

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**FOR THE YEAR ENDED DECEMBER 31, 1999**

or

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

**COMMISSION FILE NUMBER 1-14036**

**DST SYSTEMS, INC.**

**(Exact name of Company as specified in its charter)**

DELAWARE  
(State or other jurisdiction  
of incorporation or organization)  
333 WEST 11TH STREET, KANSAS CITY, MISSOURI  
(Address of principal executive offices)

43-1581814  
(I.R.S. Employer identification no.)  
64105  
(Zip code)

Company's telephone number, including area code (816) 435-1000

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

Title of each class	Name of exchange on which registered
COMMON STOCK, \$0.01 PER SHARE PAR VALUE	NEW YORK STOCK EXCHANGE CHICAGO STOCK EXCHANGE

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

Indicate by check mark whether the Company (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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark 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 Company's knowledge, in a definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. //

Aggregate market value of the voting and non-voting stock held by non-affiliates

of the Company as of

February 29, 2000:

Common Stock, \$.01 par value--\$3,529,205,273

Number of shares outstanding of the Company's common stock as of February 29,

2000:

Common Stock, \$.01 par value--62,881,163

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the following documents are incorporated herein by reference into Part of the Form 10-K as indicated:

**DOCUMENT**

Company's Definitive Proxy Statement for the 2000 Annual Meeting of Stockholders, which will be filed no later than 120 days after December 31, 1999

**PART OF FORM 10-K INTO  
WHICH  
INCORPORATED**

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**Part III**

**DST SYSTEMS, INC.  
1999 FORM 10-K ANNUAL REPORT**

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AUTOMATED WORK DISTRIBUTOR-REGISTERED TRADEMARK-, AWD-REGISTERED TRADEMARK-, AWD/NETSERVER-TM-, AWD/RIP-REGISTERED TRADEMARK-, AWD/ST-TM-, AWD/VOICE-REGISTERED TRADEMARK-, CLASSROOM-REGISTERED TRADEMARK-, CREATIVE DESIGN SERVICES-TM-, CUSTIMA-TM-, CYBERCSR-REGISTERED TRADEMARK-, DDP/SQL-TM-, DIRECT ACCESS-TM-, DST-REGISTERED TRADEMARK-, E.BILL.ANYWHERE-SM-, ELECTRONIC FULFILLMENT-TM-, ELLITE-TM-, ENCORR-REGISTERED TRADEMARK-, EXACT VIEW-SM-, FAIRWAY-TM-, FAN-REGISTERED TRADEMARK-, FAN MAIL-REGISTERED TRADEMARK-, FAN INVESTMENT TRACKING-TM-, FAN WEB-TM-, FAN WEB DIRECT-TM-, FAST-TM-, FINANCIAL ACCESS NETWORK-REGISTERED TRADEMARK-, GLOBAL PORTFOLIO SYSTEM-REGISTERED TRADEMARK-, GPS-REGISTERED TRADEMARK-, HIPORTFOLIO/2-TM-, IMPART/UPTIX-TM-, INFO(.)DISC-TM-, INFORMA-TM-, INTEGRATED PHARMACY NETWORK SYSTEM-TM-, INTELECABLE-REGISTERED TRADEMARK-, IPNS-REGISTERED TRADEMARK-, MARKET ADVISOR-TM-, MAILNET-TM-, OPENDATAWAREHOUSE-TM-, OPENFRONTOFFICE-TM-, OPENMARKETDATAFEEDS-TM-, OPENMESSENGER-TM-, OPENORDERS-TM-, OPENPERFORMANCE-REGISTERED TRADEMARK-, OPENPRODUCTS-TM-, OPENREPORTING-TM-, PALADIGN-TM-, PAS-TM-, PICK AND PACK SERVICES-TM-, PORTFOLIO ACCOUNTING SYSTEM-TM-, POWERSTORE-REGISTERED TRADEMARK-, RAPIDCONFIRM-REGISTERED TRADEMARK-, RAPID ENROLLER-TM-, RAPID NETSALE-TM-, REPLENISHMENT PRINT SERVICES-TM-, SECURITIES TRANSFER SYSTEM-TM-, STMS-TM-, STS-TM-, SUBSCRIBER TRANSACTION MANAGEMENT SYSTEM-TM-, TA2000-REGISTERED TRADEMARK-, TECHCONNECT-TM-, TRAC-2000-REGISTERED TRADEMARK-, VISION-REGISTERED TRADEMARK-, YOURACCOUNTS.COM-SM-, referred to in this Report are included among the Company's trademarks and service marks. AS/400-REGISTERED TRADEMARK-, DIRECTV-TM-, FUND/SERV-TM-, NETWORKING-TM-, ORACLE, OS/2-REGISTERED TRADEMARK-, QUICKEN, SYBASE, UNIX-REGISTERED TRADEMARK-, WINDOWS-REGISTERED TRADEMARK-, WINDOWS NT-REGISTERED TRADEMARK- and any other brand, service or product names or marks referred to in this Report are trademarks or services marks, registered or otherwise, of their respective holders.

#### **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. Readers can identify these forward-looking statements by their 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 the Company's amended Current Report on Form 8-K/A dated March 25, 1999, which is hereby incorporated by reference. This report has been filed with the United States Securities and Exchange Commission ("SEC") in Washington, D.C. and can be obtained by contacting the SEC's Public Reference Branch. Readers are strongly encouraged to obtain and consider the factors listed in the March 25, 1999 Current Report and any amendments or modifications thereof 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 the Company's 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 under the headings "Introduction" and "Seasonality" in the MD&A and the segment and geographic information included in Item 8, Note 13 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.

#### **RECENT DEVELOPMENTS IN THE COMPANY'S BUSINESS**

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

## **USCS MERGER**

On December 21, 1998, the Company and USCS International, Inc. ("USCS") completed their merger ("USCS Merger") through the issuance of .62 shares of DST common stock for each outstanding share of USCS common stock. DST in 1998 issued approximately 13.8 million shares of common stock in the transaction. The USCS Merger was accounted for under the pooling of interests accounting method. Accordingly, DST's financial results for all periods prior to the USCS Merger were restated in 1998 to combine the historical results of operations of DST and USCS.

The USCS Merger positions DST as a market leader in three segments. The three segments are mutual fund and investment recordkeeping and accounting; presentation of bills and statements for the Company's shareowner and subscriber customer base as well as industries such as telecommunications, rapid delivery, insurance and brokerage; and customer management solutions for the video/broadband/ satellite television, telecommunications and utilities industries. Since the USCS Merger, the Company has focused on combining the knowledge and expertise of both DST and USCS with the objective of increasing service capabilities and product offerings, expanding into new markets, and achieving meaningful synergies and cost savings.

## **EQUISERVE**

In December 1998, Boston EquiServe LP ("Boston EquiServe") and First Chicago Trust Company of New York completed a transaction creating EquiServe LP ("EquiServe"), the largest securities transfer agent in the U.S. Prior to the transaction, Boston EquiServe was a limited partnership 50% owned by Boston Financial Data Services, Inc. (a 50% owned joint venture of DST and State Street Corporation) and 50% owned by BankBoston Corporation.

DST is currently developing Fairway, a new securities transfer system to be used exclusively by EquiServe to process all of its accounts. DST has also agreed with EquiServe to provide data processing services for EquiServe to use Fairway. Upon acceptance of defined components of Fairway, DST will, subject to approval of the Office of the Comptroller of the Currency ("OCC"), contribute Fairway and its non-EquiServe securities transfer processing business (approximately 2 million accounts) to EquiServe for a 20% direct ownership interest in EquiServe (the "EquiServe Contribution"). DST will also have a 10% indirect ownership interest in EquiServe through BFDS after the EquiServe Contribution. DST believes that an ownership in EquiServe provides the most effective participation in the opportunities presented by the consolidation of the securities transfer industry.

Acceptance of the initial defined components of Fairway is expected to occur in the first part of 2000 and will result in DST receiving its initial equity participation in EquiServe, subject to OCC approval. Acceptance of the remaining defined components of Fairway and the transfer of DST's non-EquiServe stock transfer business to EquiServe is expected to occur in stages through 2001.

## **NARRATIVE DESCRIPTION OF BUSINESS**

The Company has several operating business units that offer sophisticated information processing and software services and products. These business units are reported as three operating segments (Financial Services, Output Solutions and Customer Management). In addition, certain investments in equity securities, financial interests and real estate holdings are reflected in an Investments and Other Segment. A summary of each of the Company's segments follows:

### **FINANCIAL SERVICES**

The Financial Services Segment provides sophisticated information processing and computer software services and products primarily to mutual funds, investment managers, insurance companies, banks, brokers and financial planners. The Company's proprietary software systems include mutual fund shareowner and unit trust accounting and recordkeeping systems offered in the U.S. and selected international markets; a defined-contribution participant recordkeeping system for the U.S. market; a variety of portfolio accounting and investment management systems offered to U.S. and international fund accountants and investment managers; a workflow management system offered primarily to mutual funds, insurance companies, brokerage firms and banks; and a securities transfer system offered to corporate trustees and transfer agents and, through affiliated companies, to corporate clients.

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, 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 Output Solutions Segment provides complete bill and statement processing services and solutions, including electronic presentment, which include generation of customized statements that are produced in sophisticated automated facilities designed to minimize turnaround time and mailing costs. This Segment provides statement processing services and solutions in North America to customers of the Company's Financial Services and Customer Management business segments, and to telecommunications, utilities and other high volume industries which require high quality, accurate and timely statement processing.

## CUSTOMER MANAGEMENT

The Customer Management Segment provides sophisticated customer management and open billing solutions to the video/broadband, direct broadcast satellite ("DBS"), wireless, wire-line and Internet-protocol telephony, Internet and utility markets worldwide. The Company's software systems enable its clients to manage their operations across all aspects of their business including order processing, customer support, financial reporting, decision support, marketing, field services and collections.

The Customer Management Segment distributes its services and products on a direct basis and through subsidiaries in North America, the United Kingdom and parts of Europe and with international alliance partners in other regions of the world.

## INVESTMENTS AND OTHER

The Investments and Other Segment holds investments in equity securities, certain financial interests, the Company's real estate subsidiaries and the Company's computer hardware leasing subsidiary. The Company holds investments in equity securities with a market value of approximately \$1.3 billion at December 31, 1999, including approximately 8.6 million shares of Computer Sciences Corporation ("CSC") with a market value of \$817 million and 6.0 million shares of State Street Corporation ("State Street") with a market value of \$438 million. Additionally, the Company owns and operates real estate mostly in the U.S. which is held primarily for lease to the Company's other business segments.

## INDUSTRY REVENUE

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

	YEAR ENDED DECEMBER 31,					
	1999		1998		1997	
	(DOLLARS IN MILLIONS)					
<b>U. S. REVENUES</b>						
Mutual fund / investment management	\$ 491.6	40.9%	\$ 429.1	39.1%	\$374.0	39.4%
Other financial services	123.0	10.2%	111.6	10.2%	99.1	10.4%
Video/broadband/satellite TV	190.9	15.9%	214.8	19.6%	199.4	21.0%
Telecommunications and utilities	149.3	12.4%	127.8	11.7%	104.5	11.0%
Other	82.1	6.8%	62.1	5.7%	57.2	6.0%
Total U.S. revenues	1,036.9	86.2%	945.4	86.3%	834.2	87.8%
<b>INTERNATIONAL REVENUES</b>						
Mutual fund / investment management	109.2	9.1%	98.7	9.0%	67.4	7.1%
Other financial services	25.0	2.0%	23.6	2.1%	24.2	2.5%
Video/broadband/satellite TV	19.6	1.6%	18.3	1.7%	14.9	1.6%
Telecommunications and utilities	5.7	0.5%	3.1	0.3%	1.7	0.2%
Other	6.9	0.6%	7.0	0.6%	7.6	0.8%
Total international revenues	166.4	13.8%	150.7	13.7%	115.8	12.2%
TOTAL REVENUES	\$1,203.3	100.0%	\$1,096.1	100.0%	\$950.0	100.0%

## FINANCIAL SERVICES SEGMENT

The Financial Services Segment attributes its growth to the expansion of the mutual fund industry and to the Segment's business strategy. The primary components of the Segment's ongoing business strategy are: (i) enhancement of its technology base and development of new services and products to strengthen its position as the leading provider of information processing services to the U.S. mutual fund market; (ii) expansion into markets where it can provide similar information processing and computer software services and products; and (iii) formation of strategic alliances and joint ventures with or acquisitions of established companies operating in target markets, both in the U.S. and internationally.

The growing volume and complexity of transactions in the financial services and other markets have resulted in increasing demand for more sophisticated systems to timely and accurately process information. Computer technology has provided an effective means of addressing this demand, but requires significant capital investment and expertise. As a result, many financial service organizations have relied on outside providers, such as the Company. The Company expects the information processing needs of these organizations to grow in volume and complexity presenting the Financial Services Segment with significant opportunities to sell its services and products.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>FINANCIAL SERVICES OPERATING DATA</b>			
Revenues (in millions)			
U.S.	\$ 427.0	\$ 390.1	\$ 338.0
International	127.9	117.5	87.0
	<b>\$ 554.9</b>	<b>\$ 507.6</b>	<b>\$ 425.0</b>
Mutual fund shareowner accounts processed (millions)			
U.S.	56.4	49.8	45.0
Canada	2.4	1.6	0.9
United Kingdom (1)	2.0	1.4	1.0
TRAC-2000 mutual fund accounts (millions) (2)	3.4	2.5	1.9
TRAC-2000 participants (thousands)	1,254	905	696
IRA mutual fund accounts (millions) (2)	14.0	12.0	9.6
Portfolio Accounting System portfolios	1,988	1,962	1,925
Automated Work Distributor workstations	57,700	45,300	35,100

(1) Processed by European Financial Data Services Limited, an unconsolidated affiliate of the Company.

