exchange effects of approximately \$7.7 million contributed to the decrease in revenues. Out-of-pocket revenues increased \$34.3 million or 6.4% to \$571.5 million during the year ended December 31, 2009 as compared to 2008 principally from an increase in the number of clients where Output Solutions procures postage on behalf of the client.

Excluding operating volume information for dsicmm, images produced were 11.1 billion, 12.9 billion and 13.6 billion for the years ended December 31, 2010, 2009 and 2008, respectively. Images produced decreased 1.8 billion in 2010 as compared to 2009, primarily attributable to the loss of a telecommunications client and from lower images from existing clients, partially offset by images from new clients. Images produced decreased 0.7 billion in 2009 as compared to 2008, principally from lower volumes from existing clients, reduced amounts of transaction information included on invoices and a special privacy notice completed in 2008 that did not recur in 2009, partially offset by new client volumes.

Excluding operating volume information for dsicmm, items mailed were 2.3 billion, 2.4 billion and 2.3 billion during the years ended December 31, 2010, 2009 and 2008. Items mailed are reflective of the number of our clients' underlying accounts/subscribers/customers who receive their communications via paper. The decrease for 2010 is primarily the result of the telecommunications client loss mentioned above, partially offset by volumes from new clients. The increase for 2009 is due to new client volumes, partially offset by lower volumes from existing clients and a special privacy notice completed in 2008 that did not recur in 2009.

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Output Solutions received a new client commitment in North America representing, when fully transitioned, approximately 98 million of aggregate packages annually, based on current volume levels. Production for this new client is expected to begin in third quarter 2011. Full conversion of all applications for this client is expected to be completed by the end of first quarter 2012.

**Costs and expenses**

Output Solutions Segment costs and expenses (including OOP costs) for the year ended December 31, 2010 increased \$23.7 million or 2.4% to \$1,013.3 million as compared to 2009. Costs and expenses in the Output Solutions Segment are primarily comprised of reimbursable operating expenses, compensation and benefits costs, material costs (principally paper and ink) and other operating costs. Reimbursable operating expenses included in costs and expenses were \$575.8 million during the year ended December 31, 2010, an increase of \$4.3 million or 0.8% as compared to 2009, attributable to \$15.2 million of dsicmm OOP reimbursement revenues, partially offset by lower volumes of existing clients. Excluding non-dsicmm reimbursable operating expenses of \$560.6 million, total costs and expenses from dsicmm of \$60.6 million, termination benefit expenses of \$6.6 million related to a reduction in force and termination benefit expenses associated with an Output Solutions contract termination of \$1.5 million, costs and expenses decreased \$34.1 million or 8.2% during the year ended December 31, 2010 to \$384.0 million. On this basis, the decrease in cost and expenses is attributable to lower material costs, lower compensation and benefit related costs from reduced staffing levels and lower leased equipment costs from the continued implementation of owned digital print technologies, partially offset by higher costs related to the effect of foreign currency exchange rates of approximately \$2.2 million.

Output Solutions Segment costs and expenses (including OOP costs) for the year ended December 31, 2009 decreased \$0.2 million as compared to 2008. Reimbursable operating expenses included in costs and expenses were \$571.5 million during the year ended December 31, 2009, an increase of \$34.3 million or 6.4% as compared to 2008. The increase is primarily attributable to increases in customer postage. Excluding reimbursable operating expenses, costs and expenses decreased \$34.5 million or 7.6% during the year ended December 31, 2009 to \$418.1 million primarily from lower material and personnel costs resulting from lower processing volumes and reduced incentive compensation costs, lower travel costs, lower leased equipment costs resulting from the implementation of owned digital print technologies and lower costs related to the effect of foreign currency exchange rates of approximately \$7.4 million. These decreases were partially offset by higher customer conversion related costs and higher product development costs during 2009.

**Depreciation and amortization**

Output Solutions Segment depreciation and amortization was \$47.8 million, \$41.5 million and \$38.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. Excluding the asset impairment charge of \$3.1 million associated with the telecommunication client contract termination and \$3.8 million of depreciation and amortization from dsicmm Group Limited (including approximately \$1.0 million of intangible asset amortization), depreciation decreased \$0.6 million or 1.4% to \$40.9 million in 2010 as compared to 2009. On this basis, the 2010 decrease is attributable to lower levels of capital expenditures. Amortization of intangible assets acquired from dsicmm Group Limited is estimated to be approximately \$2.4 million annually. The 2009 increase of \$2.6 million or 6.7% is attributable to increased depreciation from additional equipment to support new client requirements and expanded postal processing offerings.

