DST SYSTEMS INC
Form 10-K
March 07, 2006

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

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

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

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

Title of each class	**Name of each Exchange on which registered**
Common Stock, $0.01 Per Share Par Value	**New York Stock Exchange**

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 x NO o

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 o NO x

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 x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. o

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.

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

Aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant as of June 30, 2005: Common Stock, $0.01 par value $3,720,643,477

Number of shares outstanding of the Registrant s common stock as of January 31, 2006: Common Stock, $0.01 par value 71,585,808

Documents incorporated by reference:

Proxy Statement for the annual meeting of stockholders on May 9, 2006 (Part III)

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

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 to shareholders 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 will not update any forward-looking statements 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 15 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*) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. In addition, the Company s corporate governance guidelines and the charters of the Audit Committee, the Corporate Governance Committee/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) 435-4636. An individual may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W. 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.

RECENT DEVELOPMENTS IN THE COMPANY S BUSINESS

The recent business developments of the Company and the Company s subsidiaries follow.

Merger of lock\line with Asurion

On January 1, 2006, the Company completed the transaction to merge its DST lock\line, Inc. subsidiary (lock\line) into a wholly-owned subsidiary of Asurion Corporation (Asurion), a privately held company with principal operations in Nashville, Tennessee. The merger was structured as a tax free reorganization, but DST will recognize a book gain on the merger during the first quarter 2006. The Company expects to recognize for book purposes a pretax gain on the merger that will range from approximately $60 million to $70 million; such amounts are dependent upon the finalization of a valuation of the assets being exchanged.

As a result of the merger, DST owns approximately 35% of Asurion and will record its proportionate share of Asurion s net income as equity in earnings of unconsolidated affiliates beginning in 2006. The Company received no cash proceeds in connection with the merger. For accounting purposes, the Company will be required to treat the transaction as both a sale of lock\line and a corresponding purchase of interests in Asurion, which will result in DST recording certain identifiable intangibles requiring amortization. The amortization of the DST identified intangibles will further reduce the equity in earnings attributed to the Asurion investment. Asurion will account for lock\line as a purchase and will perform an allocation of purchase price value in excess of the net assets of lock\line. This will result in intangible assets being identified that Asurion will amortize in the future. The amortization of the collective identified intangibles from DST and Asurion will likely result in the transaction being dilutive to earnings per share. Because of the significant continuing involvement as an equity method investment of the Company, the merger of lock\line does not qualify to be reported as a discontinued operation.

lock\line provides administrative services for the extended warranty programs of telecommunications carriers, handset replacement programs for wireless carriers and consumer debt protection programs. lock\line related operating revenues for the year ended December 31, 2005 were $164.8 million. lock\line had approximately 1,500 employees at December 31, 2005. Asurion provides services related to warranty management, device protection, roadside assistance and enterprise managed mobility solutions for technology firms in the U.S., Canada and Asia. Asurion had approximately 3,300 employees at December 31, 2005. Asurion reported revenues of approximately $715 million during the year ended December 31, 2005.

Stock Repurchase Programs

During 2005, the Company purchased 14.5 million shares of common stock at an approximate cost of $777 million under approved share repurchase programs. As of December 31, 2005, the Company had approximately 5.3 million shares remaining to be purchased under the 6.0 million share repurchase authorization that was approved by DST s Board of Directors on October 25, 2005. The share repurchase authorization allows, but does not require, the repurchase of common stock in open market and private transactions through July 31, 2008. During January and February 2006, the Company settled purchases of 2.5 million shares at an approximate cost of $144 million.

Sale of the Innovis Entities

On July 1, 2005, the Company completed the sale of the capital stock of its wholly-owned subsidiaries DST Interactive, Inc. and DST Innovis, Inc. (collectively Innovis Entities) to Amdocs Ltd. (Amdocs). The Company received $234.3 million of net cash proceeds from Amdocs and recognized a pretax gain of $153.8 million. The Innovis Entities comprised the Company s Video Broadband/Cable/Satellite TV Customer Care and Billing business. The business, which essentially represents the Company s entire

Customer Management Segment, had approximately 700 employees and recorded operating revenues of $93.9 million from January 1, 2005 through the date of sale.

As part of the transaction, DST through its subsidiary, DST Output, will continue to provide electronic and print/mail services to customers of the Innovis Entities under a long term contract with Amdocs. DST Output will be a preferred vendor of such services for customers of Amdocs in the United States. Under a separate agreement with Amdocs, DST will also continue to provide support of its Automated Work Distributor (AWD) software for customers of the Innovis Entities who currently utilize AWD. Due to the ongoing cash flows that will be recorded by the Company from the Innovis Entities subsequent to the sale, the Company has determined that the Innovis Entities transaction does not qualify to be reported as a discontinued operation.

Debt Refinancing

On June 28, 2005, the Company entered into a new syndicated line of credit facility (the New Credit Agreement) to replace its existing line of credit facility. The previous (November 2003) line of credit facility had a total commitment of $650 million and was comprised of a $400 million three-year revolving line of credit and a $250 million three-year term note and was secured by marketable securities owned by one of the Company s subsidiaries. The New Credit Agreement provides for a five-year revolving unsecured credit facility in an aggregate principal amount of up to $600 million. The maturity date for the New Credit Agreement is July 1, 2010.

Sale of EquiServe, Inc.

On June 17, 2005, the Company completed the sale of its wholly-owned subsidiary, EquiServe, Inc. (EquiServe) to Computershare Ltd. (Computershare) in accordance with the terms of an agreement dated October 20, 2004. Under the terms of the agreement, DST sold all of the shares of EquiServe for $237.1 million in cash and 29.6 million shares of Computershare common stock (approximately 4.9% of Computershare outstanding stock) which shares had a value, based on the closing price of Computershare stock on the closing date of the transaction, of approximately $145.8 million. The Company recorded a $120.4 million pretax gain from the sale of the EquiServe business. At the time of the sale, EquiServe employed approximately 1,600 employees. The Company recorded operating revenues related to EquiServe of $99.9 million from January 1, 2005 through the date of sale. Due to the ongoing cash flows that will be recorded by the Company related to Equiserve for Output Solutions, data center and AWD services, the Company has determined that the transaction does not qualify to be reported as a discontinued operation.

DST Health Solutions, Inc. Exchange

On April 29, 2005, the Company completed the exchange of its investment of 7.1 million shares of Computer Sciences Corporation (CSC) common stock for CSC s Health Plan Solutions business (now known as DST Health Solutions, Inc. or Health Solutions). Health Solutions is an enterprise software developer, software application services provider and business process outsourcer for the U.S. healthcare industry. The exchange value of the CSC shares at closing was $45.53 per share. Under the terms of the exchange agreement, the Health Solutions operating business had a negotiated value of $100.0 million and its assets at closing included additional cash of $224.6 million. For financial reporting purposes, the Company recorded a pretax gain of approximately $76.3 million from the exchange of the CSC shares in the second quarter of 2005. The Company has determined that the Health Solutions financial results should be presented in the Financial Services business segment.

NARRATIVE DESCRIPTION OF BUSINESS

The Company s business units offer sophisticated information processing and software services and products. At December 31, 2005, these business units are reported as two operating Segments (Financial Services and Output Solutions). In addition, investments in equity securities and certain financial interests and the Company s real estate subsidiaries and affiliates have been aggregated into an Investments and Other Segment. Prior to July 1, 2005, the Company had an additional operating segment (Customer Management) which was essentially comprised of the Innovis Entities. The Innovis Entities were sold on July 1, 2005 to Amdocs. Detailed segment financial information, including revenues from external customers and a measure of profit or loss for each of the last three fiscal years, appears in Note 15 to the consolidated financial statements which are included in Item 8 of this annual report on Form 10-K.