(2) Included in U.S. mutual fund shareowner accounts processed.

### U.S. MUTUAL FUND SHAREOWNER PROCESSING

Most of the Financial Services Segment's mutual fund clients 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 funds 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 significantly 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, maintain its leadership position and to improve quality and productivity.

The Company typically enters into multi-year written agreements with its clients. Most 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.

## **SHARE OWNER 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; creating and tabulating proxies; reporting sales; and providing information for printing of shareowner transaction and statement data and year-end tax statements. The system processes load, no-load, multi-class and money funds. TA2000 also performs many specialized tasks, such as asset allocation and wrap fee calculations. At December 31, 1999, the Company provided shareowner accounting processing services for approximately 56.4 million U.S. mutual fund shareowner accounts.

Mutual fund shareowner services are offered on a wide range of levels. "Full" service processing includes all necessary administrative and clerical support to process and maintain shareowner records, answer telephone inquiries from shareowners, brokers and others, and handle the TA2000 functions described above. "Remote" service processing is designed to allow clients to have their own administrative and clerical staff access TA2000 at the Winchester Data Center using the Company's telecommunications network.

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. To address clients' desires to control such interaction, the Company structured its services to allow the clients' personnel to handle telephone inquiries while the Company's or an affiliate's personnel retain transaction processing functions. This service was facilitated by the implementation of Automated Work Distributor ("AWD"), which creates electronic images of transactions and enables such images, together with the status of the related transactions, available to the personnel handling the telephone calls.

The Company derives revenues from its mutual fund shareowner accounting services through fees charged for use of the Company's proprietary software systems, clerical processing services and other related products. These fees are generally charged on a per account and number of funds basis for system processing services and on a per account, number of fund and transaction basis for clerical services. The Company's policy is not to license TA2000.

## **RETIREMENT PLAN ACCOUNTING AND RECORDKEEPING**

Mutual funds are popular investment vehicles for individual and corporate retirement plans. TA2000 supports Individual Retirement Accounts (IRAs) including Roth and Educational IRAs.

The Company's TRAC-2000 system provides recordkeeping and administration for defined contribution plans, including 401(k), 403(b), money purchase and profit sharing plans that invest in mutual funds, company stock, guaranteed investment contracts and other investment products. TRAC-2000 is integrated with TA2000, eliminating reconciliation problems that occur when different systems are used for participant recordkeeping and mutual fund shareowner accounting. TRAC-2000 is offered on a full-service basis through BFDS and on a remote basis by the Company. The Company regards the retirement plan market as a significant growth opportunity for its services and products because (i) that market is relatively new and experiencing significant expansion as more employers shift away from defined benefit programs; (ii) mutual funds, because of their features, are increasingly popular selections for investment by such plans; and (iii) each retirement plan participant normally elects 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, 1999, TA2000 services 14.0 million IRA accounts invested in mutual funds, including 2.7 million Roth IRA and Educational IRA accounts. In addition, TRAC-2000 provides recordkeeping for 1.3 million retirement plan participants with 3.4 million related TA2000 mutual fund accounts.

## **PRODUCTS SUPPORTING MUTUAL FUND DISTRIBUTION AND MARKETING**

The Company has developed products to meet the changing service requirements, distribution channels and increasing regulatory requirements affecting the mutual fund market.

The Company processes over 50% of the mutual fund industry's volume on Fund/Serv and Networking, two systems developed by the Depository Trust and Clearing Corporation for broker distributed mutual funds. The Company has also

developed Financial Access Network ("FAN"), the technological infrastructure that facilitates emerging channels of mutual fund sales and distribution via the Internet. Products and services utilizing FAN include (i) FAN Web, which allows 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 website to FAN, (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 FAN, (iii) FAN Investment Tracking, which enables shareholders to download their mutual fund transaction data through Quicken 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 brokers and financial advisors to view fund, account and dealer information, process transactions, and establish new accounts.

Revenues from these new services and products are based generally on the number of transactions 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 over 142 U.S. mutual fund companies. BFDS also offers remittance and proxy processing, class action administration services, teleservicing and full-service support for defined contribution plans using the Company's TRAC-2000 system. BFDS is the Financial Services Segment's largest customer, accounting for approximately 14.0% of the Segment's revenues in 1999.

#### **INTERNATIONAL MUTUAL FUND / UNIT TRUST SHARE OWNER PROCESSING**

DST provides international shareowner processing through DST Canada, a wholly owned subsidiary, and European Financial Data Services, Limited ("EFDS"), a 50% owned United Kingdom joint venture of DST and State Street Corporation.

#### **DST CANADA, INC. ("DST CANADA")**

DST Canada provides remote mutual fund shareowner processing in Canada and licenses its mutual fund shareowner system to mutual fund companies in related markets outside Canada. Revenues are derived from providing remote mutual fund shareowner processing services and time and material fees for client-specific enhancements and support to the remote processing system, and to a lesser degree from licensing its mutual fund shareowner system to mutual fund companies. DST Canada also has installed its mutual fund system in Germany, Switzerland and Saudi Arabia. Enhancements are being made to the system for operation in Japan beginning in 2000. DST Canada processes 2.4 million mutual fund accounts, including those of its largest client, CFDS Limited ("CFDS"). A Canadian subsidiary of BFDS, CFDS provides full-service processing to the Canadian mutual fund industry using DST Canada's mutual fund system and full-service processing for U.S. off-shore mutual funds using TA2000. In addition, DST Canada's mutual fund system processes approximately 5.8 million accounts under license arrangements.

#### **EUROPEAN FINANCIAL DATA SERVICES LIMITED ("EFDS")**

EFDS offers full and remote service processing for unit trusts and related products serving 2.0 million unitholder accounts at December 31, 1999, making it the largest third party provider of such services in the U.K. EFDS has developed FAST, a new unit trust accounting system, and has converted a significant number of its client base to the new system as of December 31, 1999 with the remaining clients scheduled to convert in 2000. DST believes that the successful conversion of clients onto the new system should allow EFDS to pursue new clients in the United Kingdom market.

#### **PORTFOLIO ACCOUNTING AND INVESTMENT MANAGEMENT PRODUCTS**

The Company offers products that support the portfolio accounting and investment management functions of the financial services industry. DST's Portfolio Accounting System (PAS) is offered primarily to the U.S. mutual fund industry on a remote processing basis. HiPortfolio/2, OpenProducts and Global Portfolio System ("GPS") are offered as licensed products both in the U.S. and internationally. DST offers a complete solution to firms managing mutual funds, institutional advisory accounts, or both.

PAS is an integrated multi-currency system that maintains fund accounting records for mutual funds and unit investment trusts with U.S. and international assets, computes daily income and expense for each portfolio and calculates the fund's daily net asset value ("NAV"). The Company derives revenues generally based on the number of mutual fund portfolios processed by PAS. Two new components of PAS are Infoquest for Internet access and straight-through processing supported by AWD. As of December 31, 1999, the 1,988 portfolios on PAS had an aggregate market value of \$1.4 trillion.

HiPortfolio/2 is also designed for medium and large investment management firms that are seeking a turnkey system for investment accounting that can meet their local and international requirements with minimum customization. HiPortfolio/2 is a scalable, comprehensive front, middle and back office solution.

The range of OpenProducts include OpenFrontOffice (a front office decision support system with a graphical user interface (GUI)), OpenPerformance (a performance measurement and attribution system), OpenDataWarehouse, OpenOrders (automated order management), OpenReporting (high quality desktop publishing and client reporting), OpenMessenger (straight through processing), OpenMarketDataFeeds (management of external market data) and a number of others under development.

GPS is designed for medium and large investment management companies that require a customized solution. The system is a rules-based, multi-currency transaction processing and portfolio accounting system with a GUI and a variety of reporting alternatives. With its client server, relational database architecture (Sybase or Oracle), GPS can seamlessly integrate with the Company's range of OpenProducts or can interface with a wide range of third-party systems.

The Company derives revenues from HiPortfolio/2, OpenProducts and GPS, from license fees, fees for customized installation and programming services and annual maintenance fees.

#### **DST INTERNATIONAL LIMITED ("DST INTERNATIONAL")**

DST International, a United Kingdom company, provides investment management and portfolio accounting software (on a license basis) and services to over 500 installations in 40 countries worldwide, serviced by offices in the United Kingdom, U.S., Australia, New Zealand, Hong Kong, Singapore, Thailand, Japan and South Africa. In addition to the above licensed products, DST International's other products are Impart/Uptix and Paladign. DST International also distributes and supports AWD outside North America.

#### **AUTOMATED WORKFLOW MANAGEMENT**

Automated Work Distributor ("AWD") is designed to help companies improve operating efficiency and customer satisfaction. The AWD system captures all customer contacts (such as Internet, email, phone calls, faxes and mail), prioritizes and assigns the work to the appropriate resource, and tracks the contact through to completion. By coordinating all channels of customer communication, AWD allows for seamless delivery of service, improving customer satisfaction. The AWD product suite includes tools for character recognition, digitized voice and process automation to automate manual processes.

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 utilizes a client server architecture that enables it to operate on AS/400, Windows NT or UNIX servers utilizing Windows, OS/2 and thin client desktops. AWD interfaces with existing mainframe or other server lines of business applications. AWD is primarily installed in mutual fund and other investment management firms, insurance companies, brokerage firms and banks located in the U.S., Canada, United Kingdom, Europe, Australia, South Africa and Asia-Pacific. In addition, Computer Sciences Corporation Financial Services Group ("CSC-FSG") distributes the Company's AWD product to life and property and casualty insurance companies worldwide.

The Company has developed modular components enabling AWD to support various means of customer interaction. These products include EnCorr, which automates the creation and printing of correspondence; PowerStore, which enables optical media access for AWD users; AWD/RIP, which imports work into AWD from other computer systems and external networks; AWD/ST which fully automates transaction processing; and AWD/NetServer to extend AWD functionality to intranet and Internet environments. AWD/Voice was developed to support the infrastructure requirements of mid-to-high volume call centers. AWD/Voice integrates call record/playback technology and computer-telephony integration technology into the AWD system. AWD/Voice supports various call center desktop applications and has been implemented in insurance and mutual funds environments.

AWD can be installed at the customer's site or the customer can access AWD at the AWD Data Center using the Company's telecommunications network.

The Company derives AWD revenues from multi-year bundled service and usage agreements based on the number of workstations accessing the software and fixed fee perpetual license agreements that may include provisions for additional license payments in the event the number of users increases. The Company also derives AWD revenues from fees for customized installation and programming services and annual maintenance fees.

### **SECURITIES TRANSFER PROCESSING**

The Company's existing system to support the securities transfer market, the Securities Transfer System ("STS"), provides a wide array of corporate stock and bond security holder recordkeeping services, including maintaining ownership records, recording ownership changes, issuing certificates, issuing and tabulating proxies, calculating and disbursing dividends and interest, processing dividend reinvestments, tax reporting and responding to shareowner inquiries through on-line data access. STS also maintains shareowner activity for closed-end mutual funds and unit investment trusts. EquiServe currently uses STS to process approximately 5.7 million accounts.

### **EQUISERVE**

EquiServe is the largest U.S. securities transfer agent serving over 1,400 companies with 25 million shareowner accounts. EquiServe provides dividend disbursement and reinvestment; direct stock and employee stock purchase plans services; proxy mailing and tabulation; annual and interim report distribution; merger and acquisition services; and stock option services. EquiServe also offers Internet access to its clients' shareowners for inquiry and transaction processing, Internet proxy voting and Internet access to annual reports through Corporate Document Systems, a 50% owned affiliate of DST. See "Recent Developments" above for further discussion of EquiServe.

### **WINCHESTER INFORMATION PROCESSING SERVICES**

Winchester Information Processing Services primarily supports the computing needs of the Company's Financial Services Segment with two data centers in Kansas City, 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 has mainframe computers with a combined processing capacity of over 5.7 billion instructions per second and direct access storage devices with an aggregate storage capacity that exceeds 26 trillion bytes. Winchester also contains over 150 servers supporting NT, UNIX, and AS/400 small and midrange computing environments. These servers are used to support DST's products and processing for certain of the Company's affiliates. The physical facility is designed to withstand natural disasters including tornado-force winds.

The AWD Data Center supports the Company's AWD Image processing services. The facility has a total of 11,500 square feet, of which 8,500 are currently used for the computer room. The computer room houses IBM AS/400 computers and optical storage systems, which support over 5,500 AWD Image users. AWD users include DST's Full-Service area as well as several of the Company's remote AWD customers and other financial services companies. The AWD Data Center also houses over 250 servers supporting various Company products and Winchester's remote tape storage using IBM's automated tape libraries.

Both 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 network, which serves more than 96,000 computer users, has redundant pathing and software which provide for automatic rerouting of data transmission in the event of carrier circuit failure.

The Company has an agreement with a commercial disaster recovery provider for computer processing in the event of a computer failure at Winchester. The Company's data communications network is linked to the disaster recovery provider's facility and network to enable client access to the disaster recovery facility. The AS/400 processors at the AWD Data Center and the AS/400 processors at Winchester provide contingency plan capabilities for each other's processing needs. The Company regularly tests the disaster recovery processes for both data centers.

## **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 managed care pharmaceutical claim processing services using its proprietary computer processing system, Integrated Pharmacy Network System ("IPNS"). 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 alerts 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, and Argus operates IPNS at Winchester and the AWD Data Center. Its primary clients are providers of pharmacy benefit plans including insurance companies, health maintenance organizations, preferred provider organizations and other pharmacy benefit managers.

### **CUSTOMER CONCENTRATION**

The Financial Services Segment's five largest customers accounted for 32.8% of segment revenues in 1999, including 14.0% from its largest customer.

### **MARKETING / DISTRIBUTION**

In the U.S., Canada, and select international markets, the Financial Services Segment identifies potential users of its 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 Segment's sales efforts are closely coordinated with its joint venture and strategic alliance partners.