**Income from operations**

Output Solutions Segment income from operations was \$78.8 million for the year ended December 31, 2010, an increase of \$56.1 million compared 2009. Excluding the impact of contract termination payments of \$64.3 million, expenses associated with contract terminations of \$4.6 million and

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termination benefit expenses of \$6.6 million, income from operations increased \$3.0 million or 13.2% to \$25.7 million as compared to 2009. On this basis, the increase in Output Solutions income from operation is attributable to lower operating expenses, partially offset by lower operating revenues in North America and the consolidation of \$5.1 million of operating losses from dsicmm in 2010.

Output Solutions Segment income from operations was \$22.7 million for the year ended December 31, 2009, a decrease of \$14.0 million as compared to 2008, primarily from lower revenues and increased depreciation from costs of equipment purchased to support new client requirements and expanded postal processing offerings. In addition, the Output Solutions Segment incurred higher customer conversion related costs and higher product development costs during 2009 as compared to 2008.

**Use of EBITDA**

The Company defines EBITDA as earnings from operations before interest expense, income taxes, depreciation and amortization. This supplemental non-GAAP liquidity measure is provided in addition to, but not as a substitute for, cash flow from operations. As a measure of liquidity, the Company believes EBITDA is useful as an indicator of its ability to generate cash flow. EBITDA, as calculated by the Company, may not be consistent with computation of EBITDA by other companies. The Company believes a useful measure of Output Solutions' contribution to DST's results is to focus on cash flow and DST's management believes EBITDA is useful for this purpose. A reconciliation of Output Solutions Segment income from operations to EBITDA is included in the table below. The non-GAAP adjustments to this reconciliation are described in the "Use of Non-GAAP Financial Information" included in Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

For the years ended December 31, 2010, 2009 and 2008, Output Solutions EBITDA was \$126.6 million, \$64.2 million and \$75.6 million. EBITDA increased \$62.4 million or 97.2% in 2010 as compared to 2009. Excluding the impact of contract termination payments of \$64.3 million, cash expenses related to the termination payments of \$1.5 million and termination benefit expenses related to a reduction in workforce of \$6.6 million, EBITDA for 2010 was \$70.4 million, an increase of \$6.2 million or 9.7% compared to 2009, attributable to lower operating costs partially offset by the impact of dsicmm. EBITDA for 2009 was \$64.2 million, a decrease of \$11.4 million or 15.1% compared to 2008 primarily attributable to lower revenues.

The reconciliation of the Output Solutions Segment income from operations to EBITDA as used by management is set forth in the table below (in millions).

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Output Solutions Segment income from operations	\$ 78.8	\$ 22.7	\$ 36.7
Depreciation and amortization	47.8	41.5	38.9
<b>EBITDA, before Non-GAAP items</b>	<b>126.6</b>	<b>64.2</b>	<b>75.6</b>
Contract termination payment, net of expenses	(62.8)		
Termination benefit expenses	6.6		
<b>Adjusted EBITDA, after Non-GAAP items</b>	<b>\$ 70.4</b>	<b>\$ 64.2</b>	<b>\$ 75.6</b>

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**INVESTMENTS AND OTHER SEGMENT**

**Revenues**

Investments and Other Segment total revenues, including out-of-pocket reimbursements, were \$58.2 million, \$60.1 million and \$62.5 million during the years ended December 31, 2010, 2009 and 2008, respectively. Revenues are primarily derived from real estate activities. The majority of the real estate revenues are derived from the lease of facilities to the Company's other business segments. Operating revenues (excluding out-of-pocket reimbursements) were \$57.8 million, \$59.4 million and \$61.8 million during the years ended December 31, 2010, 2009 and 2008. The decrease in operating revenues during 2010 as compared to 2009 and during 2009 as compared to 2008 is attributable to lower rental activities.