A summary of each of the Company s segments follows:

Financial Services

The Company s Financial Services Segment provides sophisticated information processing and computer software services and products primarily to mutual funds, investment managers, insurance companies, healthcare providers, banks, brokers, financial planners, health payers, third party administrators and medical practice groups. The Company s proprietary software systems include mutual fund shareowner and unit trust recordkeeping 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 mutual funds, insurance companies, brokerage firms, banks, cable television operators, healthcare providers and mortgage servicing organizations; record-keeping systems to support managed account investment products; healthcare processing systems and services offered to health payers, third party administrators and medical practice groups; and recordkeeping systems to support consumer risk transfer programs.

As described in Recent Developments in the Company s Business, there were certain changes in the composition of the Financial Services Segment during the year ended December 31, 2005. Health Solutions became a subsidiary of DST on April 29, 2005 through an exchange transaction with CSC, former parent of the Health Solutions business, whereby DST exchanged its investment in CSC common stock for the Health Solutions business. Using its proprietary software, Health Solutions supports health payers, third party administrators and medical practice groups with business process outsourcing services, application service provider solutions, information technology outsourcing services and enterprise software applications for health plan administration and physician practice management. On June 17, 2005, the Company sold its wholly-owned subsidiary, EquiServe to Computershare. The EquiServe business unit provided securities transfer processing services to corporations. On January 1, 2006, the Company merged its wholly-owned subsidiary, lock\line, into a wholly-owned subsidiary of Asurion for an approximate 35% equity interest in Asurion. lock\line offered management and transaction processing services for customized consumer equipment maintenance and debt protection programs. Asurion provides services related to warranty management, device protection, roadside assistance and enterprise mobility solutions.

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 and Asia-Pacific and, to a lesser degree, distributes such services and products through various strategic alliances.

Output Solutions

The Company s Output Solutions Segment provides single source, integrated print and electronic statement and billing output solutions. The Output Solutions Segment also offers a variety of related professional services, including statement design and formatting, customer segmentation, and personalized messaging tools. The Output Solutions Segment also provides electronic bill payment and presentment solutions and computer output archival solutions.

The Output Solutions Segment also offers its services to the Canadian and U.K. markets. DST Output Canada offers customer communications and document automation solutions to the Canadian market. DST International Output provides personalized paper and electronic communications principally in the U.K.

The Output Solutions Segment distributes its product directly to end customers and through relationships in which the Segment s services are integrated with providers of data processing services. The Output Solutions Segment s products are also distributed or bundled with product offerings to customers of the Financial Services Segment and prior to the July 1, 2005 sale to Amdocs, the Customer Management Segment. The Company has a long-term contract to continue providing these services to the Innovis Entities.

Customer Management Segment (Sold on July 1, 2005)

The Company sold the Customer Management Segment, consisting essentially of the Innovis Entities, on July 1, 2005. Prior to the sale, the Company s Customer Management Segment provided customer management, billing and marketing solutions to the video/broadband, DBS, wire-line and IP telephony, Internet and utility markets. The Customer Management Segment served more than 37 million cable and satellite TV subscribers worldwide. The Customer Management Segment s revenues were primarily based on the number of subscribers, the end-users of the services offered by the Customer Management Segment s clients, the number of bills mailed and/or the number of images produced. Agreements with clients were typically multi-year contracts subject to periodic renewals and inflation-based fee adjustments. Certain of the Customer Management Segment s customers license the customer management software under term license agreements. The Customer Management segment had operating revenues of $96.6 million, $188.3 million and $180.2 million during the period January 1, 2005 through June 30, 2005, and during the years ended December 31, 2004 and 2003, respectively. The Customer Management segment had total revenues (operating revenues plus out-of-pocket reimbursements (OOP)) of $123.0 million, $241.8 million and $241.7 million during the period January 1, 2005 through June 30, 2005, and during the years ended December 31, 2004 and 2003, respectively.

Investments and Other

The Investments and Other Segment holds investments in equity securities and certain financial interests and the Company s real estate subsidiaries and affiliates. The assets held by the Investments and Other Segment are primarily passive in nature. The Company holds investments in equity securities with a market value of approximately $1.1 billion at December 31, 2005, including approximately 12.8 million shares of State Street Corporation (State Street), 29.6 million shares of Computershare and 1.9 million shares of Euronet Worldwide, Inc., with a market value of $709.2 million, $147.3 million and $52.4 million, respectively, based on closing exchange values at December 31, 2005. Additionally, the Company owns and operates real estate mostly in the U.S. and U.K., which is held 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.

Source of Revenue

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

	Year Ended December 31, 2005 (dollars in millions)			2004			2003		
U. S. operating revenues(6)									
Mutual fund / investment management	$ 697.7	40.0	%	$ 675.5	39.1	%	$ 667.7	38.8	%
Other financial services(2)	252.7	14.5	%	358.4	20.6	%	360.1	20.9	%
Healthcare related services(4)	81.0	4.6	%	8.6	0.5	%	17.3	1.0	%
Video/broadband/satellite TV(3)	127.1	7.3	%	202.0	11.7	%	174.5	10.1	%
Telecommunications and utilities	290.1	16.6	%	216.9	12.5	%	210.8	12.2	%
Other	91.7	5.3	%	64.7	3.7	%	105.9	6.1	%
Total U.S. operating revenues(5)	1,540.3	88.3	%	1,526.1	88.1	%	1,536.3	89.1	%
International operating revenues(6)									
Investment management and other financial services(2)(4)	181.5	10.4	%	174.1	10.1	%	154.2	8.9	%
Video/broadband/satellite TV(3)	4.9	0.3	%	12.0	0.7	%	17.3	1.0	%
Telecommunications and utilities	8.3	0.5	%	5.5	0.3	%	6.5	0.4	%
Other	9.6	0.5	%	14.3	0.8	%	10.6	0.6	%
Total international operating revenues	204.3	11.7	%	205.9	11.9	%	188.6	10.9	%
Total operating revenues	1,744.6	100.0	%	1,732.0	100.0	%	1,724.9	100.0	%
Out-of-pocket reimbursements(1)(5)	770.5			696.6			691.4		
Total revenues	$ 2,515.1			$ 2,428.6			$ 2,416.3		

(1) Principally postage and telecommunication expenditures, which are reimbursed by the customer.

(2) Includes $99.9 million, $233.8 million and $229.3 million of operating revenues from Equiserve, Inc. for the period January 1, 2005 through June 17, 2005 and the years ended December 31, 2004 and 2003, respectively, which was sold on June 17, 2005.

(3) Includes $93.9 million, $183.0 million and $174.2 million of operating revenues from the Innovis Entities for the period January 1, 2005 through July 1, 2005 and the years ended December 31, 2004 and 2003, respectively, which was sold on July 1, 2005.

(4) Includes $63.6 million of operating revenues from Health Solutions for the period April 29, 2005 through December 31, 2005, which was acquired on April 29, 2005.

(5) Includes $61.4 million of operating revenues and $19.6 million of out-of-pocket reimbursements revenue during 2003 from DST Output Marketing Services, Inc. which was transferred to Janus on December 1, 2003 as part of the Janus Exchange transaction.