Sources of new business for the 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 firms 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 exchange 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.

### **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 including the ability to handle rapidly changing transaction volumes, commitment to processing capacity and software development, and price. The Company believes there is significant existing 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 sub-accounting services for the brokerage firms' customers that purchase or sell shares of mutual funds of 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 in pricing their services. The Company believes

its most significant competitors for third party shareowner accounting systems are PFPC, Inc. and SunGard Data Systems, Inc.

The Company has significant competition with its portfolio accounting and investment management systems. Principal competitors are third-party software service providers and those companies that license their products. The key competitive factors in the investment management systems are the accuracy and timeliness of processed information provided to customers, features and adaptability of the software, level and quality of customer support, level of 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 the portfolio accountants and investment managers. The Company believes its most significant competitors for portfolio accounting and investment management systems are SunGard Data Systems, Inc., State Street Corporation (including Princeton Financial Systems, Inc.), Misys plc, SS&C Technologies, Inc., Advent Software, Inc. and Datastream Systems, Inc.

The Company's automated workflow system competes with other data processing and financial software vendors. Competitive factors include features and adaptability of the software, level and quality of customer support, level of 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 competitors for automated workflow systems are Filenet Corporation, Pegasystems Inc., and Staffware plc.

### OUTPUT SOLUTIONS SEGMENT

The Output Solutions Segment provides bill and statement processing services and solutions, including electronic presentment, to customers of the Financial Services and Customer Management Segments and other industries which value customer communications and require high quality, accurate and timely statement processing. The Company also offers a variety of complementary professional services, including consulting, application development, fulfillment and client training, as well as statement design and formatting services that allow clients to use the statements as a communication and marketing tool.

The Company is among the largest first class mailers in the U.S., mailing over 1.6 billion items in 1999. The sources of revenue by major industry served are listed below.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>OUTPUT SOLUTIONS OPERATING DATA</b>			
Revenues (in millions)			
U.S. revenues			
Mutual fund/investment management	\$ 117.2	\$ 94.8	\$ 84.5
Other financial services	81.3	63.5	57.3
Video/broadband/satellite TV	60.1	64.7	62.2
Telecommunications and utilities	147.1	126.0	104.5
Other	67.7	50.2	44.0
	<b>473.4</b>	<b>399.2</b>	<b>352.5</b>
International revenues			
Mutual fund/investment management	1.2	1.6	0.3
Other financial services	5.5	3.2	4.4
Telecommunications and utilities	1.4	1.4	1.7
Other	6.5	7.0	7.5
	<u>14.6</u>	<u>13.2</u>	<u>13.9</u>
	<b>\$ 488.0</b>	<b>\$ 412.4</b>	<b>\$ 366.4</b>
Images produced (millions)			
U.S.	6,251	5,017	4,171
International	68	70	50
Items mailed (millions)			
U.S.	1,665	1,466	1,311
International	18	24	20

## **OUTPUT SOLUTIONS SERVICES**

Statement processing services and solutions are provided in fully integrated and automated production environments that rapidly and cost-effectively transform electronic data received from our clients into informative, accurate and customized statements. The Company's highly automated production environment allows our clients to maximize postal savings while minimizing delivery time.

For the financial services industry, the Company performs electronic printing, variable and selective insertion, presorted mailing and distribution of custom designed shareowner and other account based communications, including transaction confirmations, dividend checks, account statements and year-end tax reports.

The Company provides bill and statement processing services and solutions to the video/broadband/satellite TV, telecommunications, utilities, transportation, rapid delivery and other service industries. The Company cost-effectively transforms electronic data received from the client into informative, accurate and customized billing statements.

To address the needs of multi-service providers, the Company also offers consolidated statements, which combine data from multiple services and funds into a single integrated statement. Consolidated statements can offer clients significant savings both in paper and mailing costs. Consolidated statements can also be a powerful marketing tool for companies seeking to establish brand name recognition and sell combined services.

The Company derives revenues from its bill and statement processing services based generally on the number of images processed.

Direct Access, the Company's proprietary web-based program, enables the Company's billing customers to have near real-time monitoring and reporting functions. Using standard Internet browsers and entry through secured access to the Company's extranet, customers can monitor their data from the time of completed transmission to the moment it leaves the Company's facilities, thus providing the power to view every step of the process remotely. The Company intends to extend this capability to its broader customer base.

The Company offers a full range of technical support for its clients. 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.

## **ELECTRONIC DELIVERY ALTERNATIVES (YOURACCOUNTS.COM)**

The Company's automated information and technology infrastructure, which electronically prepares and monitors the statement until final printing, provides the basis for our electronic statement presentment and payment offerings. The YourAccounts.Com division was formed in 1999 to meet client requirements for recurring Internet-enabled customer communication by addressing the complexity of the Internet, providing reliability in handling large-scale billing and statement processes, and using bills and statements as the basis for personalized communications that improve customer relationships.

The Company believes that as electronic statements and payment solutions become more accepted, communications service providers, utilities, financial services and other companies will require electronic statement and bill presentment capabilities. To fulfill this requirement, the Company introduced two product lines: E.BILL.ANYWHERE for electronic bill presentment and payment, and INFORMA for electronic presentment of mutual fund and brokerage statements, confirmations, and tax documents.

The Company has also announced marketing alliances with several companies including CheckFree, Convergys, Cybercash, Intuit, Bank of America, NetGravity and NewRiver Investor Communications, Inc. to extend the reach and value of its electronic solutions. Because of its existing volumes, state-of-the-art processing systems, and client relationships, the Company believes it is in a unique position to become a one-stop, full-service supplier of either paper-based or electronically delivered statements.

Revenues from electronic statement and payment solutions are based generally on the number of statements viewed or transactions processed.

## **ADDITIONAL PRODUCTS AND SERVICES**

### **RAPID CONFIRM**

For the brokerage industry, the Company offers Rapid Confirm, one of the fastest ways to deliver trade confirmations. Utilizing MailNet, the largest domestic distributive print network, Rapid Confirm provides speed of delivery through the United States Postal Service. With distributive print-mail sites strategically located throughout the U.S., 90% of our mail is delivered in two days or less at discounted presort rates. Confirmations may be consolidated, householded, and may be printed with dynamic highlight color for greater visual impact.

### **RAPID ENROLLER**

The Company's Rapid Enroller allows defined contribution plan providers to offer fast, fully personalized documentation to plan participants. Utilizing state-of-the-art print-on-demand technology, Rapid Enroller enables customized packaging based on client and recipient information.

### **RAPID NETSALE**

Designed for the rapidly growing on-line brokerage market, the Company's Rapid NetSale "captures" a potential customer's information and triggers the mailing of a personalized lead or welcome kit. With Rapid NetSale, online brokers are able to immediately re-engage prospective customers that abandon their online session and quickly respond to new prospects with customized marketing collateral, increasing online brokers' new account acquisition rates.

### **ELLITE**

For mutual funds and brokerage firms, the Company offers eLLite, enabling fast access to current fund information. With electronic technology and secured Internet access, customers can locate and download information from hundreds of reports in just a few key strokes.

### **CREATIVE DESIGN SERVICES**

The Company offers statement-based marketing and creative design services that allow our clients to transform customer statements into communication tools. The statement is often the only form of regular communication between a service provider and its customers. 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 their customers.

### **ARCHIVAL AND RETRIEVAL SOLUTIONS**

The combined need for archival and customer service retrieval of statements are addressed by our Info-Disc and Exact View storage solutions which provide customer service representatives with a statement image enabling faster customer service calls and improving first-call resolution rates. The Company also offer sophisticated computer output microfilm (COM) capabilities for long-term archival.

### **FULFILLMENT**

The Company offers a variety of fulfillment services to support the literature distribution needs of our clients; including i) Pick & Pack Services offering dynamic package configuration and inventory management; ii) Replenishment Print Services offering print-on-demand technology; and iii) Electronic Fulfillment.

### **PRODUCTION FACILITIES**

The Company's primary production facilities are in Sacramento, Kansas City, Hartford, Boston, Denver, St. Louis, New York, and Toronto. These facilities use roll form and sheet fed production processes and can perform variable and selective insertion and pre-sorted mailing.

The Company has patented 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 Company 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. A local area network links the production equipment to the production control system.

### **CUSTOMER CONCENTRATION**

The Output Solutions Segment's five largest customers accounted for 25.8% of segment revenues in 1999, including 8.2% from its largest customer.

### **MARKETING / DISTRIBUTION**

The Company believes that sales of separate statement processing services to defined vertical markets including, mutual fund, banking, brokerage, insurance, healthcare, telecommunications, transportation, video/broadband/satellite television, utilities and other service industries offers both increased revenue opportunities as well as increased visibility for the Company. The Company maintains a field operations sales staff, including client services and technical support teams and significant design resources, to target these market segments. The Company has begun an international statement processing marketing effort. The Company has entered into alliances with partners such as Xerox, Mellon Bank, Intuit, CheckFree, Bank of America and CyberCash to jointly market its statement processing and electronic presentment capabilities.

### **COMPETITION**

The key competitive factors in the Output Solutions Segment are quality of services, quality of customer support, ability to handle large volumes and speed of production. The most significant competitors for statement/output solutions services are in-house service providers, local companies in the cities where the Company's printing operations are located and other national competitors such as Moore Corporation Ltd., Bowne and Co. Inc., Vestcom International, Inc., Automatic Data Processing Inc. and CSG Systems International, Inc. The most significant competitors for electronic presentment of bills and statements include billserv.com Inc., Bowne and Co. Inc., Derivion, Electronic Data Systems, Inc., International Business Machines Corporation, Moore Corporation Ltd. and Tumbleweed Communications Corp. The Company believes that it competes effectively in these markets.

### **INTELLECTUAL PROPERTY**

The Company holds 26 U.S. patents covering various aspects of its statement processing services. The Company has no foreign patents. The Company believes that although the patents it holds are valuable, they are not critical to the Company's success, which depends principally 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 system and processes.

### **CUSTOMER MANAGEMENT SEGMENT**

DST's Customer Management Segment provides sophisticated customer management and open billing solutions to the video/broadband, direct broadcast satellite ("DBS"), wireless, wire-line and Internet-protocol telephony, Internet and utility markets serving more than 45 million end-users worldwide. The Company's proprietary software systems enable our clients to manage their operations across all aspects of their business including order processing, customer support, financial reporting, decision support, marketing, field services and collections. The Company's software solutions are currently used by the largest DBS provider in the U.S. as well as six of the top seven U.S. video/broadband multiple service providers.

The Segment primarily derives its revenues for customer management processing and computer software services and products based on the number of end-users of the services offered by its clients, the number of bills mailed and/or the number of images produced under multi-year bundled service and usage agreements. These agreements are typically

subject to periodic renewals and inflation-based fee adjustments. Certain of the Company's customers license the customer management software under term license agreements.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>CUSTOMER MANAGEMENT OPERATING DATA</b>			
Revenues (in millions)			
U.S.	\$ 179.1	\$ 200.1	\$ 186.7
International	23.9	20.0	14.9
	<b>\$ 203.0</b>	<b>\$ 220.1</b>	<b>\$ 201.6</b>
Video/broadband/satellite TV subscribers processed (millions)			
Total before discontinued customer	39.0	35.6	30.8
Discontinued customer (1)	0.1	2.4	10.9
Total subscribers processed	<b>39.1</b>	<b>38.0</b>	<b>41.7</b>

(1) See discussion in Customer Management Segment -- Customer Concentration

The Company's flexible, scalable and open architecture uses the latest technologies to offer a variety of customer management services and products that allow its customers to effectively manage their growing customer base. The Company's products are available on a stand-alone or service bureau environment. Stand-alone systems currently support approximately 85% of the subscriber base and 15% are supported on a service bureau basis.

## SYSTEMS AND SERVICES

### INTELECABLE

This convergent billing solution is designed to support single and multi-service providers in an array of communications markets including video/broadband, Internet, global telecommunications (both business and residential) and DBS. Intelecable offers an integrated rating engine that rates a variety of usage-based services, including usage-based services on the Internet. Based on an open architecture and a range of application program interfaces, Intelecable streamlines integration with other information systems. With more than 115 installations, Intelecable is in use in more than 30 countries and can operate in a variety of languages including Japanese and Chinese.

### DDP/SQL

The DDP/SQL system supports the North American video/broadband market and is used by six of the top seven U.S. video/broadband multiple service providers. As a relational database, the DDP/SQL system serves the video/broadband market by supporting digital services, high-speed data, electronic services, Web over TV, and traditional cable television. DDP/SQL runs on parallel processing hardware manufactured by Tandem. The Company is a value-added reseller of Tandem equipment. The Company also sells to its clients peripheral hardware made by manufacturers other than Tandem, and generally enters into hardware maintenance agreements with its clients. The Company's Investments and Other Segment also provides lease financing and maintenance services primarily for companies operating systems on a stand-alone basis.

### SUBSCRIBER TRANSACTION MANAGEMENT SYSTEM ("STMS")

The Subscriber Transaction Management System was developed to manage the customer management and output solutions related activities for DirecTV, Inc., the largest DBS provider in the U.S. The Company is expanding the scope of STMS to address the needs of other direct broadcast satellite operators that provide non-television and interactive services and to international providers.

### CUSTIMA

The CUSTIMA software system supports the customer management activities of water, electric, gas, and municipal utility providers on four continents to bill nearly seven million domestic, commercial and industrial customers. CUSTIMA includes usage-based billing, real-time pricing, Internet integration, scalability, and allows for platform independence.

## **AWD**

The Company has integrated its AWD product with its customer management systems to expand the support of customer relationship management to the video/broadband/satellite television, telecommunications and utility industries.