**Costs and expenses**

Occupancy costs are the single largest costs included in costs and expenses in the Investments and Other Segment. Investments and Other Segment costs and expenses increased \$9.1 million in 2010 as compared to 2009 and decreased \$2.4 million in 2009 as compared to 2008. The increase in 2010 is attributable to a \$10.2 million charitable donation of marketable securities, partially offset by lower costs due to lower rental activities. The decrease in 2009 is attributable to lower rent expense from purchasing a building in December 2008 that was previously leased, partially offset by a \$1.2 million gain from the sale of properties in 2008 recorded as a reduction to costs and expenses. Absent this gain, costs and expenses decreased \$3.6 million during 2009. Excluding the 2010 charitable donation and the 2008 property gain discussed above, costs and expenses were \$37.1 million, \$38.2 million and \$41.8 million during the years ended December 31, 2010, 2009 and 2008.

**Depreciation and amortization**

Investments and Other Segment depreciation and amortization was \$10.8 million, \$11.2 million and \$8.5 million during the years ended December 31, 2010, 2009 and 2008, respectively. Depreciation and amortization was higher during 2009 primarily due to more buildings owned in 2009 and a real estate impairment of approximately \$1.0 million recorded in third quarter 2009.

**Income from operations**

Investments and Other Segment income from operations was \$0.1 million, \$10.7 million and \$13.4 million during the years ended December 31, 2010, 2009 and 2008, respectively. The 2010 decrease was attributable to a \$10.2 million charitable donation of marketable securities and lower revenues. The 2009 decrease was attributable to the absence of a \$1.2 million gain from the sale of real property in fourth quarter 2008, a real estate impairment of approximately \$1.0 million recorded in third quarter 2009 and from lower revenues.

**Use of Non-GAAP Financial Information**

In addition to reporting operating income, pretax income, net income and earnings per share on a GAAP basis, DST has also made certain non-GAAP adjustments which are described below in the section titled "Description of Non-GAAP Adjustments" and are reconciled to the corresponding GAAP measures in the attached financial schedules titled "Reconciliation of Reported Results to Income Adjusted for Certain Non-GAAP Items" below. In making these non-GAAP adjustments, the Company takes into account the impact of items that are not necessarily ongoing in nature, that do not have a high level of predictability associated with them or that are non-operational in nature. Generally, these items include net gains on dispositions of business units, net gains (losses) associated with securities and other investments, restructuring and impairment costs and other similar items. Management believes the exclusion of these items provides a useful basis for evaluating underlying business unit



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performance, but should not be considered in isolation and is not in accordance with, or a substitute for, evaluating business unit performance utilizing GAAP financial information. Management uses non-GAAP measures in its budgeting and forecasting processes and to further analyze its financial trends and "operational run-rate," as well as making financial comparisons to prior periods presented on a similar basis. The Company believes that providing such adjusted results allows investors and other users of DST's financial statements to better understand DST's comparative operating performance for the periods presented.

DST's management uses each of these non-GAAP financial measures in its own evaluation of the Company's performance, particularly when comparing performance to past periods. DST's non-GAAP measures may differ from similar measures by other companies, even if similar terms are used to identify such measures. Although DST's management believes non-GAAP measures are useful in evaluating the performance of its business, DST acknowledges that items excluded from such measures may have a material impact on the Company's income from operations, pretax income, net income and earnings per share calculated in accordance with GAAP. Therefore, management typically uses Non-GAAP measures in conjunction with GAAP results. These factors should be considered when evaluating DST's results.

*Description of Non-GAAP Adjustments*

The following items, which occurred during the year ended December 31, 2010, have been treated as Non-GAAP adjustments:

Contract termination payment net of certain other costs resulting from the termination of a Financial Services subaccounting client, in the amount of \$7.5 million. The net contract termination gain was comprised of operating revenues of \$9.1 million, partially offset by certain other costs of \$1.6 million that were included in Costs and expenses. The aggregate income tax expense associated with this net contract termination gain was approximately \$2.9 million.

Contract termination payment, net of termination benefit expenses and asset impairment charges resulting from the termination of an Output Solutions telecommunications client, in the amount of \$59.7 million. The net contract termination gain was comprised of operating revenues of \$64.3 million, partially offset by termination benefit expenses of \$1.5 million that were included in Costs and expenses and asset impairment charges of \$3.1 million which are included in Depreciation and amortization expense. The aggregate income tax expense associated with this net contract termination gain was approximately \$23.3 million.