(6) Certain amounts in 2004 and 2003 have been reclassified to conform to the 2005 presentation.

FINANCIAL SERVICES SEGMENT

The Financial Services Segment is the largest operating segment of the Company, providing the following products and services: mutual fund shareowner processing, business process management, healthcare transaction processing solutions and services, investment management software and services and consumer risk transfer programs.

The Financial Services Segment included EquiServe, a wholly-owned subsidiary of the Company, until June 17, 2005, at which time EquiServe was sold to Computershare. Prior to the sale, EquiServe was one of the nation s largest corporate shareholder service providers, maintaining and servicing the records of 18 million registered shareholder accounts for more than 1,200 publicly traded companies and closed-end funds. The transaction is described in further detail in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations .

The following table provides key operating data for the Financial Services Segment:

	Year Ended December 31,		
Financial Services Operating Data	**2005**	**2004**	**2003**
Revenues (in millions)			
Operating Revenues			
U.S(4)(7).	$ 1,037.6	$ 1,003.1	$ 937.5
International	146.1	138.7	123.0
Total Operating Revenues	1,183.7	1,141.8	1,060.5
Out-of-pocket reimbursements(1)	167.4	153.6	126.8
Total Revenues	$ 1,351.1	$ 1,295.4	$ 1,187.3
Mutual fund shareowner accounts processed (millions)			
U.S.			
Non-retirement accounts	63.2	55.9	54.0
IRA mutual fund accounts	22.6	21.7	20.8
Other retirement accounts	3.8	3.3	2.9
TRAC mutual fund accounts	6.4	6.3	6.1
Section 529 and Educational IRA s	6.2	5.0	4.1
	102.2	92.2	87.9
International			
United Kingdom(2)	5.2	5.3	4.6
Canada(3)	6.8	6.2	2.7
TRAC participants (millions)	4.3	3.9	3.5
Security transfer accounts (millions)(4)	0.7	18.8	22.9
Automated Work Distributor workstations (thousands)	107.2	96.4	87.0
lock\line supported consumers (millions)(6)	27.2	25.3	19.4
Pharmacy claims processed by Argus (millions)(5)	232.2	205.0	209.3
DST Health Solutions covered lives (millions)(7)	16.3		

(1) Principally rebillable postage and telecommunication expenditures and print mail services, which are reimbursed by customers.

(2) Processed by International Financial Data Services (U.K.) Limited, an unconsolidated affiliate of the Company.

(3) Processed by International Financial Data Services (Canada) Limited, an unconsolidated affiliate of the Company.

(4) On June 17, 2005, the Company sold Equiserve, Inc. to Computershare. Equiserve performed the majority of the Company s security transfer processing services. Includes $99.9 million, $233.8 million and $229.3 million of operating revenues from Equiserve, Inc. for the period January 1, 2005 through June 17, 2005 and the years ended December 31, 2004 and 2003, respectively.

(5) Processed by Argus Health Systems, Inc., an unconsolidated affiliate of the Company.

(6) Merged with Asurion on January 1, 2006.

(7) Health Solutions became a DST subsidiary on April 29, 2005. Includes $63.6 million of operating revenues from Health Solutions for the period April 29, 2005 through December 31, 2005.

U.S. Mutual Fund Shareowner Processing

Most of the Financial Services Segment s clients who utilize the Company s proprietary mutual fund recordkeeping systems are open-end mutual fund companies, which obtain funds for investment by making a continuous offering of their shares. Purchases and sales (referred to as redemptions) of open-end mutual fund shares are typically effected between shareowners and the fund, rather than between shareowners. These transactions are based on the net asset value of the mutual fund on the date of purchase or redemption, which requires that the assets of the fund and the interests of its shareowners be valued daily. Accordingly, timely and accurate accounting and recordkeeping of shareowner and fund investment activity is critical.

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 to handle the increasing volume and complexity of transactions and distribution channels, to maintain its leadership position and to improve quality and productivity.

A majority of the shareowner accounts serviced by the Company are at mutual fund organizations that have been clients of the Company for more than five years.

Shareowner Accounting and Recordkeeping

The proprietary applications system for U.S. mutual fund recordkeeping and accounting is TA2000, which performs shareowner related functions for mutual funds, including processing 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 transaction and statement data and year-end tax statements. The system processes equity, fixed income, money market, load, no-load and multi-class funds. TA2000 also performs many specialized tasks, such as asset allocation and wrap fee calculations. At December 31, 2005, the Company provided shareowner accounting processing services for approximately 102.2 million U.S. mutual fund shareowner accounts.

Mutual fund shareowner services are offered on a full, remote and shared service basis. Selection by a client of the level 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 includes all necessary administrative and clerical support to process and maintain shareowner records, reconciling cash and share activity, answer telephone inquiries from shareowners, brokers and others, and handle the TA2000 processing functions described above. In addition, full service clients may elect to have the Company invest end of day available client bank balances maintained in Company transfer agency bank accounts into high credit-quality money market funds. Remote or ASP (Application Service Provider) service processing is designed to enable mutual fund companies acting as their own transfer agent, third party transfer agents and brokers performing subaccounting functions to have their own administrative and clerical staff access TA2000 at the Company s data processing facilities using the Company s telecommunications network.

Shared service processing allows client personnel to handle telephone inquiries while the Company s or an affiliate s personnel retain transaction processing functions. This service is facilitated by the implementation of AWD, which creates electronic images of transactions and makes such images, together with the status of the related transactions, available to the personnel processing the transaction and/or handling the telephone calls.

The Company derives revenues from its mutual fund shareowner accounting 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 for system processing services and on a per account, number of funds and transaction basis for clerical services. The Company s policy is not to license TA2000. The Company also derives revenues from investment earnings related to cash balances maintained in Company transfer agency bank accounts.

Retirement and Savings Plan Accounting and Recordkeeping

Mutual funds are popular investment vehicles for individual and corporate retirement and savings plans. TA2000 supports all types of Individual Retirement Accounts (IRAs) and Educational Savings Plans, which include both Section 529 and Coverdell plans.

The Company s TRAC component of TA2000 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 and other investment products. TRAC is integrated with TA2000, which eliminates reconciliations required when different systems are used for participant recordkeeping and the underlying mutual fund shareowner accounting. The Company offers TRAC on a full-service and remote or ASP basis. The Company believes that the retirement plan 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) mutual funds, because of their features, are popular selections for investment by such plans, and (iii) retirement plan participants normally elect to use multiple mutual fund investment accounts. Revenues from these services are based generally on the number of participants in the defined contribution plans, as well as per account fees for related mutual fund accounts processed on TA2000.

At December 31, 2005, TA2000 serviced 22.6 million IRAs invested in mutual funds and 3.8 million accounts in an assortment of retirement accounts (SAR-SEP, Keogh and SIMPLEs). TA2000 also supported the processing of 6.2 million educational savings accounts, of which 5.4 million are Section 529 plan accounts. In addition, TRAC provided recordkeeping for 4.3 million retirement plan participants with 6.4 million related TA2000 mutual fund accounts at December 31, 2005.

TA2000 Subaccounting

TA2000 Subaccounting services are offered on a remote or ASP basis to broker/dealers who perform shareowner accounting and recordkeeping for mutual fund accounts that have been sold by the firm s registered representatives. The subaccounting platform, which is a feature of TA2000, is designed to meet the complex reconciliation and system interfaces required by broker/dealers who require this capability. Revenues are based generally on a per account and number of funds basis.