## **ANCILLARY PRODUCTS**

Ancillary products are available on all systems. These ancillary solutions include CyberCSR, which provides cable management services directly to the home subscriber via the Internet; TechConnect, which increases the productivity of installers and field technicians by providing access to job and customer information via the Internet; and Electronic Billing. Leveraging Web-based applications across multiple functions, including enhanced online services, customer self-care and electronic commerce, these products elevate operating efficiency and enhance customer satisfaction, giving customers the choice of using solutions in a home, an office or a retail environment.

## **PROFESSIONAL SERVICES, TRAINING AND SUPPORT**

The Company maintains various professional services groups to provide global consulting services to its software customers, including assistance with database definition and initialization, system operations, network consolidation, and performance and decision support services. These groups also provide clients with assistance in developing custom-tailored applications and interfaces that operate with the Company's customer management software to enhance client operations. The Company provides complete product documentation and training services to users of its software products, including CD-ROM-based product documentation and training. The Company's ClassROM software provides interactive instruction and product training on CD-ROM. The Company maintains training facilities in California.

## **CLIENT SUPPORT AND CARE**

The Company provides worldwide training and support to its clients including broad-based, 24-hour, 7-day support and technical assistance. Internationally, Intelecable is supported by teams located in the U.S., U.K., South America and Australia as well as by alliance partners.

## **CUSTOMER CONCENTRATION**

The Customer Management Segment's five largest customers accounted for 54.2% of segment revenues in 1999, including 18.0% from its largest client.

## **MARKETING / DISTRIBUTION**

Software and services are sold primarily to video/broadband/satellite television, DBS, utility and multiple service providers through direct sales channels and in conjunction with international alliance partners. In North America, the Company operates a software and services sales and marketing team, including account management, product management and technical support teams.

The Segment's international sales staff is coordinated by geographic area, including dedicated account and technical support personnel located in the U.S., U.K., Brazil, Australia and Hong Kong. In addition to direct sales, the Company has contracted with alliance partners throughout the world who are responsible for sales, marketing, support and local customization.

## **COMPETITION**

The market for the Company's products and services in the Customer Management Segment is highly competitive, and competition is increasing as additional market opportunities arise. The Company competes with both independent providers and developers of in-house systems. The Company believes its most significant competitors for customer management software systems are Convergys, Inc., CSG Systems International, Inc. and Kenan Systems Corporation.

The Company believes that to remain competitive it will require significant financial resources in order to market its existing products and services, to maintain customer service and support and to invest in research and development. Many of the Company's existing and potential competitors may have greater resources than the Company. The Company expects

its competitors to continue to improve the design and performance of their current systems and processes and to introduce new systems and processes with improved price/performance characteristics.

## **INVESTMENTS AND OTHER SEGMENT**

The Company's Investments and Other Segment is comprised of certain investments in equity securities, financial interests and the Company's real estate and hardware leasing subsidiaries and affiliates.

### **INVESTMENTS**

The Company holds certain investments in equity securities with a market value of approximately \$1.3 billion at December 31, 1999, including approximately 8.6 million shares of Computer Sciences Corporation with a market value of \$817 million and 6.0 million shares of State Street Corporation with a market value of \$438 million.

### **REAL ESTATE**

The Company's real estate subsidiaries own approximately 274,000 square feet of office space and 831,000 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.

### **HARDWARE LEASING**

The Company provides computer hardware leasing services to selected customer management software clients that purchase stand-alone systems primarily in the U.S.

## **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 \$172.4 million, \$165.5 million and \$135.6 million in 1999, 1998 and 1997, respectively, for software development and maintenance and enhancements to the Company's proprietary systems and software products of which \$26.6 million, \$2.5 million and \$3.1 million was capitalized in 1999, 1998 and 1997, respectively.

## **EMPLOYEES**

As of December 31, 1999, the Company and its majority owned subsidiaries employed approximately 9,700 employees, including approximately 4,700 in the Financial Services Segment, 4,100 in the Output Solutions Segment and 900 in the Customer Management Segment. In addition, 50% owned unconsolidated affiliates of the Company and its subsidiaries employed approximately 4,400 employees, including approximately 3,500 at BFDS. None of the Company's employees are represented by a labor union or covered by a collective bargaining agreement. The Company considers its employee relations to be good.

## **ITEM 2. PROPERTIES**

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

<b>LOCATION</b>	<b>USE (1)</b>	<b>OWNED/ LEASED (2)</b>	<b>SQUARE FEET</b>
<b>FINANCIAL SERVICES SEGMENT (3)</b>			
Kansas City, MO	Office space	Leased	540,000
Kansas City, MO	Data center (4)	Owned	163,000
Kansas City, MO	Office space	Owned	132,000
Kansas City, MO	Production	Owned	16,000
Boston, MA	Office space	Leased	24,000
Canada	Office space	Leased	49,000
United Kingdom	Office space	Leased	47,000
Australia	Office space	Leased	28,000
Ten other smaller properties	Office space	Leased	32,000
<b>OUTPUT SOLUTIONS SEGMENT (3)</b>			
El Dorado Hills, CA	Production	Owned	366,000
El Dorado Hills, CA	Office space	Leased	29,000
Sacramento, CA	Production	Leased	304,000
Kansas City, MO	Production (4)	Owned	299,000
Kansas City, MO	Production	Leased	32,000
Kansas City, MO	Office space	Owned	13,000
Hartford, CT	Production	Owned	150,000
Hartford, CT	Production	Leased	48,000
Westwood, MA	Production	Leased	128,000
Braintree, MA	Production	Leased	81,000
Melville, NY	Production	Leased	85,000
New York, NY	Production	Leased	30,000
Mt. Prospect, IL	Production	Leased	110,000
Denver, CO	Production	Leased	94,000
St. Louis, MO	Production	Leased	40,000
Canada	Production	Owned	61,000
Canada	Production	Leased	34,000
Three other smaller properties	Office space	Leased	19,000
<b>CUSTOMER MANAGEMENT SEGMENT (3)</b>			
Rancho Cordova, CA	Office space	Leased	153,000
El Dorado Hills, CA	Office space	Owned	48,000
Charlotte, NC	Office space	Leased	53,000
United Kingdom	Office space	Leased	31,000
Nine other smaller properties	Office space	Leased	64,000
<b>INVESTMENTS AND OTHER SEGMENT</b>			
Kansas City, MO	Office space	Owned	81,000
Kansas City, MO	Office space	Leased	3,000

- (1) Property specified as used for production in the above table includes space used for manufacturing operations and warehouse space.
- (2) Within Kansas City, MO, the Company owns a number of surface parking lots, various undeveloped properties, and a 515,000 square foot underground storage facility that is primarily leased to third parties. The Company also owns approximately 250 acres of undeveloped land adjacent to its buildings in El Dorado Hills, CA. The Company is constructing two Output Solutions facilities with a total of 147,000 square foot of space in El Dorado Hills, CA. In addition to the property listed in the table and discussed above, the Company leases space in the Netherlands, South Africa, Hong Kong, Singapore, Thailand, Philippines, New Zealand and Brazil.
- (3) Includes approximately 1,596,000 square feet of property owned or leased by the Company's real estate subsidiaries, which are part of the Investments and Other Segment. These properties are leased to other segments of the Company, including approximately 688,000 sq. ft. in the Financial Services Segment, 860,000 sq. ft. in the Output Solutions Segment, and 48,000 sq. ft. in the Customer Management Segment.
- (4) The Winchester Data Center is mortgaged with indebtedness of \$19.9 million as of December 31, 1999. Another property is mortgaged with indebtedness of \$1.4 million as of December 31, 1999.

The discussion under "Winchester Information Processing Services" in Item 1 hereto is hereby incorporated by reference in partial response to this Item 2.

### **ITEM 3. LEGAL PROCEEDINGS**

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

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES OF THE COMPANY**

Pursuant to General Instruction G(3) of Form 10-K and instruction 3 to paragraph (b) of Item 401 of Regulation S-K, the following list is included as an unnumbered Item in Part I of this Annual Report on Form 10-K in lieu of being included in the Company's Definitive Proxy Statement in connection with its annual meeting of stockholders scheduled for May 9, 2000.

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

THOMAS A. MCDONNELL, age 54, has served as director of the Company since 1971. He has served as Chief Executive Officer of the Company since October 1984 and as President of the Company since January 1973 (except for a 30 month period from October 1984 to April 1987). He served as Treasurer of the Company from February 1973 to September 1995 and as Vice Chairman of the Board from June 1984 to September 1995. He served as Executive Vice President of Kansas City Southern Industries, Inc. ("KCSI") from February 1987 until October 1995 and as a director of KCSI from 1983 until October 1995. He is a director of BHA Group, Inc., Computer Sciences Corporation, Euronet Services, Inc., and Informix Software, Inc.

THOMAS A. MCCULLOUGH, age 57, is Executive Vice President of the Company. He has served as director of the Company since 1990 and as Executive Vice President since April 1987. His responsibilities include full-service mutual fund processing, remote-service mutual fund client servicing, information systems, Automated Work Distribution products, portfolio accounting, securities transfer, product sales and marketing and DST Canada, Inc., a wholly owned subsidiary of the Company.

JAMES C. CASTLE, Ph.D., age 63, has served as director of the Company since December 1998 and as Chairman, Chief Executive Officer and director of USCS since 1992.

CHARLES W. SCHELLHORN, age 51, has served since March 1999 as Vice Chairman of USCS. He had previously served since 1990 as President and since 1991 as Chairman of Output Technology Solutions, Inc., a wholly owned subsidiary of the Company. He has served as President of Argus Health Systems, Inc. since March 1999.

JONATHAN J. BOEHM, age 39, joined the Company as a Group Vice President in November 1997. He is responsible for the Company's full-service mutual fund processing and corporate support. Prior to joining the Company, he had been an officer of Kemper Service Company from October 1990 through November 1997.

ROBERT C. CANFIELD, age 61, has served as Senior Vice President, General Counsel and Secretary of the Company since August 1995 and as Senior Vice President-Law of the Company from March 1992 to August 1995.

KENNETH V. HAGER, age 49, has served as Vice President and Chief Financial Officer of the Company since April 1988 and as Treasurer since August 1995. He is responsible for the financial and internal audit functions of the Company. He is a director of Digital Holdings, Inc.

C. RANDLES LINTECUM, age 55, has served as President of Output Technology Solutions, Inc., a wholly owned subsidiary of the Company, since March 1999. He served from July 1995 to June 1999 as President of Output Technology Solutions of California, Inc., a wholly owned subsidiary of the Company. He served from February 1995 to July 1995 as Senior Vice President Marketing and Distribution of USCS and from May 1993 to February 1995 as Vice President Corporate Development of USCS.

JOHN W. MCBRIDE, age 58, joined the Company in 1985 and has served as Group Vice President of the Company since 1993. He is responsible for the operations of the Company's Winchester and AWD Data Centers.

MICHAEL F. MCGRAIL, age 52, has served since April 1995 as President of DST Innovis, Inc., a wholly owned subsidiary of the Company. Since December 1993, he has been President and Managing Director of DST Innovis, Ltd., a wholly owned subsidiary of DST Innovis, Inc.

ROBERT L. TRITT, age 44, joined the Company in 1977 and has served as Group Vice President of the Company since 1989. He is responsible for the Company's remote mutual fund processing operations and for mutual fund product development.

MICHAEL A. WATERFORD, age 57, has served as Group Vice President of the Company since 1986. He is responsible for certain of the Company's development projects and Year 2000 readiness.

J. MICHAEL WINN, age 53, has served since June 1993 as Managing Director of DST International Limited, a wholly owned subsidiary of the Company.

## PART II

### ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades under the symbol "DST" on the New York Stock Exchange ("NYSE") and the Chicago Stock Exchange. As of March 2, 2000, there were approximately 28,000 beneficial owners of the Company's common stock.

No cash dividends have been paid since the initial public offering of the Company's common stock on October 31, 1995. The Company intends to retain its earnings for use in its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

The information set forth in response to Item 201 of Regulation S-K in Part II Item 8, Financial Statements, and Supplementary Data at Note 14, Quarterly Financial Data (Unaudited) ("Note 14"), in this Form 10-K is incorporated by reference in partial response to this Item 5. The prices set forth in Note 14 do not include commissions and do not necessarily represent actual transactions. The closing price of the Company's common stock on the NYSE on December 31, 1999 was \$76.3125.

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company. The selected consolidated balance sheet data as of December 31, 1999 and 1998 and the selected consolidated income statement data for the years ended December 31, 1999, 1998 and 1997 were derived from the Company's audited consolidated financial statements and the related notes thereto which are included in Item 8 of this annual report on Form 10-K. The selected consolidated balance sheet data as of December 31, 1997 and the selected consolidated income statement data for the year ended December 31, 1996 were derived from the Company's audited consolidated financial statements, not included herein. The selected consolidated balance sheet data as of December 31, 1996 and 1995 and the selected consolidated income statement data for the year ended December 31, 1995 were derived from the separate audited financial statements of DST and USCS, as adjusted for the USCS Merger, not included herein. This selected consolidated financial data should be read in conjunction with and is qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K and the Company's audited consolidated financial statements, including the notes thereto and the report of independent accountants thereon and the other financial information included in Item 8 of this Form 10-K.