Termination benefit expenses of \$20.9 million associated with reductions in workforce in the Financial Services Segment (\$14.3 million) and the Output Solutions Segment (\$6.6 million), which were included in Costs and expenses. The aggregate income tax benefit associated with these costs was approximately \$8.2 million.

The Company recorded expenses and net gains related to the disposition of securities and other investments in 2010. Expenses were associated with a charitable donation of marketable securities in the amount of \$10.2 million by the Investments and Other Segment, which was included in costs and expenses. The Company recorded \$70.8 million of net gains on securities and other investments, which were included in other income, net, for 2010 was comprised of net realized gains from dispositions of available-for-sale securities of \$67.0 million and net gains on private equity funds and other investments of \$5.1 million, partially offset by other than temporary impairments on available-for-sale securities of \$1.3 million. The aggregate income tax expense associated with the expenses and net gains was approximately \$19.7 million.

Cash dividends from a private equity investment of \$54.7 million, which was included in Other income, net. The gross amount of the dividends were \$57.7 million, but approximately

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\$3.0 million of the dividend was applied to the Company's cost basis investment. Approximately 50% of the dividend was estimated to qualify for the dividends received deduction. The income tax expense associated with these dividends were approximately \$12.6 million.

Net loss, in the amount of \$6.4 million, associated with the repurchase and extinguishment of senior convertible debentures, which was included in Other income, net. The income tax benefit associated with this net loss was approximately \$2.4 million.

An income tax benefit of approximately \$2.3 million related to the release of a valuation allowance previously established on deferred income tax assets of DST Output Limited (U.K.) resulting from the acquisition of dsicmm Group. Innovative Output Solutions Limited ("IOS") was the beneficiary of this income tax benefit, and accordingly DST's share of the benefit was 70.5% or \$1.6 million. The remaining portion of the income tax benefit (29.5% or \$0.7 million) was attributed to the non-controlling interest.

The following items, which occurred during the year ended December 31, 2009, have been treated as Non-GAAP adjustments:

Interest expense, in the amount of \$4.7 million, associated with financing costs from the convertible senior debenture exchange transactions completed in October and November 2009. The income tax benefit associated with these financing costs was approximately \$1.9 million.

Gain on equity interest in Argus, in the amount of \$41.7 million, included in other income (expense), net associated with DST's purchase of the remaining 50% interest of Argus on March 31, 2009 for \$57.0 million in cash. As required by generally accepted accounting principles, the Company adopted the new business combinations accounting guidance on January 1, 2009. In accordance with the guidance, the acquisition of the remaining 50% of Argus was treated as a step acquisition. Accordingly, DST remeasured its previously held equity interest in Argus to fair value and recorded a \$41.7 million gain. In addition, the Company recorded an income tax benefit associated with this transaction of approximately \$0.9 million related to the elimination of deferred tax liabilities previously established for equity in earnings of Argus. In accordance with income tax accounting guidance, no income taxes were recorded on the \$41.7 million gain on equity interest in Argus.

Other net gain, in the amount of \$17.2 million, associated with realized and unrealized gains (losses) related to securities and other investments, which are included in Other income, net. The income tax expense associated with this gain was approximately \$6.9 million. The \$17.2 million of net gain on securities and other investments for the year ended December 31, 2009 is comprised of net realized gains from sales of available-for-sale securities of \$46.3 million, net losses on private equity funds and other investments of \$1.8 million and other than temporary impairments on available-for-sale securities and other investments of \$27.3 million.

Gain, in the amount of \$5.9 million, associated with the repurchase and extinguishment of senior convertible debentures. The income tax expense associated with this gain was approximately \$2.2 million.

Increased equity in earnings of unconsolidated affiliates, in the amount of \$4.5 million, associated with a gain on the change in equity interest of a subsidiary investment held by IFDS, L.P. The income tax expense associated with this gain was approximately \$1.8 million. During fourth quarter 2009, an equity method investment held by IFDS, L.P. was consolidated requiring the existing equity interest held by IFDS, L.P. to be remeasured to fair value. This remeasurement to fair value resulted in a \$9.0 million gain being recorded by IFDS, L.P.

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An income tax benefit of approximately \$5.7 million resulting from a reduction in income tax related liabilities principally associated with the completion of an IRS examination in February 2009 for the tax years ended December 31, 2002 through 2005.