Products Supporting Mutual Fund Distribution and Marketing

The Company offers products to meet the expanding service requirements, distribution channels and increasing regulatory requirements affecting the mutual fund market.

The Company is the largest processor of the mutual fund industry s volume on Fund/Serv and Networking, two systems developed for mutual fund distribution by the National Securities Clearing Corporation, a subsidiary of The Depository Trust & Clearing Corporation. The Company has also developed the Financial Access Network (FAN), the technological infrastructure that facilitates mutual fund sales and distribution via the Internet. Products and services utilizing FAN include (i) FAN Web, which enables clients to offer their investors direct inquiry to account information, financial transaction execution and literature fulfillment through a set of customized Internet templates that link the client s Web site to TA2000, (ii) FAN Web Direct, which offers clients a secure, seamless and efficient processing capability for electronic transactions from a client s own Web application directly into TA2000, (iii) FAN Investment Tracking, which enables shareholders to download their mutual fund transaction data through Quicken and Microsoft Money for Windows Online Investment Center, (iv) FAN Mail, which provides financial advisors and brokers with trade confirmations, account positions and other data via public network access and (v) Vision, which enables broker/dealers and financial advisors to view their customers mutual fund and variable annuity positions, process transactions and establish new accounts.

Revenues from these services and products are based generally on the number of transactions, positions, or account inquiries processed.

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 shareowner accounting and recordkeeping services to approximately 131 U.S. mutual fund companies. BFDS also offers class action administration services, teleservicing (for its current mutual fund clients and typically billed as a separate fee) and full-service support for defined contribution plans using the Company s TRAC system. BFDS is the Financial Services Segment s largest customer, accounting for approximately 9.3% of the Segment s operating revenues in 2005.

BFDS s revenues are derived on a per account, number of fund and transaction basis. BFDS also derives revenues from investment earnings related to cash balances maintained in transfer agency bank accounts.

International Mutual Fund / Unit Trust Shareowner Processing

The Company provides international shareholder processing through three 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 and remote service processing for Open Ended Investment Companies (OEIC) and unit trusts and related products serving 5.2 million unitholder and OEIC accounts at December 31, 2005. 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.

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. IFDS U.K. s policy is not to license FAST.

International Financial Data Services, Canada (IFDS Canada)

IFDS Canada has developed iFast, a proprietary mutual fund recordkeeping system. IFDS Canada provides full-service processing to the Canadian mutual fund industry using iFAST and full-service and remote-service processing for U.S. offshore mutual funds using TA2000. Revenues are derived from providing remote and full service mutual fund shareowner processing services based upon the number of shareowner accounts and transactions and time and material fees for client-specific enhancements and support to the remote processing are based upon the number of billable hours.

International Financial Data Services, Luxembourg (IFDS Luxembourg)

IFDS Luxembourg provides mutual fund systems and services to the Luxembourg and continental European market. Revenues are derived from shareowner accounting services based generally on the number of accounts, number of transactions and number of unit trusts processed.

Investment Management Products

DST International Group Services Limited (DST International or DSTi), a U.K. company, provides proprietary software and services in the following areas:

- Investment Management Solutions
- Business Process Management (BPM)
- Billing Solutions

DSTi services over 600 clients in 55 countries from offices in the U.K., France, the U.S., Canada, Australia, New Zealand, Hong Kong, Singapore, Thailand, China, Indonesia and South Africa.

Investment Management Solutions

DSTi provides specific solutions to address the needs of the front/middle/back office requirements of the investment management industry.

DSTi s Front Office Solutions include opinion management, CRM, decision support, modeling, order management, compliance and a real-time position keeping engine.

DSTi s Investment Accounting Solutions, primarily HiPortfolio, is a system used for in-house investment accounting and for the world s largest third party administrators. DSTi s Investment Accounting Solutions provide settlement, custody, accounting and NAV pricing and are multi-market, multi-asset class, multi-currency and multi-lingual.

DSTi s Investment Data Solutions give a real-time view of the complete investment process across the entire spectrum of investment management operations from front office analytics to trading, confirmation and settlement using a meta-data enabled model with over 1,000 tables.

DSTi s Risk and Performance Solutions are integrated but can be supplied separately. The Risk Management Solution controls market and credit risk and gives the choice of using historic, Monte Carlo or deterministic simulation. The Performance Solution covers performance measurement and attribution and is Global Investment Performance Standards (or GIPS) compliant. Fixed Income Attribution is also available.

DSTi s Wealth Management Solutions combine elements of DSTi s Front Office and Performance Solutions coupled with personalized client reporting and extensive use of DST workflow product (AWD). The resultant solution has been tuned for retail scale and manages high net worth individuals investments worldwide.

DSTi s Wrap Solutions are already operational in the U.S. and U.K. and can be tailored to specific companies requirements from a long list of options that can be integrated, including a web-based user interface.

DSTi derives revenues from the above solutions and related services via fees connected to licenses, consulting and implementation, development services, annual maintenance, support fees and ASP fees.

Business Process Management

DSTi distributes the Company s AWD product in non-North American countries and offers all the associated services to its clients including consultancy, implementation, development, support and maintenance.

Billing Solutions

DSTi Billing provides a comprehensive range of software solutions for utility companies (water, gas and electricity) as well as any organization that has a complex client pricing and discount model for its own end clients. The service can be combined with the Output Solutions and BPM that DSTi already provides in the marketplace.

Business Process Management through AWD

AWD is an enterprise-scale BPM software system that enables companies to improve operating efficiency and customer satisfaction. By enforcing standard business processes independent of the origin of a request, AWD allows seamless delivery of consistent service across all channels, resulting in improved customer satisfaction. AWD captures all customer interactions including mail, telephone calls, Internet, e-mail and faxes at the point of contact, prioritizes and assigns the work to the appropriate resource and tracks the event through completion. AWD also enables customers with multiple service centers to seamlessly move work between locations, removing geography as a barrier to productivity gains.

AWD s automation components allow customers to remove associates from tasks in which human interaction is not required, enabling increased productivity. In addition, AWD s application integration components allow customers to seamlessly link business processes that cross multiple application systems. The AWD product suite also includes imaging and content management, an event-based reporting and activity monitoring subsystem, a call center desktop, proactive call scripting, intelligent character recognition and full support for e-mail and Web-based customer service.

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 Sun Solaris, Microsoft Windows, HP/UX, and IBM platforms utilizing Windows and browser-based desktops. AWD s industry-specific best practice templates allow customers to implement the solution quickly, providing the opportunity for a rapid return on investment. The Company s integration toolkit, catalog of adapters and support for J2EE application servers allow AWD to easily interface with customers existing application systems and operating environments. AWD is a mission-critical application implemented in many different industries including mutual funds, life insurance, healthcare providers and payers, mortgage origination and servicing, property and casualty insurance, banking, brokerage, video/broadband, and telephony. AWD customers are located in over 19 countries including the U.S., Canada, the U.K., continental Europe, Australia, South Africa, Hong Kong, mainland China, Taiwan and Japan.

The Company s value proposition combines the business process management solution with hosting services and business process outsourcing. Customers can access AWD at the AWD Data Center using the Company s telecommunications network. The AWD Data Center provides a fully redundant disaster recovery option to the Company s customers.