	<b>YEAR ENDED DECEMBER 31,</b>				
	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
	<b>(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)</b>				
Revenues	\$1,203.3	\$1,096.1	\$ 950.0	\$ 844.0	\$ 713.4
Costs and expenses	880.8	834.7	719.6	653.0	571.6
Depreciation and amortization	122.8	108.8	103.5	99.1	87.7
Merger charges and other expenses (1) (2)	--	33.1	--	13.7	--
Income from operations (3)	199.7	119.5	126.9	78.2	54.1
Interest expense	(5.2)	(8.6)	(8.5)	(10.5)	(26.9)
Other income, net	13.2	7.4	5.8	4.5	4.9
Gains on sales of Continuum and IFTC (2) (4)	--	--	--	223.4	43.6
Equity in earnings (losses) of unconsolidated affiliates	6.6	(2.7)	(1.3)	(4.0)	6.4
Income before income taxes and minority interests	214.3	115.6	122.9	291.6	82.1
Income taxes	76.9	44.3	42.9	113.3	49.5
Income before minority interests	137.4	71.3	80.0	178.3	32.6
Minority interests	(0.7)	(0.3)	0.6	0.5	--
Net income (1) (2) (3) (4)	\$ 138.1	\$ 71.6	\$ 79.4	\$ 177.8	\$ 32.6
Basic earnings per share (5)	\$ 2.19	\$ 1.14	\$ 1.25	\$ 2.82	\$ 0.71
Diluted earnings per share (5)	2.13	1.11	1.23	2.78	0.70
Total assets	\$2,326.3	\$1,897.0	\$1,548.5	\$1,303.7	\$ 912.8
Long-term obligations	44.4	49.7	97.4	81.5	103.6
Cash dividends per common share (5)	\$ --	\$ --	\$ --	\$ --	\$ --

(1) The Company recognized \$33.1 million in merger and integration costs in 1998. See Note 3 to the consolidated financial statements.

(2) In 1996, The Continuum Company, Inc. ("Continuum") merged with Computer Sciences Corporation ("CSC") in a tax-free share exchange and as a result became a wholly owned subsidiary of CSC. As a result of the CSC/Continuum merger, the Company received CSC common stock for its investment in Continuum and recognized a one-time gain after taxes and other expenses of \$127.6 million. In conjunction with the merger, the Company elected to make a one-time \$13.7 million contribution to provide funding for certain Continuum employee withdrawals from DST's Employee Stock Ownership Plan.

(3) Effective January 1, 1999, DST adopted, as required, Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires that certain costs incurred for the development of internal use software be capitalized. Prior to the adoption of SOP 98-1, the Company expensed the development costs of internal use software as incurred. For the year ended December 31, 1999, the Company capitalized \$24.0 million of costs related to such development, including \$2.4 million of capitalized costs at an unconsolidated subsidiary. If internal use software development costs had been expensed rather than capitalized, consolidated net income for the year ended December 31, 1999 would have been \$122.7 million (\$1.94 per basic share, \$1.89 per diluted share).

(4) In 1995, the Company received shares of State Street Corporation common stock in a tax-free exchange for the Company's 50% interest in Investors Fiduciary Trust Company. The Company recognized a one-time gain after deferred taxes of \$8.6 million from the transaction.

(5) The Company's capital structure substantially changed as a result of public offerings of the Company's common stock in the fourth quarter 1995 and second quarter 1996. Earnings per share data prior to the 1995 public offering is reflective of being a wholly owned subsidiary of Kansas City Southern Industries, Inc. ("KCSI"). The Company paid cash dividends of \$150.0 million to KCSI in 1995, which has been excluded from this table. The declaration and payment of dividends is at the discretion of the Board of Directors which, prior to the 1995 public offering, was controlled by KCSI.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The discussions set forth in this Annual Report on Form 10-K contain statements concerning potential future events. Such forward-looking statements are based upon assumptions by the Company's management, as of the date of this Annual Report, including assumptions about risks and uncertainties faced by the Company. Readers can identify these forward-looking statements by their use of such verbs as expects, anticipates, believes or similar verbs or conjugations of such verbs. If any of management's assumptions are 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 the Company's amended Current Report on Form 8-K/A dated March 25, 1999, which is hereby incorporated by reference. This report has been filed with the United States Securities and Exchange Commission ("SEC") in Washington, D.C. and can be obtained by contacting the SEC's Public Reference Branch. Readers are strongly encouraged to obtain and consider the factors listed in the March 25, 1999 Current Report and any amendments or modifications thereof 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.

### **INTRODUCTION**

Originally established in 1969, DST is a leading global provider of sophisticated information processing and computer software services and products to the financial services industry (primarily mutual funds and investment managers), video/broadband/satellite TV industry, communications industry, and other service industries. In December 1998, USCS International, Inc. ("USCS") became a wholly owned subsidiary of the Company through a merger resulting in the issuance of approximately 13.8 million shares of DST common stock ("USCS Merger"). The USCS Merger was accounted for under the pooling of interests accounting method. The Company's business units are reported as three operating segments (Financial Services, Output Solutions and Customer Management). In addition, certain investments in equity securities, financial interests and real estate holdings have been aggregated into an Investments and Other Segment.

The Financial Services Segment's revenues are generated from a variety of sources. The Company's mutual fund, securities transfer and portfolio accounting processing revenues are primarily dependent upon the number of accounts, portfolios or transactions processed. The Company also licenses its work management software, certain investment management and portfolio accounting software and securities exchange systems and, outside the U.S., certain mutual fund shareowner accounting systems. Revenues for licensed software products are primarily comprised of: (i) license fees; (ii) consulting and development revenues based primarily on time and materials billings; and (iii) annual maintenance fees. The license fee component of these revenues is not material. The Financial Services Segment derives part of its income from its pro rata share in the earnings (losses) of certain unconsolidated affiliates, primarily Boston Financial Data Services, Inc. ("BFDS"), Argus Health Systems, Inc. ("Argus") and European Financial Data Services Limited ("EFDS"). The Company provides data processing services to Argus and Computer Sciences Corporation Financial Services Group ("CSC-FSG") to process their proprietary applications. Revenues from Argus and CSC-FSG are primarily based upon data center capacity utilized, which is significantly influenced by each company's volume of transactions. The Company's data processing contract with CSC-FSG expires in 2000 and is not expected to be renewed.

The Output Solutions Segment's revenues for presentation and delivery (either printed or electronic) of customer documents and archival depend on the number of statements mailed and/or the number of images produced. Formatting and custom programming revenues are based on time and materials billings or on the number of images produced.

The Customer Management Segment primarily derives its revenues from customer management processing and computer software services and products based on the number of end-users of the services offered by its clients, the number of bills mailed and/or the number of images produced under multi-year bundled service and usage agreements. Certain of the Company's customers, principally outside the U.S., license the customer management software. Revenues for fixed fee license agreements are recognized as the software is delivered and all customer obligations have been met. Such fixed fee license amounts have not been material.

The Investments and Other Segment's investment income (dividends, interest and gains/losses on sale of securities) is recorded as other income. Income from financing leases is recognized as revenue at a constant periodic rate of return on the net investment in the lease. Rental income from Company owned and operated real estate is recorded as revenue, but is eliminated in consolidation for the portion that relates to real estate leased to the Company's other segments.

## SIGNIFICANT EVENTS

### USCS MERGER

The Company's December 21, 1998 merger with USCS was accounted for as a pooling of interests. Accordingly, the Company's consolidated financial statements for periods prior to December 21, 1998 were restated in 1998 to include the financial position and results of operations of USCS.

In December 1998, DST's management approved plans which included initiatives to integrate the operations of certain DST and USCS subsidiaries and consolidate facilities. Total accrued integration costs of \$16.9 million were recorded in the fourth quarter of 1998, of which \$0.7 million, \$12.8 million and \$3.4 million related to the Financial Services, Output Solutions, and Customer Management Segments, respectively.

1998 integration costs included \$3.2 million for the severance cost of involuntary separation benefits related to approximately 250 employees. Employee separations affect the majority of business functions and job classifications across the Output Solutions (\$1.5 million) and Customer Management (\$1.7 million) Segments, principally in North America. At December 31, 1999, approximately \$1.8 million of employee separation accruals remain related to approximately 50 employees.

The 1998 integration costs included \$10.2 million related to lease abandonment costs, elimination of certain non-strategic business lines and the closing of certain production and administration centers associated with the Output Solutions (\$9.1 million) and Customer Management (\$1.1 million) Segments. For the locations to be closed and the non-strategic business lines to be eliminated, the tangible and intangible assets to be disposed of were written down by \$4.6 million to fair value. The integration costs also included \$2.7 million (\$0.7 million, \$1.8 million, and \$0.2 million for the Financial Services, Output Solutions, and Customer Management Segments, respectively) related to purchased software and other committed costs of software/communications systems that will be abandoned. Additionally, \$0.8 million (\$0.4 million in each of the Output Solutions and Customer Management Segments) of costs were expensed related to terminating certain contractual obligations which had no future benefit as a result of the USCS Merger.

The cash and non-cash elements of the integration costs were approximately \$9.5 million and \$7.4 million, respectively. Details of the merger charge are as follows (in millions):

	ORIGINAL AMOUNT	UTILIZED IN 1998	BALANCE AT DECEMBER 31, 1998	UTILIZED IN 1999	BALANCE AT DECEMBER 31, 1999
Employee severance benefits	\$ 3.2	\$ 0.6	\$ 2.6	\$ 0.8	\$ 1.8
Other	6.3	--	6.3	2.8	3.5
Write down of long-lived assets	7.4	7.4	--	--	--
	<b>\$ 16.9</b>	<b>\$ 8.0</b>	<b>\$ 8.9</b>	<b>\$ 3.6</b>	<b>\$ 5.3</b>

Most of the remaining employee severance benefits are expected to be paid in 2000. The balance of the accrued costs relates primarily to facilities that will be closed. Lease payments on closed facilities and abandoned equipment have terms which end in 2000 through 2003. Four locations have been closed as of December 31, 1999. The remainder will be closed in 2000 once arrangements have been made to process continuing business at other facilities. The costs of transitioning the continuing business have not been accrued.

During 1999, the Company expensed additional integration costs that could not be accrued in the integration plans under current accounting rules. These amounts did not materially impact the Company's consolidated results of operations, liquidity or financial position. The Company expects that other integration costs will be incurred in the future which cannot be accrued under current accounting rules and are dependent on management decisions. Such costs could include, among other things, additional employee costs, relocation and integration costs of moving to common internal systems. Although precise estimates cannot be made, management does not believe such costs will have a material adverse effect on the Company's consolidated results of operations, liquidity or financial position.

A summary of historical results of DST and USCS for 1998 and 1997 are as follows (in millions):

	YEAR ENDING DECEMBER 31,	
	1998	1997
<b>Revenues</b>		
DST Systems, Inc	\$ 749.0	\$ 650.7
USCS International, Inc.	347.1	299.3
Total revenues	\$1,096.1	\$ 950.0
<b>Net income</b>		
DST Systems, Inc.	\$ 73.9	\$ 59.0
USCS International, Inc.	21.0	22.4
Conforming of accounting policies	(3.9)	(2.0)
Merger costs	(19.4)	--
Total net income	\$ 71.6	\$ 79.4

In conjunction with the USCS Merger, certain conforming accounting adjustments were recorded to conform the accounting policies relating primarily to USCS' depreciation and amortization policies and the accounting for the costs of software developed for internal USCS use. As a result of conforming accounting policies, net income decreased \$3.9 million and \$2.0 million for the years ended December 31, 1998 and 1997, respectively. Non-current assets decreased \$33.3 million at December 31, 1998 as a result of conforming accounting policies. DST purchased 1.1 million shares of USCS common stock during the fourth quarter of 1997 at a cost of \$21.7 million. Prior to the USCS Merger, there were no significant intercompany transactions between the Company and USCS.

In the fourth quarter of 1998, the Company recorded \$26.0 million (\$19.4 million net of taxes) of charges related to the USCS Merger. Transaction costs for the USCS Merger of \$9.1 million include investment banker fees, legal fees and other costs paid in connection with the merger.

#### STOCK REPURCHASE PROGRAM

In December 1998, the Board of Directors approved a plan for DST to repurchase 600,000 shares of DST common stock at the rate of approximately 25,000 shares per month in approximately equal monthly amounts beginning in February 1999, to provide additional shares needed as a result of the USCS Merger and for use under various DST option and benefit programs. In August 1999, as a result of expected additional share requirements for such programs, the Board of Directors authorized the repurchase of an additional 3,575,000 shares for a total of 4,175,000 shares, with the then 4,000,000 remaining unpurchased shares to be acquired during a twenty-four month period commencing September 1999. Such purchases may be made in private or market transactions and will be made in compliance with SEC regulations. The Company expended \$52.2 million in 1999 to purchase shares under this plan.

#### EQUISERVE

In December 1998, Boston EquiServe LP ("Boston EquiServe") and First Chicago Trust Company of New York completed a transaction creating EquiServe LP ("EquiServe"), the largest securities transfer agent in the U.S. Prior to the transaction, Boston EquiServe was a limited partnership 50% owned by Boston Financial Data Services, Inc. ("BFDS") (a 50% owned joint venture of DST and State Street Corporation) and 50% by BankBoston Corporation.

DST is currently developing Fairway, a new securities transfer system to be used exclusively by EquiServe to process all of its accounts. DST has also agreed with EquiServe to provide data processing services for EquiServe to use Fairway. Upon acceptance of defined components of Fairway, DST will, subject to approval of the Office of the Comptroller of the Currency ("OCC"), contribute Fairway and its non-EquiServe securities transfer processing business (approximately 2 million accounts) to EquiServe for a 20% direct ownership interest in EquiServe (the "EquiServe Contribution"). DST will also have a 10% indirect ownership interest in EquiServe through BFDS after the EquiServe Contribution. DST believes that an ownership in EquiServe provides the most effective participation in the opportunities presented by the consolidation of the securities transfer industry.

Acceptance of the initial defined components of Fairway is expected to occur in the first part of 2000 and will result in DST receiving its initial equity participation in EquiServe, subject to OCC approval. Acceptance of the remaining defined

components of Fairway and the transfer of DST's non-EquiServe stock transfer business to EquiServe is expected to occur in stages through 2001.

### **CUSTIMA ACQUISITION**

In August 1998, USCS purchased 100% of the stock ("Custima Acquisition") of United Kingdom based Custima International Holdings, plc ("Custima") for approximately \$15.4 million. The business acquired provides customer management software for the utilities industry. The acquisition was accounted for as a purchase, and accordingly, the Company's financial statements include Custima's results of operations from the date of acquisition.