The following items, which occurred during the year ended December 31, 2008, have been treated as non-GAAP adjustments:

Net pre-tax gain resulting from the sale of real property, in the amount of \$1.2 million, which is included in Investments and Other Segment as a reduction to costs and expenses. The income tax expense associated with this gain was approximately \$0.5 million.

Other net loss, in the amount of \$41.8 million, associated with realized and unrealized gains (losses) related to securities and other investments, which are included in other income, net. The income tax benefit associated with this loss was approximately \$15.5 million. The \$41.8 million of net loss on securities and other investments for the year ended December 30, 2008 are comprised of other than temporary impairments on available-for-sale securities of \$53.1 million, net losses on private equity funds and other investments of \$20.8 million and net realized gains from sales of available-for-sale securities of \$32.1 million. Included in the \$32.1 million of net realized gains are \$4.9 million of realized losses from sales of securities and a \$25.4 million gain from the sale of approximately 0.7 million shares of State Street Corporation.

Gain, in the amount of \$10.8 million, associated with the repurchase and extinguishment of senior convertible debentures. The income tax expense associate with this gain was approximately \$4.2 million.

An income tax benefit of approximately \$48.2 million resulting from a reduction in the Company's liabilities related to accounting for uncertain income tax items. The decrease in income tax related liabilities is principally related to events occurring during fourth quarter 2008 that caused a change in the Company's assessment of the probability that a tax position taken in its 2005 federal income tax return will be sustained and realized upon settlement and the resolution of an IRS examination matter that was resolved in DST's favor.

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**DST SYSTEMS, INC.**  
**RECONCILIATION OF REPORTED RESULTS TO INCOME ADJUSTED FOR CERTAIN NON-GAAP ITEMS**  
**Year Ended December 31,**  
**(in millions, except per share amounts)**

	Operating Income	Pretax Income	2010 Net Income	DST Earnings*	Diluted EPS
<b>Reported GAAP income</b>	\$ 344.6	\$ 476.6	\$ 317.5	\$ 318.5	\$ 6.73
Adjusted to remove:					
<i>Included in operating income:</i>					
Contract termination payment, net Financial Serv.	(7.5)	(7.5)	(4.6)	(4.6)	(0.10)
Contract termination payment, net Output Sol.	(59.7)	(59.7)	(36.4)	(36.4)	(0.77)
Termination benefit expenses Financial Services	14.3	14.3	8.7	8.7	0.18
Termination benefit expenses Output Solutions	6.6	6.6	4.0	4.0	0.09
<i>Included in operating income and non-operating income:</i>					
Net gain on the disposition of securities and other investments	10.2	(60.6)	(40.9)	(40.9)	(0.87)
<i>Included in non-operating income:</i>					
Dividend from a private equity investment		(54.7)	(42.1)	(42.1)	(0.89)
Net loss on repurchase of convertible debentures		6.4	4.0	4.0	0.09
Release of int'l income tax valuation allowance			(2.3)	(1.6)	(0.03)
<b>Adjusted Non-GAAP income</b>	\$ 308.5	\$ 321.4	\$ 207.9	\$ 209.6	\$ 4.43

	Operating Income	Pretax Income	2009 Net Income	DST Earnings*	Diluted EPS
<b>Reported GAAP income</b>	\$ 274.3	\$ 354.5	\$ 241.6	\$ 241.6	\$ 4.84
Adjusted to remove:					
<i>Included in non-operating income:</i>					
Financing costs associated with the convertible debenture exchange transactions		4.7	2.8	2.8	0.05
Gain on equity interest in Argus Health Systems		(41.7)	(42.6)	(42.6)	(0.85)
Net gain on securities and other investments		(17.2)	(10.3)	(10.3)	(0.21)
Gain on extinguishment of senior convertible debentures		(5.9)	(3.7)	(3.7)	(0.07)
Gain on change in equity interest of a subsidiary investment held by an unconsolidated affiliate		(4.5)	(2.7)	(2.7)	(0.05)
Reduction in income tax related liabilities			(5.7)	(5.7)	(0.12)
<b>Adjusted Non-GAAP income</b>	\$ 274.3	\$ 289.9	\$ 179.4	\$ 179.4	\$ 3.59