

DST SYSTEMS INC  
Form 10-Q  
August 04, 2006

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2006

or

**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

**DST SYSTEMS, INC.**

(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)

**No Changes**

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  x

Accelerated filer  o

Non-accelerated filer  o

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

Number of shares outstanding of the Company's common stock as of June 30, 2006:

Common Stock \$0.01 par value 69,511,542

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

**DST Systems, Inc.**  
**Form 10-Q**  
**June 30, 2006**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Introductory Comments**

The Condensed Consolidated Financial Statements of DST Systems, Inc. ( "DST" or the "Company" ) included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to enable a reasonable understanding of the information presented. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The results of operations for the three and six months ended June 30, 2006, are not necessarily indicative of the results to be expected for the full year 2006.

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**DST Systems, Inc.**  
**Condensed Consolidated Balance Sheet**  
*(dollars in millions, except per share amounts)*  
*(unaudited)*

	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 72.8	\$ 80.2
Transfer agency investments	88.6	93.3
Accounts receivable	370.0	386.2
Deferred income taxes	36.9	32.9
Other assets	55.1	48.9
Assets of businesses held for sale		118.9
	623.4	760.4
Investments	1,719.2	1,405.2
Properties	506.9	492.4
Goodwill	75.6	75.1
Intangibles	18.2	18.9
Other assets	69.8	90.8
Assets of business held for sale		186.7
Total assets	\$ 3,013.1	\$ 3,029.5
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Debt due within one year	\$ 62.0	\$ 863.1
Transfer agency deposits	88.6	93.3
Accounts payable	92.3	97.6
Accrued compensation and benefits	74.0	90.2
Deferred revenues and gains	63.4	69.4
Other liabilities	165.7	160.3
Income taxes payable	116.6	137.7
Liabilities of businesses held for sale		110.7
	662.6	1,622.3
Long-term debt	1,332.0	541.4
Deferred income taxes	384.1	318.0
Other liabilities	57.5	52.1
	2,436.2	2,533.8
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock, \$0.01 par; 400 million shares authorized, 95.3 million shares issued	1.0	1.0
Additional paid-in capital	117.8	209.8
Retained earnings	1,299.2	1,162.0
Unearned compensation		(106.8)
Treasury stock (25.8 million and 23.6 million shares, respectively), at cost	(1,281.8)	(1,148.2)
Accumulated other comprehensive income	440.7	377.9
Total stockholders' equity	576.9	495.7
Total liabilities and stockholders' equity	\$ 3,013.1	\$ 3,029.5

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The accompanying notes are an integral part of these financial statements.

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**DST Systems, Inc.**  
**Condensed Consolidated Statement of Income**  
*(in millions, except per share amounts)*  
*(unaudited)*

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Operating revenues	\$ 380.5	\$ 469.2	\$ 763.2	\$ 906.3
Out-of-pocket reimbursements	190.0	201.1	383.3	392.3
Total revenues	570.5	670.3	1,146.5	1,298.6
Costs and expenses	469.8	549.8	947.1	1,065.5
Depreciation and amortization	30.9	38.4	60.2	74.2
Income from operations	69.8	82.1	139.2	158.9
Interest expense	(16.3 )	(18.2 )	(45.8 )	(34.8 )
Other income, net	5.0	82.3	29.5	90.0
Gains on sale of businesses		120.4	52.8	120.4
Equity in earnings of unconsolidated affiliates	18.3	20.0	34.4	27.9
Income before income taxes	76.8	286.6	210.1	362.4
Income taxes	21.3	116.3	72.9	142.9
Net income	\$ 55.5	\$ 170.3	\$ 137.2	\$ 219.5
Average common shares outstanding	67.1	78.6	67.5	78.5
Diluted shares outstanding	73.0	80.9	73.2	80.9
Basic earnings per share	\$ 0.83	\$ 2.17	\$ 2.03	\$ 2.79
Diluted earnings per share	\$ 0.76	\$ 2.11	\$ 1.87	\$ 2.71

The accompanying notes are an integral part of these financial statements.

**DST Systems, Inc.**  
**Condensed Consolidated Statement of Cash Flows**  
*(in millions)*  
*(unaudited)*

	<b>For the Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows operating activities:</b>		
Net income	\$ 137.2	\$ 219.5
Depreciation and amortization	60.2	74.2
Equity in earnings of unconsolidated affiliates	(34.4 )	(27.9 )
Net realized gain on investments	(13.1 )	(74.6 )
Gains on sale of businesses and properties	(52.8 )	(117.3 )
Amortization of unearned compensation on restricted stock	12.3	13.1
Amortization of debt issuance costs	12.9	2.6
Deferred income taxes	23.6	(95.3 )
Cash dividend from unconsolidated affiliates	25.2	
Changes in accounts receivable	16.8	69.0
Changes in other assets	3.4	(63.2 )
Changes in transfer agency investments	4.8	13.3
Changes in transfer agency deposits	(4.8 )	(13.3 )
Changes in accounts payable and accrued liabilities	(1.7 )	39.7
Changes in income taxes payable	(15.6 )	207.8
Changes in deferred revenues and gains	(6.1 )	5.9
Changes in accrued compensation and benefits	(11.1 )	(8.7 )
Other, net	7.3	(12.6 )
Total adjustments to net income	26.9	12.7
Net	164.1	232.2
<b>Cash flows investing activities:</b>		
Capital expenditures	(65.7 )	(73.6 )
Proceeds from sale of investments	103.0	13.5
Investments in securities	(43.2 )	(17.5 )
Investments in and advances to unconsolidated affiliates		