The purchase included existing technology, in-process research and development (IPR&D), trademarks and in-place workforce with an aggregate value of approximately \$18.1 million. The purchase price exceeded the fair market value of net tangible assets acquired by \$15.1 million; however, the purchase price was less than the estimated fair value of all assets (tangible and intangible) acquired. Accordingly, the non-current assets recorded in the transaction (including IPR&D projects) were reduced on a pro-rata basis such that the total amount of the assets recorded did not exceed the consideration paid.

The Company engaged a third party to perform an appraisal of the Custima Acquisition (including the IPR&D projects acquired). The IPR&D projects included improvements and increased functionality to the core billing product to adapt it for competitive use within the U.S. and development of a new Java-based product which will allow large utilities to benefit from an advanced billing system while utilizing their existing legacy database.

The IPR&D projects were estimated to be approximately 60% complete as of the date of acquisition and were assigned a total value of \$7.1 million (using the income method discounted at 30% which did not differ significantly from the stage of completion method) which was reduced to \$6.0 million as a result of the total amount of the assets acquired from Custima exceeding the consideration paid. Phased completion and delivery of the projects are expected through 2000. As with any software development project, there are inherent development risks and periodic review of the projects can result in changes to the development plan and the Company's business plans for the software.

In accordance with applicable accounting principles, the assigned value of the IPR&D (\$6.0 million) was expensed at the date of acquisition. Also, a charge for redundant facilities and workforce of \$1.1 million was recorded in connection with USCS's purchase and consolidation of Custima. Intangible assets (other than IPR&D) are being amortized on a straight-line basis over periods ranging from 3 to 10 years. On a pro forma basis, the acquisition did not have a material impact on the Company's historical results of operations or financial position.

### **DBS SYSTEMS CORPORATION ("DBS SYSTEMS")**

In October 1997, the Company purchased the remaining 20% minority interest in DBS Systems for \$13.2 million in cash. The \$11.6 million excess of the purchase price over the net assets acquired has been assigned a useful life of 12 years. The Company had previously acquired 20% and 60% of DBS Systems in December 1995 and May 1993, respectively. On a pro forma basis, the acquisition did not have a material impact on the Company's historical results of operations or financial position.

## RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>OPERATING RESULTS</b>			
<b>REVENUES</b>			
Financial Services	\$ 554.9	\$ 507.6	\$ 425.0
Output Solutions	488.0	412.4	366.4
Customer Management	203.0	220.1	201.6
Investments and Other	32.9	34.1	33.7
Eliminations	(75.5)	(78.1)	(76.7)
	<b>\$ 1,203.3</b>	<b>\$ 1,096.1</b>	<b>\$ 950.0</b>
% change from prior year	9.8%	15.4%	12.6%
<b>INCOME FROM OPERATIONS BEFORE MERGER CHARGES</b>			
Financial Services	\$ 122.8	\$ 85.4	\$ 66.2
Output Solutions	49.0	33.9	24.3
Customer Management	21.3	24.5	28.3
Investments and Other	6.6	8.8	8.1
	<b>199.7</b>	<b>152.6</b>	<b>126.9</b>
<b>MERGER CHARGES</b>			
	--	33.1	--
<b>INCOME FROM OPERATIONS</b>			
Interest expense	(5.2)	(8.6)	(8.5)
Other income, net	13.2	7.4	5.8
Equity in earnings (losses) of unconsolidated affiliates	6.6	(2.7)	(1.3)
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>			
	214.3	115.6	122.9
Income taxes	76.9	44.3	42.9
Minority interests	(0.7)	(0.3)	0.6
<b>NET INCOME</b>			
	<b>\$ 138.1</b>	<b>\$ 71.6</b>	<b>\$ 79.4</b>
Basic earnings per share	\$ 2.19	\$ 1.14	\$ 1.25
Diluted earnings per share	\$ 2.13	\$ 1.11	\$ 1.23
Diluted shares outstanding	64.8	64.3	64.7

### CONSOLIDATED REVENUES

Consolidated revenues increased \$107.2 million or 9.8% in 1999 and \$146.1 million or 15.4% in 1998. Revenue growth in 1999 was primarily a result of higher Financial Services and Output Solutions Segments revenues. Financial Services Segment revenues increased \$47.3 million, or 9.3% in 1999. This increase in 1999 Financial Services Segment revenues resulted from increased U.S. revenues of \$36.9 million or 9.5%, primarily from an increase in mutual fund shareowner accounts processed of 13.3% to 56.4 million at December 31, 1999, and an increase in international revenues of \$10.4 million or 8.9% from growth in Canadian mutual fund processing revenues. These same trends contributed to the 1998 Financial Services Segment revenue growth of \$82.6 million or 19.4% as U.S. mutual fund shareowner accounts processed increased 10.7% to 49.8 million at December 31, 1998.

Output Solutions Segment revenues increased \$75.6 million or 18.3% in 1999 and \$46.0 million or 12.6% in 1998. The growth is a result of an increase in volume of statements and images produced from the growth in existing customers in the Financial Services and Customer Management Segments and new customers, primarily in telecommunications and other high-volume markets.

Customer Management Segment revenues decreased \$17.1 million or 7.8% in 1999 and increased \$18.5 million or 9.2% in 1998. Exclusive of Tele-Communications, Inc. ("TCI") (a discontinued customer), revenues increased \$7.4 million or 4.0% in 1999 and \$31.3 million or 20.5% in 1998. Growth in non-TCI customer management revenues resulted primarily from increases in the number of subscribers of existing and new clients in the U.S. and international markets, and increased services. In addition, revenues from Custima totaled \$7.0 million and \$4.2 million in 1999 and 1998, respectively.

Investments and Other Segment revenues decreased \$1.2 million or 3.5% in 1999 and increased \$0.4 million or 1.2% in 1998. Segment revenues are primarily rental income for facilities leased to the Company's other business segments.

### **INCOME FROM OPERATIONS BEFORE MERGER CHARGES**

Consolidated income from operations before merger charges increased \$47.1 million or 30.9% in 1999 and \$25.7 million or 20.3% in 1998. The operating margin before merger charges, was 16.6%, 13.9% and 13.4% in 1999, 1998 and 1997, respectively. The growth in 1999 was primarily a result of a \$37.4 million or 43.8% increase in the Financial Services Segment which resulted in an operating margin, before merger charges, of 22.1% in 1999 compared to 16.8% in 1998. The increase in 1999 Financial Services Segment operating margin resulted from increased U.S. revenues and the capitalization of \$18.1 million of internal use software development costs. The improvement in 1998 Financial Services operating margin resulted from increased U.S. revenues and a significant improvement in international operations.

Output Solutions Segment income from operations before merger charges increased \$15.1 million or 44.5% in 1999 and \$9.6 million or 39.5% in 1998. Output Solutions Segment operating margin was 10.0%, 8.2% and 6.6% in 1999, 1998 and 1997, respectively. The increase in 1999 Output Solutions Segment operating margin results from increased revenues and the capitalization of \$3.5 million of internal use software development costs. The improvement in the 1998 operating margin percentage results from processing efficiencies and increased volumes.

In 1999, Customer Management Segment income from operations before merger charges decreased \$3.2 million or 13.1%, primarily attributable to a decline in processing and software services revenues and a decrease in equipment revenues mostly related to transitioning TCI off of the Company's services. In 1998, Customer Management Segment income from operations before merger charges, decreased \$3.8 million or 13.4% from costs incurred in transitioning new customers onto the Company's products and services while transitioning TCI off and the consolidation of Custima's operations.

Investments and Other Segment income from operations before merger charges, was \$6.6 million, \$8.8 million, and \$8.1 million in 1999, 1998 and 1997, respectively. The 1999 amount declined primarily due to a one-time charge related to certain equipment leased to third parties. The improvement in 1998 was primarily from an increase in rental income as compared to 1997.

### **MERGER CHARGES**

The 1998 results include recognition of \$26.0 million of merger charges related to the USCS Merger and \$7.1 million of merger charges related to the Custima Acquisition.

### **INTEREST EXPENSE**

Interest expense was \$5.2 million in 1999 as compared to \$8.6 million in 1998. Average debt balances were lower for 1999 compared to 1998. Interest expense for 1998 and 1997 were essentially the same.

### **OTHER INCOME, NET**

Other income consists mainly of interest income, dividends received on investments held by the Company (principally shares of State Street stock), net gains on sales of available-for sale investments, amortization of deferred non-operating gains, and gains (losses) from equipment dispositions. The 1999, 1998 and 1997 amounts include \$8.9 million, \$1.9 million and \$1.5 million respectively, of net gains related to the sale of available-for-sale securities. These gains were offset by net losses on equipment dispositions of \$3.0 million in 1999.

### **EQUITY IN EARNINGS AND LOSSES OF UNCONSOLIDATED AFFILIATES**

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

	<b>YEAR ENDED DECEMBER 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
Boston Financial Data Services, Inc	\$ 8.9	\$ 7.2	\$ 6.2
European Financial Data Services Limited	(5.3)	(11.1)	(11.8)
Argus Health Systems, Inc.	2.6	2.7	4.5
Other	0.4	(1.5)	(0.2)
	<b>\$ 6.6</b>	<b>\$ (2.7)</b>	<b>\$ (1.3)</b>

Equity in earnings of unconsolidated affiliates increased \$9.3 million in 1999 as a result of decreased losses at EFDS, reflecting an increase in accounts serviced to 2.0 million at December 31, 1999 as compared to 1.4 million accounts at December 31, 1998. Equity in losses of unconsolidated affiliates increased \$1.4 million in 1998 as a result of lower earnings at Argus and non-recurring real estate debt financing costs. Argus' 1998 earnings declined as a result of a significant client not renewing its processing contract which expired in the first quarter of 1998.

DST recorded losses from EFDS of \$5.3 million, \$11.1 million and \$11.8 million in 1999, 1998 and 1997, respectively. The losses at EFDS were the result of the continued development of the new FAST software and conversion activity associated with adding new clients and converting existing clients from the old system to FAST. The Company's share of internal use software development costs capitalized by EFDS was \$2.4 million for the year ended December 31, 1999.

### **INCOME TAXES**

The Company's effective tax rate was 35.9%, 38.4% and 34.9% for the years ended December 31, 1999, 1998 and 1997, respectively. Excluding the impact of the previously discussed 1998 merger charges, the Company's effective tax rate would have been 35.9%, 34.5% and 34.9% for 1999, 1998 and 1997, respectively. The primary difference between the Company's effective tax rate and the combined federal and state statutory rates is the result of deferred taxes being provided for unremitted earnings of U.S. unconsolidated affiliates net of the dividends received deduction provided under current tax law, increased tax benefits associated with 1998 international operations, and the benefits associated with new 1998 Missouri income apportionment rules designed to attract and retain mutual fund service companies.

### **NET INCOME**

The Company's net income (and earnings per share) for 1999, 1998 and 1997 was \$138.1 million (\$2.19 basic earnings per share and \$2.13 diluted earnings per share), \$71.6 million (\$1.14 basic earnings per share and \$1.11 diluted earnings per share), and \$79.4 million (\$1.25 basic earnings per share and \$1.23 diluted earnings per share), respectively. Excluding the impact of the previously discussed 1998 merger charges, the Company's net income and earnings per share for 1998 would have been \$97.7 million (\$1.58 basic earnings per share and \$1.52 diluted earnings per share).

## **YEAR TO YEAR BUSINESS SEGMENT COMPARISONS**

### **FINANCIAL SERVICES SEGMENT**

#### **REVENUES**

Financial Services Segment revenues for 1999 increased 9.3% over 1998 to \$554.9 million. U.S. Financial Services revenues increased 9.5% to \$427.0 million in 1999. U.S. mutual fund processing revenues for 1999 increased 12.0% over the prior year as shareowner accounts serviced increased 13.3% from 49.8 million at December 31, 1998 to 56.4 million at December 31, 1999. The Company has contracts with new clients to convert approximately 4.5 million new accounts to its system in 2000.

Financial Services Segment revenues from international operations for 1999 increased 8.9% to \$127.9 million. The revenue increase resulted primarily from growth in Canadian mutual fund shareowner processing revenues. Canadian shareowner accounts serviced increased 50.0% from 1.6 million at December 31, 1998 to 2.4 million at December 31, 1999.

Segment revenues for the year ended December 31, 1998 increased 19.4% over 1997 to \$507.6 million. U.S. revenues increased 15.4% to \$390.1 million in 1998. U.S. mutual fund processing revenues for 1998 increased 16.0% over the prior year as shareowner accounts serviced increased 10.7% from 45.0 million at December 31, 1997 to 49.8 million at December 31, 1998. The Company recognized a \$3.9 million contract termination fee in the fourth quarter 1998 from GT

Global which terminated its services with the Company as a result of its acquisition by the AIM Management Group and a one-time \$2.6 million contract termination fee from Zurich Kemper Investments in the first quarter 1998 as a result of its merged operations with Scudder. U.S. AWD product revenues for 1998 increased 16.8% over the prior year primarily due to an increase in the number of AWD workstations licensed.

Segment revenues from international operations for 1998 increased 35.1% to \$117.5 million. The revenue increase resulted primarily from increased investment accounting software licenses and services and growth in Canadian mutual fund shareowner processing revenues.

## **COSTS AND EXPENSES**

Segment costs and expenses for 1999 and 1998 increased 1.4% to \$365.6 million and 19.3% to \$360.5 million over the comparable prior year periods. Costs and expenses for 1999 were reduced by \$18.1 million as a result of capitalizing costs of internal use software as required under SOP 98-1, which was partially offset by the increase in personnel costs to support revenue growth and volumes. 1998 personnel costs increased 24.0% over 1997 costs as a result of increased staff levels to support volume growth, development costs for the Company's new securities transfer system (Fairway) and increased wages for data processing professionals. In addition, the renegotiation of certain third party software agreements, effective March 31, 1998, resulted in certain amounts being recorded as costs and expenses instead of as depreciation expense.