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.

Healthcare Transaction Processing Solutions

DST Health Solutions, Inc. became a subsidiary of DST on April 29, 2005 through an exchange transaction with CSC, former parent of the Health Solutions business, whereby DST exchanged its investment in CSC common stock for the Health Solutions business.

Health Solutions is an enterprise software developer, software application services provider and business process outsourcer for the U.S. healthcare industry and has been serving the healthcare industry since the 1960 s. Health Solutions has 270 clients and its proprietary systems are used to provide claims administration services for approximately 24 million covered lives. Using its proprietary software, Health Solutions supports health payers, third party administrators (TPAs) and medical practice groups with business process outsourcing (BPO) services, application service provider (ASP) solutions, information technology outsourcing services and enterprise software applications for health plan administration and physician practice management. At December 31, 2005, Health Solutions provides BPO, ASP and maintenance/support services to clients whose systems process healthcare transactions for approximately 16.3 million covered lives.

Health Solutions 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 for BPO services. Health Solutions also derives PMPM revenues from ASP agreements, which are multi-year service and usage agreements that allow users to access the DST proprietary software hosted in DST data centers. Health Solutions 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. Health Solutions also derives professional service revenues from fees for implementation services, custom programming and data center operations.

Within the past year, Health Solutions has increased its staff dedicated to research and development by more than one hundred percent. In the healthcare payer market, Health Solutions competes effectively through increasing its investment in platform-independent, service-oriented component applications that enable clients to accelerate customer acquisition, deliver new, profitable products to market rapidly and cost-effectively, facilitate administration of consumer-directed healthcare, improve enterprise workflow and enhance health payer revenue cycles. These new components can be deployed as part of a core replacement project including the PowerSolutions core engines, or as stand-alone applications that extend clients existing core systems.

In the physician practice market, Health Solutions competes effectively by leveraging the automation workflow-based efficiencies resulting from recent integration of its MDr PracticeManager and the Company s AWD applications. Integration of MDr PracticeManager and AWD has been completed and is in full production use within Health Solution s physician practice BPO operation. Current research focus is on optimizing this integrated offering for use by physician practice ASP clients.

Healthcare Payer Solutions

Health Solutions supports healthcare payer clients with diverse lines of business including: indemnity, HMO, PPO, POS, consumer-directed health and government-sponsored initiatives (Medicaid, Medicare Advantage and Part D).

Health Plan Outsourcing Solutions

Health Solutions provides BPO services that include optical character recognition scanning, imaging, data capture, claims processing, plan administration, utilization management, case management and customer service, delivered as discrete, a la carte services or as a comprehensive administrative solution.

Core Transaction Systems

Health Solutions offers the PowerSolutions family of functional and scalable core health plan administration and claims processing engines, with the flexibility to support a payer s entire business portfolio on a single technology platform. The PowerSolutions core applications include PowerSTEPP, PowerMHS and PowerMHC.

Enterprise Extension Applications

The PowerSolutions Suite includes optional, fully-integrated applications for e-business, claims workflow automation, issue management, utilization management and case management. Applications include ePower, PowerQueue, CareSTEPP and CaseSTEPP.

Business Analysis Applications

Health Solutions offers business analysis, reporting and quality management applications that include InfoSTEPP, CompareCare and the Johns Hopkins ACG System.

Physicians Practice Services

Health Solutions provides comprehensive, workflow-driven back-office administration services and ASP-based technology solutions that support the administration of medical practice business operations, with a primary focus on accounts receivables management, coding and billing of the professional component of the physicians fees. Applications include: MDr Practice Manager, MDr Decision Manager, MDr Web Report, and AWD supporting physician practice BPO operations.

Argus Health Systems, Inc. (Argus)

Argus is a 50% owned joint venture of the Company and a privately held life insurance holding company.

Argus provides claims processing, information services and administrative support to help 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 proprietary claims processing system, 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 alert dispensing pharmacists to potential medication problems arising from such factors as duplicate prescriptions, incorrect dosage and drug interactions.

The Company provides data processing, telecommunications and output solutions services to Argus. 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, and pharmaceutical rebate contracting and processing, as well as from clinical programs and management reporting for the benefit of their customers.

Consumer Risk Transfer Programs

lock\line provides customized services for wireless equipment replacement programs in the U.S., servicing approximately 19.9 million wireless consumers. At December 31, 2005, lock\line also offered systems and services to support customized equipment maintenance and debt protection programs within the telecommunications and financial services industries. lock\line serviced approximately 27.2 million customers at December 31, 2005 in markets in the U.S. and its territories. lock\line had approximately 1,500 employees at December 31, 2005.

On January 1, 2006, the Company completed the transaction to merge its lock\line subsidiary with a wholly-owned subsidiary of Asurion. As a result of the merger, DST owns approximately 35% of Asurion and will record its proportionate share of Asurion s net income as equity in earnings of unconsolidated affiliates beginning in 2006. Asurion provides services related to warranty management, device protection, roadside assistance and enterprise managed mobility solutions for technology firms in the U.S., Canada and Asia. Asurion had approximately 3,300 employees at December 31, 2005. The transaction is described in further detail in Recent Developments in the Company s Business.

lock\line provides administrative services to telecommunication service providers that offer wireless equipment replacement and equipment maintenance programs to their customers. Administrative services under these programs include providing enrollment, replacement authorization and financial reporting utilizing lock\line s proprietary Wireless Inventory Tracking System. lock\line also provides administrative services to financial institutions that offer debt protection programs to their customers. Administrative services under these programs include providing enrollment, collateral fulfillment, debt cancellation/suspension authorization, emergency cash and financial reporting utilizing lock\line s proprietary Debt Cancellation Tracking System.

Revenues from Consumer Risk Transfer Programs are based generally on the number of enrolled customers for the wireless equipment insurance programs and equipment maintenance plans and on the customer s outstanding balances for the debt protection programs. The Company receives gross premiums from which it collects its administration fees and passes along the insurance premium portion to an insurance carrier or to captive insurance companies, including the Company s wholly-owned captive insurance company. The Company records revenue based on the administrative fee it retains.

Insurance Programs

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

Vermont Western provides insurance to the Company and its affiliates under deductible reimbursement insurance programs for workers compensation, group health and property coverages.

Vermont Western also writes reinsurance coverages for insurance programs that are provided in association with the corporate securities processing services of Computershare Ltd. and with the Company s consumer risk transfer programs.

In connection with the June 17, 2005 sale of Equiserve to Computershare, Vermont Western entered into an agreement to continue providing lost instrument surety bond coverage for a 12 year period to Equiserve (now operating under the Computershare name) and to other U.S. domiciled Computershare corporate securities processing operations. As a part of Computershare s corporate securities processing services, 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. Typically, that 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.

As part of its consumer risk transfer programs, lock\line works with telecommunications service providers to structure the equipment insurance or extended warranty programs that are sold to the customers of the service providers. Typically, that coverage is provided by a commercial insurance company under an arrangement involving lock\line and the service providers. For some of those programs, Vermont Western assumes a portion, or all, of the claim exposure through reinsurance agreements. Concurrent with the closing of the lock\line merger transaction on January 1, 2006, Vermont Western executed a novation agreement to transfer its telecommunications equipment and extended warranty reinsurance programs to

Mill River Re., Ltd., an Asurion owned captive insurance company, and Vermont Western will no longer participate in such programs. This novation agreement was effective January 1, 2006.