## **DEPRECIATION AND AMORTIZATION**

Segment depreciation and amortization for 1999 increased 7.6% or \$4.8 million. The increase is primarily attributable to increased capital additions during 1999 and a one-time \$3.7 million asset impairment charge for certain international securities processing systems. Segment depreciation and amortization for 1998 increased 9.2% or \$5.2 million. The increase is primarily attributable to increased capital additions during 1998 and the fourth quarter of 1997, a one-time write-off of intangible assets totaling \$3.2 million in the first quarter 1998 and a \$1.4 million accelerated write-off of personal computers scheduled for replacement in the fourth quarter 1998, partially offset by the renegotiation of certain third party software agreements, effective March 31, 1998, resulting in certain amounts being recorded as costs and expenses instead of as depreciation expense.

## **INCOME FROM OPERATIONS BEFORE MERGER CHARGES**

The Segment's income from operations before merger charges for 1999 and 1998 increased 43.8% to \$122.8 million and 29.0% to \$85.4 million over the comparable prior year periods. The Segment's operating margins, excluding merger charges, were 22.1%, 16.8%, and 15.6% in 1999, 1998 and 1997, respectively. The increases in Financial Services Segment operating margins are a result of increased U.S. revenue, improvements in international operations and capitalization of costs of software developed for internal use in 1999.

## **OUTPUT SOLUTIONS SEGMENT**

### **REVENUES**

Output Solutions Segment revenues for 1999 increased 18.3% to \$488.0 million as compared to 1998. Output Solutions Segment revenues for 1998 increased by 12.6% to \$412.4 million from \$366.4 million in 1997. The growth in segment revenue was derived from an increase in the volume of statements and images produced which was partially related to the growth of existing customers in the Financial Services and Customer Management Segments and new customers, primarily in telecommunications and other high-volume markets.

### **COSTS AND EXPENSES**

Segment costs and expenses for 1999 and 1998 increased 15.7% to \$406.0 million and 12.1% to \$350.8 million over the comparable prior year periods. Personnel costs for 1999 and 1998 increased 15.5% and 11.9% over the comparable prior year periods as a result of increased staff levels to support volume growth and research and development costs relating primarily to ongoing product development. In addition, 1999 costs included integration costs to combine the output related businesses which were partially offset by the effect of capitalizing \$3.5 million of internal use software development costs.

## **DEPRECIATION AND AMORTIZATION**

Depreciation and amortization increased 19.1% to \$33.0 million in 1999. Depreciation and amortization for 1998 decreased 5.5% to \$27.7 million as compared to 1997. The increase in depreciation and amortization in 1999 as compared to 1998 is attributable to increased print/mail capital additions to support revenue growth. The containment of depreciation and amortization expenses in 1998 is primarily the result of lower capital expenditures in 1997 and 1998 compared to prior years, decreases in the unit costs of electronic data processing equipment and the Company's use of accelerated depreciation methods.

## **INCOME FROM OPERATIONS BEFORE MERGER CHARGES**

The Segment's income from operations before merger charges for 1999 increased \$15.1 million or 44.5% principally from increased revenues and the effect of capitalized internal use software development costs. In 1998, the Output Solutions Segment's income from operations before merger charges, increased \$9.6 million or 39.5% as compared to 1997 primarily attributable to realizing processing efficiencies and economies of scale. The Segment's operating margins, excluding merger charges, were 10.0%, 8.2% and 6.6% in 1999, 1998 and 1997, respectively.

## **CUSTOMER MANAGEMENT SEGMENT**

### **REVENUES**

Exclusive of revenues from TCI, Customer Management Segment revenues for 1999 increased 4.0% over 1998 to \$191.6 million. Processing and software revenues increased 10.9% in 1999 to \$180.2 million and equipment sales and services decreased 47.5% to \$11.4 million in 1999. During 1998, segment revenues, exclusive of TCI, increased 20.5% over 1997 to \$184.2 million. Processing and software revenues increased 16.6% to \$162.5 million in 1998 from \$139.4 in 1997. Equipment sales and services increased 60.7% to \$21.7 million in 1998 from \$13.5 million in 1997. The growth in Customer Management Segment software and services revenues, exclusive of revenue from TCI, came primarily from increases in the number of subscribers of existing and new clients in the U.S. and international markets, and the inclusion of \$7.0 million of revenues in 1999 from the third quarter 1998 acquisition of Custima. For the four months ended December 31, 1998, Custima revenues were \$4.2 million.

During 1999, TCI continued to remove subscribers from the Company's systems. TCI related revenues and percentage of total Customer Management Segment revenues, respectively, were \$11.4 million and 5.6% in 1999, \$35.9 million and 16.3% in 1998, and \$48.7 million and 24.2% in 1997. TCI subscribers serviced by the Company totaled 0.1 million, 2.4 million and 10.9 million at December 31, 1999, 1998, and 1997, respectively.

Customer Management Segment revenues for 1999 decreased 7.8% to \$203.0 million from \$220.1 million in 1998. Equipment sales and services revenue decreased to \$12.4 million in 1999 from \$25.0 million in 1998. Customer Management Segment revenues for 1998 increased by 9.2% to \$220.1 million from \$201.6 million in 1997 as equipment sales and services revenue increased 33.0% over 1997.

### **COSTS AND EXPENSES**

Segment costs and expenses for 1999 and 1998 decreased 9.1% to \$167.3 million and increased 12.7% to \$184.0 million over the comparable prior year periods. The decrease in segment costs and expenses in 1999 is primarily attributable to a decrease in equipment related costs related to sales to customers. This decrease was partially offset by personnel costs for 1999 and 1998 that increased 8.2% and 19.6%, respectively, over the comparable prior year periods as a result of increased staff levels to support volume growth and research and development costs relating primarily to ongoing product development.

## **DEPRECIATION AND AMORTIZATION**

Depreciation and amortization for 1999 and 1998 increased 24.1% to \$14.4 million and 14.9% to \$11.6 million over the comparable prior year periods. The increase in 1999 is primarily attributable to increased amortization of capitalized software development costs and goodwill amortization relating to the Custima Acquisition in August 1998. The increase in 1998 as compared to 1997 is primarily attributable to increased goodwill amortization relating to the Company's purchase of the remaining 20% minority interest in DBS Systems in October 1997.

## **INCOME FROM OPERATIONS BEFORE MERGER CHARGES**

The Segment's income from operations before merger charges for 1999 decreased \$3.2 million as compared to 1998. The 1999 decrease is attributable to decreased equipment sales for the year, increased amortization of capitalized software development costs and increased intangible amortization relating to the Custima Acquisition. The Segment's income from operations before merger charges for 1998 decreased \$3.8 million as compared to 1997. The 1998 decrease is attributable to costs associated with transitioning new customers on to the Company's products and services while transitioning TCI off, increased goodwill amortization relating to the Company's purchase of the remaining 20% minority interest in DBS Systems in October 1997 and the 1998 consolidation of Custima's operations. The Segment's operating margin before merger charges was 10.5%, 11.2% and 14.0% in 1999, 1998 and 1997, respectively.

## **INVESTMENTS AND OTHER SEGMENT**

### **REVENUES**

Investments and Other Segment revenues totaled \$32.9 million, \$34.1 million, and \$33.7 million in 1999, 1998, and 1997, respectively. Real estate revenues of \$26.7 million, \$27.8 million and \$28.9 million in 1999, 1998 and 1997, respectively were primarily derived from the lease of facilities to the Company's other business segments. Revenues of \$6.2 million, \$6.3 million and \$4.8 million in 1999, 1998 and 1997, respectively, were derived from the Segment's hardware leasing activities.

### **COSTS AND EXPENSES**

Investments and Other Segment costs and expenses decreased in 1999 and increased in 1998 primarily as a result of changes in real estate related costs.

### **DEPRECIATION AND AMORTIZATION**

Investments and Other Segment depreciation and amortization increased \$1.1 million in 1999 as a result of a one-time charge related to certain equipment leased to third parties. Depreciation and amortization increased by \$0.2 million in 1998 as a result of increased depreciation related to additional real estate leasing activities and an increase in depreciation related to equipment leased to customers.

## **INCOME FROM OPERATIONS BEFORE MERGER CHARGES**

The segment's income from operations before merger charges totaled \$6.6 million, \$8.8 million and \$8.1 million in 1999, 1998, and 1997, respectively. The decrease in 1999 income from operations as compared to 1998 is primarily related to the one-time charge related to certain leased equipment to third parties. The increase in 1998 income from operations as compared to 1997 is primarily related to increased revenues from real estate and hardware leasing activities.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash flow from operating activities totaled \$252.3 million, \$274.8 million and \$148.7 million in 1999, 1998 and 1997, respectively. 1999 operating cash flows were primarily impacted by net income of \$138.1 million, the impact of depreciation and amortization of \$122.8, deferred taxes of \$8.4, increases in accounts receivable of \$38.2 million and increases in accounts payable and other accrued liabilities of \$33.1 million. The Company utilized its 1999 operating cash flow to reinvest in its existing business, fund investments and advances to unconsolidated affiliates and fund treasury stock purchases. The Company had \$89.0 million of cash and cash equivalents at December 31, 1999.

Accounts receivable increased in 1999 by approximately \$38.2 million or 13.5% primarily because of the increase in revenue. The Company collects from its clients and remits to the U.S. Postal Service a significant amount of postage. A significant number of contracts allow the Company to pre-bill and/or require deposits from its clients to mitigate the effect on cash flow.

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 \$172.4 million, \$165.5 million and \$135.6 million in 1999, 1998 and 1997, respectively, for software development and maintenance and enhancements to the

Company's proprietary systems and software products of which \$26.6 million, \$2.5 million and \$3.1 million was capitalized in 1999, 1998 and 1997, respectively.

The Company continues to make significant investments in capital equipment and facilities. During the years ended December 31, 1999, 1998 and 1997, the Company expended approximately \$139.0 million, \$132.7 million and \$82.6 million, respectively, in capital expenditures for equipment and facilities which includes amounts directly paid by third-party lenders. Capital expenditures for 1999 and 1998 include \$9.6 million and \$17.4 million for assets placed in service in 1998 and 1997, respectively. Capitalized costs of software developed for internal use totaled \$21.6 million in 1999. Capitalized development costs for systems to be sold or licensed to third parties were \$5.0 million, \$2.5 million and \$3.1 million for 1999, 1998 and 1997, respectively. Future capital expenditures are expected to be funded primarily by cash flows from operating activities, secured term notes or bank lines of credit as required.

The Company expended approximately \$60.8 million, \$48.0 million and \$16.1 million primarily for investments and advances to unconsolidated affiliates during 1999, 1998 and 1997, respectively. In addition, the Company expended \$14.2 million and \$16.8 million during 1998 and 1997, respectively, for acquisitions of subsidiaries, net of cash acquired. The Company received proceeds from the sale of investments of \$24.8 million, \$6.7 million and \$12.4 million in 1999, 1998 and 1997, respectively.

The Company maintains \$110 million in bank lines of credit for working capital requirements and general corporate purposes, of which \$60 million matures May 2000 and \$50 million matures March 2001. The Company also maintains a \$125 million revolving credit facility with a syndicate of banks which is available through December 2001. Borrowings under these facilities totaled \$20.7 million at December 31, 1999.

In May 1996, the Board of Directors determined it was necessary for the Company to have common stock available to provide to employees under its stock award program and to provide to option holders who exercise options. The Board of Directors authorized the purchase of up to 1.2 million shares during a twenty-four month period in approximately equal monthly amounts subject to such variations as management deemed appropriate. The Company expended \$10.0 million and \$20.3 million in 1998 and 1997, respectively to complete the purchases under this plan.

In December 1998, the Board of Directors approved a plan for DST to repurchase 600,000 shares of DST common stock at the rate of approximately 25,000 shares per month in approximately equal monthly amounts beginning in February 1999, to provide additional shares needed as a result of the USCS Merger and for use under various DST option and benefit programs. In August 1999, as a result of expected additional share requirements for such programs, the Board of Directors authorized the repurchase of an additional 3,575,000 shares for a total of 4,175,000 shares, with the then 4,000,000 remaining unpurchased shares to be acquired during a twenty-four month period commencing September 1999. Such purchases may be made in private or market transactions and will be made in compliance with SEC regulations. The Company expended \$52.2 million in 1999 to purchase shares under this plan.

During the fourth quarter 1999, the Company entered into a forward stock purchase agreement for the repurchase of up to 2.7 million shares of its common stock through September 2002 as a means of securing potentially favorable prices for future purchases of its stock. During 1999, no shares were purchased by the Company under this agreement. As of February 29, 2000, the cost to settle the agreement would be approximately \$158.1 million for 2.6 million shares of common stock. The agreement contains provisions which allow the Company to elect a net cash or net share settlement in lieu of physical settlement of the shares.

In the fourth quarter 1997, DST expended \$21.6 million to purchase 1.1 million shares of USCS common stock. These shares were retired in conjunction with the USCS Merger.

USCS, prior to the USCS Merger, expended approximately \$6.2 million in 1998 and \$10.2 million in 1997 for the repurchase of common stock in order to meet obligations under stock option plans, employee stock purchase plans and 401(k) retirement plans. Substantially all these shares were reissued under the plans, prior to the consummation of the USCS Merger.

The Company believes that its existing cash balances and other current assets, together with cash provided by operating activities and, as necessary, the Company's bank and revolving credit facilities, will suffice to meet the Company's operating and debt service requirements and other current liabilities for at least the next 12 months. Further, the Company believes that its longer term liquidity and capital requirements will also be met through cash provided by operating activities and bank credit facilities, as well as the Company's \$125 million revolving credit facility described above.

## OTHER

### YEAR 2000

During 1999, the Company completed the process of preparing for the Year 2000 date change. This process involved identifying and remediating date recognition issues in the Company's computer systems, products and services, working with third parties to address their Year 2000 issues, and developing contingency plans to address potential risks in the event of Year 2000 failures. To date, the Company has successfully managed the transition.