Vermont Western revenues for the lost instrument surety bond coverage, and for the telecommunications equipment coverage, come in the form of reinsurance premiums paid to it by the commercial surety and commercial insurance companies that are the primary providers of the coverages. In the case of the lost instrument surety bond coverage, the initial premium is typically paid by the shareholders who are seeking the replacement of the lost, stolen or destroyed certificates. In the case of the telecommunications equipment coverage, the initial premium was paid by the customers of the service providers who bought the insurance on the equipment they purchased. Premiums are consistent and competitive with industry pricing practices.

Wealth Management and Advisor Products

Open Platform for Advisors (OpenPFA) is a global open platform and service utility for wealth management. Financial and investment advisors/firms (Advisors) can use OpenPFA to service their customers investment needs including risk profiling, proposal generation, new account setup, transaction processing, asset allocation, rebalancing, performance returns, statements and tax processing. Advisors have full portfolio management including decision support, rebalancing, trade order management and reconciliation.

Revenues for OpenPFA are based on either the number of accounts or amount of assets processed on the system.

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 19,000 million instructions per second (MIPS) and direct access storage devices with an aggregate storage capacity that exceeds 101 trillion bytes. Winchester also contains more than 800 servers supporting NT, 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 designed to withstand tornado-force winds.

The AWD Data Center supports the Company s AWD Image processing services. The facility has a total of 13,000 square feet. The computer room houses IBM iSeries computers and optical storage systems (over 263 million images), which support more than 18,000 AWD users. In addition to the Company s full-service mutual fund and corporate securities transfer operations, AWD users include clients in the healthcare, insurance and brokerage industries. The AWD Data Center also houses over 300 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 or the number of users.

The Company s Recovery Data Center is essentially equivalent in size and design to the Winchester Data Center. It houses the latest mainframe technology, including mainframe computers that have the capacity to run over 19,000 MIPS and the capacity to store more than 144 trillion bytes 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 fully redundant telecommunications networks serving the Company s clients. The networks, which serve hundreds of thousands of computer users, have redundant pathing and software, which provides for automatic rerouting of data transmission in the event of carrier circuit failure.

Customer Concentration

The Financial Services Segment s five largest customers accounted for 27.5% of Segment operating revenues in 2005, including 9.3% from its largest customer.

Marketing/Distribution

In the U.S., Canada and select international markets, 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 services and products 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 services and products; (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 s mutual fund systems and related services and products are marketed to mutual fund management companies and to distributors of mutual fund shares, such as banks, insurance companies, brokerage firms and third party administration firms. Increasingly, such firms manage multiple mutual fund products to address different investment objectives. 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.

DST International markets its investment management and portfolio accounting software and services directly to medium and large investment management firms. Generally, DST International s customers are seeking a turnkey system for investment accounting that can meet their requirements with a minimum amount of customization. Each of DST International s offices has a dedicated sales force and a team of consultants that can sell, install and implement these products.

The Company markets its BPM products (AWD) directly to mutual fund and other investment management firms, life insurance companies, healthcare providers and payers, mortgage origination and servicing operations, property and casualty insurance companies, banks, brokerage firms, video/broadband operators, and telephony companies. The Company maintains a sales and marketing staff, including professional services and technical support teams to target these markets. CSC distributes the Company s AWD product to life, property and casualty insurance companies worldwide.

Health Solutions services are marketed to health insurance companies, TPAs, private physician practices and hospital-based physician groups that include emergency departments, anesthesia, pathology, radiology and urgent care. Health Solutions maintains a dedicated sales and marketing staff, including client services and technical support teams to target these markets.

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. Argus maintains a dedicated sales and marketing staff, including client services and technical support teams to target these markets.

Asurion markets its consumer risk transfer programs directly to wireless service providers, residential telephone providers, original equipment manufacturers, banks, credit unions, retailers and insurance companies. Asurion maintains a sales support staff, including client services and technical sales teams, to target these markets.

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 quality of service, features offered, the ability to handle rapidly changing transaction volumes, commitment to processing capacity, software development, and price. The Company believes there is significant competition in its markets. The Company s ability to compete effectively is dependent on the availability of capital. Some of the Company s competitors have greater resources and greater access to capital than the Company and its affiliates.

The Company s shareowner accounting systems compete not only with third party providers but also with in-house systems and brokerage firms that perform subaccounting services for the brokerage firms customers that purchase or sell shares of mutual funds offered by the Company s clients. 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 are PFPC, Inc., a unit of PNC Bank, and SunGard Data Systems, Inc.

Principal competitors for investment management systems are bundled service providers, third party software service providers and those companies that license their products. Competitive factors are the accuracy and timeliness of processed information provided to customers, features and adaptability of the software, level and quality of customer support, software development expertise, and price. 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 portfolio accountants and investment managers. The Company believes its most significant competitors for investment management systems are SunGard Data Systems, Inc., Advent Software, Inc. and SS&C Technologies, Inc.

The Company s BPM products compete with 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 BPM competitors are FileNET Corporation, IBM, Pegasystems, Inc., and TIBCO Software, Inc.

In the healthcare payer market, Health Solutions competes with solution providers that include Amisys Synertech, Perot Systems, QCSI, and Trizetto. These competitors solutions are primarily based on complete replacement of a payer s core system, resulting in lengthy, expensive and high-risk projects for clients. Health Solutions believes that a component application approach shifts the focus away from core replacement as the client s only solution, 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 replacement if warranted, or adopt component applications that address only those areas of the business that need to be improved, resulting in protection of the client s current IT investment and less overall disruption to its business operation. In the physician practice market, the competitive landscape is highly fragmented, including organizations such as ART, Cerner/VitalWorks, Companion Technologies, Emdeon, GE Healthcare/IDX, Greenway Medical Technologies, Misys Healthcare Systems, and Per Se, as well as hospital billing departments and staffing companies. For most of the competitors listed above, physician practices are the single market focus. This is in contrast with Health Solutions, where physicians are one of several market areas served.

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. The Company believes its most significant third party competitors for claims processing services are Medco, Express Scripts, Systems Excellence and Caremark.

Asurion s consumer risk transfer programs 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 wireless service providers, residential telephone providers, cable service providers, original equipment manufacturers, banks, credit unions, retailers and insurance companies. The Company believes its most significant third party competitors for consumer risk transfer programs are The Signal, Assurant and N.E.W. Customer Service Companies Inc.

The Company s third party insurance programs, which are offered as integral parts of other Financial Service Segment products and services, generally experience competition in connection with the overall product or service being offered.

Intellectual Property

The Company holds a U.S. patent, U.S. copyrights, and various trademarks covering various aspects of its information processing and computer software services and products. The duration of the patent term is 20 years from its earliest application filing date. The patent term is not renewable and may be subject to a term disclaimer. 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 copyright registrations are adequate to protect its original works of authorship. The Company believes that although its patents, trademarks and copyrights are valuable, the Company s success primarily depends upon its product and service quality, marketing and service skills. However, 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 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 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 typically licenses on a perpetual basis its optical storage, investment portfolio, business and work process management systems (but not its transfer agency systems) and healthcare processing systems. The licenses are accompanied by service and maintenance agreements which must be current for the Company to have any continuing maintenance obligations thereunder. 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 significantly 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. The Segment also offers a variety of related professional services, including statement design and formatting, customer segmentation, and personalized messaging tools. The Segment also provides electronic presentment, payment and distribution solutions. These capabilities establish DST Output, LLC (DST Output) as a preferred service provider to customers of the Financial Services Segment and to other industries that place a premium on customer communications and require high quality, accurate and timely statement and billing output processing.

DST Output is among the largest First Class mailers in the U.S., mailing 1.8 billion items in 2005 from three operating centers strategically located throughout the U.S. The Output Solutions Segment also offers its services to the Canadian and U.K. markets. DST Output Canada offers customer communications and document automation solutions to the Canadian market. DST International Output provides personalized print and electronic communications principally in the U.K.

Sources of revenue by major industry served are listed below.

Output Solutions Operating Data	**Year Ended December 31, 2005**	**2004**	**2003**
Revenues (in millions)			
U.S. operating revenues(1)(3)			
Healthcare related services	$ 11.0	$ 6.7	$ 13.3
Mutual fund/investment management	97.8	103.5	125.8
Other financial services	86.0	65.5	80.0
Telecommunications and utilities	136.6	118.7	142.1
Video/broadband/satellite TV	62.2	57.1	66.2
Other	43.1	52.7	64.8
	436.7	404.2	492.2
International operating revenues(3)			
Investment management and other financial services	40.5	38.9	34.0
Telecommunications and utilities	3.1	0.1	0.2
Other	6.9	10.7	7.7
	50.5	49.7	41.9
Total operating revenues(1)	487.2	453.9	534.1
Out-of-pocket reimbursements(1),(2)	613.6	570.7	589.8
Total revenues	$ 1,100.8	$ 1,024.6	$ 1,123.9
Images produced (billions)	11.1	8.7	9.3
Items mailed (billions)	1.8	1.6	1.7

(1) Includes operating revenues from DST Output Marketing Services, Inc. (OMS), of $61.4 million for the period January 1 through December 1, 2003 and out-of-pocket reimbursement revenues of $19.6 million for the period January 1 through December 1, 2003. In December 2003, the Company completed the exchange (the Janus Exchange) with Janus Capital Group Inc. (Janus) under which the Company received from Janus 32.3 million shares of Company common stock (27.9% of the outstanding shares at the time of the transaction) in exchange for all of the stock of a Company subsidiary, OMS.

(2) Principally rebillable postage expenditures, which are reimbursed by customers.

(3) Certain amounts in 2004 and 2003 have been reclassified to conform to the 2005 presentation.

Statement and Billing Services

Statement processing services are supported by integrated and automated production environments that transform electronic data received from clients into customized bills and statements that can be delivered in print (includes full-color) or electronic format in accordance with individual customer preferences. The highly automated production environment maximizes postal savings while minimizing 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. 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 with and uses formatting and processing functions of the Company s TA2000 system and of the Company s information processing facilities.

Single source print and electronic bill and statement processing and presentment solutions are provided to the mutual funds, retirement, brokerage, consumer finance, banking, cable TV/broadband/satellite, telecommunications, healthcare, insurance, utilities, transportation, rapid delivery, credit card and other service industries. Advanced high-speed, business-process color billing statement solutions and targeted messaging tools provide clients with additional capabilities to develop marketing campaigns, cross-sell services, and improve customer loyalty. Mail piece tracking software integrated with the U.S. Postal Service allows clients to predict incoming mail volumes and confirm consumer delivery to improve customer satisfaction.

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. The use of electronic solutions in each of this Segment s targeted industries can offer additional savings to clients promoting greater use of Internet-based bills and statements with their customers.

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

Direct Access, a proprietary secure Web portal, enables customers to access multiple tools that support their statement production services. These include campaign management, online job auditing and job and mail tracking from their desktop. In addition, customers can use near real-time reports and inquiries to monitor production activities throughout the production process, including job tracking, postage expense amounts, and insert counts

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 CD/DVD and computer output microfiche. As electronic statements and payment solutions have become more widely used, communications service providers, utilities, financial services and other companies require electronic statement and bill presentment capabilities. To fulfill this requirement, DST Output offers electronic solutions designed to meet the needs of electronic bill presentment and payment and electronic presentment of a broad range of statements and other customer communications.

A growing number of key marketing 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 believes it is a full-service supplier of fully integrated print and electronic statement and billing output solutions that enables clients to build lasting one-to-one relationships with their customers.

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 customer s software. These tools enable rapid and smooth transitions when clients outsource their statement processing and electronic functions.

Revenues from electronic statement and payment solutions are generally based on the number of statements created and viewed emails, payments, and e-statements distributed to third-party providers. These revenues are influenced by both new account acquisitions and customer adoption rates.

Design and Personalization Services

Communications Design Services

The Company s communications design services offer expertise and industry knowledge of how recipients are affected by information placement, use of color and white space, charts and graphs and personalized content placement before statements are initially developed. Many clients have the opportunity through statement-based marketing and creative design services to use the paper or electronic statement to reinforce a corporate image, advertise special offers and features, deliver customer-specific messages and otherwise market their services to customers.

Revenue for these services is derived based on billable hours.

Campaign Management

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 segment s Campaign Design and Definition offering includes a graphical workflow management capability that enables clients to create, target, and schedule text messages and graphics that are dynamically placed on the color statements for both print and electronic distribution. These solutions facilitate customer acquisition, response rates, nurturing and retention, product cross selling and brand awareness.

Revenue is derived from the number of messages produced, inserts used, and subscription fees, or as part of bundled statement processing charges

Electronic Presentment, Payment and Distribution Services

The 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 CD/DVD and computer output microfiche (COM). As electronic statements and payment solutions have become more widely used, communications service providers, utilities, financial services and other companies require electronic presentment capabilities. To fulfill this requirement, the Company offers electronic solutions designed to meet the needs of electronic bill presentment and payment, and electronic presentment and distribution of a broad range of statements and other customer communications.

The need for customer service retrieval of statements is addressed by the Company s presentment solutions. These products provide customer service representatives with a statement image that matches the print or electronic variations, which can enable faster customer service calls and improved first-call resolution rates. In addition to variable retention via web presentment solutions, sophisticated computer output CD/DVD, microfilm and microfiche capabilities are also available for long-term archival.

Revenue is derived from the number of images or sheets processed to alternative media.

New Products

The Output Solutions Segment continues to enhance its products targeted at the transaction print market and to take advantage of technology advances and regulatory change.

The Output Solutions Segment s insurance communications solution is expected to derive revenue from fees from the number of print and electronic insurance documents, such as policies, premium notices, compliance documents and other mission critical communications that support the segments of the life, property and casualty and variable annuity insurance markets.

The Output Solutions Segment s banking and consumer finance solutions are expected to derive revenue from the number of print and electronic statements such as DDA statements, credit card statements, mortgage statements and related documents.

The Output Solutions Segment s healthcare communications solution is expected to derive revenue from fees from the number of deliveries of print, electronic and fulfillment communications for large payor and provider organizations. Such healthcare communications include transactional (explanation of benefits, explanation of payments, checks, claims correspondence, and membership identification cards) and non-transactional pre- and post-enrollment (benefit booklets, evidence of coverage, and provider directories) communications.

Operation Centers

In the U.S., the Output Solutions Segment manages three geographically dispersed operation centers in El Dorado Hills, California, Kansas City, Missouri, and Hartford, Connecticut. The centers offer high production roll form and sheet fed production print processes, monochrome to full color, variable data printing and selective insertion, pre-sorting and full integration with electronic delivery capabilities depending on client preferences. Services for the Canadian and U.K. marketplaces are provided through facilities in Toronto, Canada and Bristol, England, respectively.

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 on-line.

Full real-time automation enables the Output Solutions Segment to monitor quality, control remakes, predict and schedule production loading, verify customer data, forecast production volumes and maintain production system history on-line. The system is controlled by an on-line production control system that is based on advanced client/server architecture and has high-speed data transmission capabilities.

Customer Concentration

The Output Solutions Segment s five largest customers accounted for 35.3% of segment operating revenues in 2005, including 11.3% from its largest client.

Customer Diversification

The Output Solutions Segment has a broad and diversified base of customers throughout North America and the U.K. It has a growing penetration in healthcare, as well as strong positions in financial services, communications, transportation, utilities and other sectors where frequent communication through statements, invoices or bills to large customer bases are the norm.

Marketing/Distribution

The Output Solutions Segment distributes its product directly to end customers and through relationships in which its services are integrated with providers of data processing services. The Output Solutions Segment s products are also distributed or bundled with product offerings to customers of the Financial Services Segment. The Output Solutions Segment maintains a field operations sales staff, including client services, technical support teams and significant 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. The exchange agreement for the Janus Exchange subjects the Company to non-compete provisions with respect to certain business products of OMS, currently known as Capital Group Partners, Inc. d/b/a Rapid Solutions Group, for a period of five years after the December 1, 2003 transaction closing date.

Competition

The key competitive factors for the Output Solutions Segment are price, the ability to offer single source print and electronic statement and billing output solutions, 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 those corporations who provide these services on an in-house basis, local companies in the cities where the Segment s printing operations are located and national competitors. These include: R.R. Donnelly, Inc., Bowne and Co. Inc., Personix, Vestcom Automated Data Processing, Inc., PFPC, Inc., CSG Systems International, Inc., Regulus, Electronic Data Systems, Inc., IBM and Oracle.

Intellectual Property

The Company holds numerous U.S. patents covering various aspects of its statement processing services and technology. The Company has no foreign patents. The duration of these patents are generally 20 years from the application filing dates or, if the application contains a reference to an earlier filed application, 20 years from the earliest application filing date. The patent terms are not renewable and may be subject to term disclaimers. In special circumstances, term extensions may have been granted. The Company believes that although the patents it holds are valuable, the Company s success primarily depends upon its product quality, marketing and service skills. However, despite patent protection, the Company may be vulnerable to competitors who attempt to imitate the Company s systems or processes and manufacturing techniques and 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 (i) clients to terminate for convenience with the payment of a termination fee and (ii) termination for breach with liquidated damages to the Company upon its termination for the client s breach. They typically obligate the Company 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. The terms and conditions contained in typical Output Solutions Segment client agreements have not changed significantly over the last three years.

INVESTMENTS AND OTHER SEGMENT

The Investments and Other Segment is comprised of investments in equity securities and certain financial interests and the Company s real estate subsidiaries and affiliates. The assets held by the Investments and Other Segment are primarily passive in nature.

Investments

The Investments and Other Segment holds investments in equity securities and certain financial interests and the Company s real estate subsidiaries and affiliates. The assets held by the Investments and Other

Segment are primarily passive in nature. The Company holds investments in equity securities with a market value of approximately $1.1 billion at December 31, 2005, including approximately 12.8 million shares of State Street, 29.6 million shares of Computershare and 1.9 million shares of Euronet Worldwide, Inc., with a market value of $709.2 million, $147.3 million and $52.4 million respectively, based on closing exchange values at December 31, 2005.

Real Estate

In the U.S. and U.K., the Company and its real estate subsidiaries own approximately 1.2 million square feet of office space and 1.3 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, and an underground storage 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.

SOFTWARE DEVELOPMENT AND MAINTENANCE

The Company s research and development efforts are focused on introducing new products and services, as well as ongoing enhancement of its existing products and services. The Company expended $189.2 million, $251.6 million and $216.0 million in 2005, 2004 and 2003, respectively, for software development and maintenance and enhancements to the Company s proprietary systems and software products, of which $40.0 million, $61.9 million and $61.8 million was capitalized in 2005, 2004 and 2003, respectively. Consolidated research and development efforts declined during 2005 as a result of the sale of the Innovis Entities, which was developing a customer billing solution called Collabrent, and from the sale of EquiServe which had been developing a corporate stock transfer system called Fairway. Client funded software development and maintenance expenditures totaled $18.4 million, $19.7 million and $17.5 million for 2005, 2004 and 2003, respectively.

EMPLOYEES

As of December 31, 2005, the Company and its majority owned subsidiaries employed approximately 10,500 employees, including approximately 7,200 in the Financial Services Segment (of which 1,500 were employed by lock\line) and 3,300 in the Output Solutions Segment. In addition, 50% owned unconsolidated affiliates of the Company and its subsidiaries employed approximately 5,400 employees, including approximately 2,900 at BFDS, 1,400 at IFDS U.K. and 500 at IFDS Canada. 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.

On January 1, 2006, DST merged lock\line into a wholly-owned subsidiary of Asurion Corporation and received an approximate 35% equity interest in Asurion. The combined Asurion and lock\line organizations have approximately 4,800 employees as of January 1, 2006.

Item 1A. Risk Factors

COMPANY-SPECIFIC TRENDS AND RISKS

There are many risks and uncertainties that can affect our future business, financial performance or share price. Many of these are beyond our control. Here is a brief description 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.

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, investment management, brokerage, insurance, banking, securities, financial planning, communications, video/broadband/satellite TV, mortgage, healthcare and other industries. A decline or lack of growth in demand for our products and services in the 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 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.

The demand for our products and services could decrease if we do not continually address our and 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.

Our businesses are subject to substantial competition.

We are subject to intense competition from other established service providers in all industries we serve. Competitors may offer more appealing pricing structures. Some of our clients 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 mutual fund transfer agency competition includes brokerage firms that perform sub-accounting services for customers who purchase or sell shares of our clients mutual funds. A brokerage firm typically maintains an omnibus account with us 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. 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 could adversely affect our business.

A number of our businesses are subject to U.S. or foreign regulatory oversight, as well as recordkeeping and reporting 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.

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

Our clients are subject to extensive government regulation, including investment adviser, broker/dealer and financial and healthcare privacy regulations. Our clients violations 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 foreign operations.

Consolidated revenues from our subsidiaries in 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, and the failure to bridge cultural differences. 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 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.

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

Client contract terminations or non-renewals 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 or obtain new contracts, 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.

We may be subject to damage claims, including class-action claims, for delays in transaction processing; for calculation errors, errors resulting in disclosure of confidential information, or other processing or operational errors; or for mismanagement of claims or other processes. Because of the nature of the financial and healthcare transactions we process, damages claimed may significantly exceed the fees we receive for performing the service at issue. Litigation can 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 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 the 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 often 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 prevent us from anticipating all potential security threats, and the limits of technology and skills or the prohibitive cost of the most 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 impact our financial statements.

We own interests in companies under agreements with others that may inhibit our ability to sell our interests or may require us to increase our investment.

We own interests in Boston Financial Data Services, International Financial Data Services Limited Partnership, International Financial Data Services Limited, and Argus Health Systems, Inc. Our interests in these companies 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 require that we purchase the other owners interests to prevent someone else from acquiring them. The businesses or other owners may press 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 estimate