Although considered unlikely, unanticipated issues in the Company's products, services and systems, including problems associated with its major vendors and suppliers and disruptions to the economy in general, could still occur despite efforts to date to achieve Year 2000 readiness. The Company will continue to monitor its computer systems, products and services, including interaction with clients, major vendors and suppliers as needed through 2000 to address Year 2000 issues.

The costs to address the Year 2000-related issues to date have not been material, and the Company does not anticipate such costs to become material in the future. Although the Company is not aware of any material operational or financial Year 2000-related issues not being addressed, the Company cannot assure that its computer systems, products or services or the computers and other systems of others upon which the Company depends will not incur Year 2000 issues, that the costs of its Year 2000 program will not become material or that the Company's alternative plans will be adequate. If any such risks (either with respect to the Company or its customers or suppliers) materialize, the Company could experience material adverse consequences to its business.

### INTERNAL USE SOFTWARE

Effective January 1, 1999, the Company adopted, as required, Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Prior to the adoption of SOP 98-1, the Company expensed the costs of internally developed proprietary software as it was incurred. SOP 98-1, effective for fiscal periods beginning after December 15, 1998, required that certain costs for the development of internal use software be capitalized, including the costs of coding, software configuration, upgrades and enhancements. The Company capitalized \$24.0 million of costs related to the development of internal use software for the year ended December 31, 1999, net of related amortization, including \$2.4 million which is included in equity of unconsolidated affiliates. These costs will be amortized under the Company's current policy on a straight-line basis, depending on the nature of the project, generally over a three year period beginning on the date such software is complete.

### SEASONALITY

Generally, the Company does not have significant seasonal fluctuations in its business operations. Processing and output solutions volumes for mutual fund customers are usually highest during the quarter ended March 31 due primarily to processing year-end transactions and printing and mailing of year-end statements and tax forms during January. The Company has historically added operating equipment in the last half of the year in preparation for processing year-end transactions which has the effect of increasing costs for the second half of the year. Revenues and operating results from individual license sales depend heavily on the timing and size of the contract.

### COMPREHENSIVE INCOME

The Company's comprehensive income totaled \$311.5 million, \$232.8 million and \$181.9 million in 1999, 1998 and 1997, respectively. Comprehensive income consists of net income of \$138.1 million, \$71.6 million and \$79.4 million and other comprehensive income of \$173.4 million, \$161.2 million and \$102.5 million in 1999, 1998 and 1997, respectively. Other comprehensive income consists of unrealized gains (losses) on available-for-sale securities, net of deferred taxes, reclassifications for gains included in net income and foreign currency translation adjustments. The Company had net unrealized gains on available-for-sale securities of \$174.1 million, \$161.2 million and \$104.1 million in 1999, 1998 and 1997, respectively. The Company's net unrealized gains on available-for-sale securities results primarily from market appreciation of the Company's investments in approximately 8.6 million shares of CSC common stock and 6.0 million shares of State Street common stock. At December 31, 1999, these two investments had an aggregate pre-tax unrealized gain of \$861.6 million. The amounts of foreign currency translation adjustments included in other comprehensive income are immaterial.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the operations of its businesses, the Company's financial results can be affected by changes in equity pricing, interest rates and currency exchange rates. Changes in interest rates and exchange rates have not materially impacted the consolidated financial position, results of operations or cash flows of the Company. Changes in equity values of the Company's investments have had a material effect on the Company's comprehensive income and financial position.

### **AVAILABLE-FOR-SALE EQUITY PRICE RISK**

The Company's investments in available-for-sale equity securities are subject to price risk. The fair value of the Company's available-for-sale investments as of December 31, 1999 was approximately \$1.3 billion. The impact of a 10% change in fair value of these investments would be approximately \$83 million to comprehensive income. As discussed under "Comprehensive Income" above, net unrealized gains on the Company's investments in available-for-sale securities have had a material effect on the Company's comprehensive income and financial position.

### **INTEREST RATE RISK**

At December 31, 1999, the Company had \$62.8 million of long-term debt, of which \$29.4 million was subject to variable interest rates (Federal Funds rates, LIBOR rates, Prime rates). The Company estimates that a 10% increase in interest rates would not be material to the Company's consolidated pretax earnings or to the fair value of its debt.

### **FOREIGN CURRENCY EXCHANGE RATE RISK**

The operation of the Company's subsidiaries in international markets results in exposure to movements in currency exchange rates. The principal currencies involved are the British pound, Canadian dollar, and Australian dollar. As currency exchange rates change, translation of the financial results of international operations into U.S. dollars does not now materially affect, and has not historically materially affected, the consolidated financial results of the Company.

The Company's international subsidiaries use the local currency as the functional currency. The Company translates all assets and liabilities at year-end exchange rates and income and expense accounts at average rates during the year. While it is generally not the Company's practice to enter into derivative contracts, from time to time the Company and its subsidiaries do utilize forward foreign currency exchange contracts to minimize the impact of currency movements.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **REPORT OF MANAGEMENT**

To the Stockholders of DST Systems, Inc.

The accompanying consolidated financial statements of DST Systems, Inc. and its subsidiaries were prepared by management in conformity with accounting principles generally accepted in the United States. In preparing the financial statements, management has made judgments and estimates based on currently available information. Other financial information included in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that its assets are safeguarded and that its financial records are reliable. Management monitors the system for compliance, and the Company's internal auditors measure its effectiveness and recommend possible improvements thereto.

Independent accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to express an opinion on the fairness of the consolidated financial statements.

The Board of Directors pursues its oversight role in the area of financial reporting and internal accounting controls through its Audit Committee which is composed solely of directors who are not officers or employees of the Company. This committee meets regularly with the independent accountants, management and internal auditors to discuss the scope and results of their work and their comments on the adequacy of internal accounting controls and the quality of external financial reporting.

## **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Stockholders and Board of Directors of DST Systems, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of DST Systems, Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Kansas City, Missouri  
February 29, 2000

**DST SYSTEMS, INC.**  
**CONSOLIDATED BALANCE SHEET**  
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	<b>DECEMBER 31,</b>	
	<b>1999</b>	<b>1998</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 89.0	\$ 28.1
Accounts receivable (includes related party receivables of \$12.0 and \$9.9)	320.6	282.4
Inventories	15.6	16.3
Deferred income taxes	10.3	21.3
Other assets	<u>29.0</u>	<u>27.7</u>
	464.5	375.8
Investments	1,477.7	1,130.5
Properties	338.7	328.4
Intangibles and other assets	<u>45.4</u>	<u>62.3</u>
Total assets	<u>\$ 2,326.3</u>	<u>\$ 1,897.0</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Debt due within one year	\$ 18.4	\$ 12.1
Accounts payable	93.7	85.3
Accrued compensation and benefits	57.9	53.4
Deferred revenues and gains	44.1	41.1
Other liabilities	<u>71.7</u>	<u>76.7</u>
	285.8	268.6
Long-term debt	44.4	49.7
Deferred income taxes	452.2	343.2
Other liabilities	<u>80.3</u>	<u>68.5</u>
	<u>862.7</u>	<u>730.0</u>
Commitments and contingencies (Note 12)	--	--
Minority interests	--	<u>0.8</u>
Stockholders' equity		
Preferred stock, \$0.01 par, 10,000,000 shares authorized and unissued	--	--
Common stock, \$0.01 par, 125,000,000 shares authorized, 63,843,101 shares issued	0.6	0.6
Additional paid-in capital	454.2	462.3
Retained earnings	516.2	378.1
Treasury stock, at cost	(40.1)	(34.1)
Accumulated other comprehensive income	<u>532.7</u>	<u>359.3</u>
Total stockholders' equity	<u>1,463.6</u>	<u>1,166.2</u>
Total liabilities and stockholders' equity	<u>\$ 2,326.3</u>	<u>\$ 1,897.0</u>

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

**DST SYSTEMS, INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
**(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)**

	<b>YEAR ENDED DECEMBER 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
Revenues (includes related parties revenues of \$120.4, \$105.0 and \$90.2)	\$1,203.3	\$1,096.1	\$ 950.0
Costs and expenses	880.8	834.7	719.6
Depreciation and amortization	122.8	108.8	103.5
Merger charges	--	33.1	--
Income from operations	199.7	119.5	126.9
Interest expense	(5.2)	(8.6)	(8.5)
Other income, net	13.2	7.4	5.8
Equity in earnings (losses) of unconsolidated affiliates	6.6	(2.7)	(1.3)
Income before income taxes and minority interests	214.3	115.6	122.9
Income taxes	76.9	44.3	42.9
Income before minority interests	137.4	71.3	80.0
Minority interests	(0.7)	(0.3)	0.6
Net income	<u>\$ 138.1</u>	<u>\$ 71.6</u>	<u>\$ 79.4</u>
Average common shares outstanding	63.2	62.7	63.6
Diluted shares outstanding	64.8	64.3	64.7
Basic earnings per share	\$ 2.19	\$ 1.14	\$ 1.25
Diluted earnings per share	\$ 2.13	\$ 1.11	\$ 1.23

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

**DST SYSTEMS, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(IN MILLIONS)**

	COMMON STOCK NUMBER OF SHARES	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
DECEMBER 31, 1996	63.9	\$ 0.6	\$ 463.7	\$ 248.7	\$ (12.4)	\$ 95.6	\$ 796.2
<b>Comprehensive income:</b>							
Net income	--	--	--	79.4	--	--	--
Other comprehensive income	--	--	--	--	--	102.5	--
Comprehensive income	--	--	--	--	--	--	181.9
Issuance of common stock	0.3	--	2.4	--	2.4	--	4.8
Repurchase of common stock	(1.6)	--	--	(21.6)	(30.4)	--	(52.0)
DECEMBER 31, 1997	62.6	0.6	466.1	306.5	(40.4)	198.1	930.9
<b>Comprehensive income:</b>							
Net income	--	--	--	71.6	--	--	--
Other comprehensive income	--	--	--	--	--	161.2	--
Comprehensive income	--	--	--	--	--	--	232.8
Issuance of common stock	0.7	--	(2.9)	--	21.6	--	18.7
Repurchase of common stock	(0.4)	--	(0.9)	--	(15.3)	--	(16.2)
DECEMBER 31, 1998	62.9	0.6	462.3	378.1	(34.1)	359.3	1,166.2
<b>Comprehensive income:</b>							
Net income	--	--	--	138.1	--	--	--
Other comprehensive income	--	--	--	--	--	173.4	--
Comprehensive income	--	--	--	--	--	--	311.5
Issuance of common stock	1.1	--	(8.1)	--	46.2	--	38.1
Repurchase of common stock	(0.9)	--	--	--	(52.2)	--	(52.2)
DECEMBER 31, 1999	63.1	\$ 0.6	\$ 454.2	\$ 516.2	\$ (40.1)	\$ 532.7	\$ 1,463.6

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

**DST SYSTEMS, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(DOLLARS IN MILLIONS)**

	<b>YEAR ENDED DECEMBER 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>CASH FLOWS--OPERATING ACTIVITIES:</b>			
Net income	\$ 138.1	\$ 71.6	\$ 79.4
Depreciation and amortization	122.8	108.8	103.5
Non-cash merger charges	--	13.5	--
Equity in (earnings) losses of unconsolidated affiliates	(6.6)	2.7	1.3
Cash dividends received from unconsolidated affiliates	0.5	9.9	--
Net realized gain from sale of investments	(12.4)	(1.9)	(1.5)
Deferred taxes	8.4	(10.0)	(3.1)
Changes in accounts receivable	(38.2)	(13.0)	(40.3)
Changes in inventories and other current assets	(0.8)	6.6	(12.3)
Changes in accounts payable and accrued liabilities	33.1	82.0	11.8
Other, net	7.4	4.6	9.9
Total adjustments to net income	114.2	203.2	69.3
Net	252.3	274.8	148.7
<b>CASH FLOWS--INVESTING ACTIVITIES:</b>			
Proceeds from sale of investments	24.8	7.0	12.4
Investments and advances to unconsolidated affiliates	(60.8)	(48.0)	(16.1)
Capital expenditures	(139.0)	(132.7)	(82.6)
Net investment in leases	(9.5)	(11.9)	(8.0)
Principal collections on leases	9.8	6.4	8.6
Payment for purchases of subsidiaries, net of cash acquired	--	(14.2)	(16.8)
Other, net	11.6	2.3	2.4
Net	(163.1)	(191.1)	(100.1)
<b>CASH FLOWS--FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock	24.2	7.9	2.4
Proceeds from issuance of long-term debt	11.5	7.4	--
Principal payments on long-term debt	(13.7)	(23.4)	(19.4)
Net increase (decrease) in revolving credit facilities	3.2	(37.5)	28.1
Common stock repurchased	(52.2)	(16.2)	(52.2)
Other, net	(1.3)	(12.4)	(5.6)
Net	(28.3)	(74.2)	(46.7)
Net increase in cash and cash equivalents	60.9	9.5	1.9
Cash and cash equivalents, beginning of year	28.1	18.6	16.7
Cash and cash equivalents, end of year	\$ 89.0	\$ 28.1	\$ 18.6

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

**DST SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS**

DST Systems, Inc. (the "Company" or "DST") provides sophisticated information processing and computer software services and products to the financial services industry (primarily mutual funds and investment managers), communications industry, video/broadband/satellite TV industry, and other service industries. In December 1998, the Company completed its merger ("USCS Merger") with USCS International, Inc. ("USCS") through the issuance of approximately 13.8 million shares of common stock. The USCS Merger was accounted for under the pooling of interests accounting method. Accordingly, the DST financial results for all periods prior to the merger were restated in 1998 to combine the historical results of operations of DST and USCS, adjusted for conformity of accounting policies relating primarily to USCS' depreciation and amortization policies and accounting for the costs of software developed for internal USCS use.

The Company has several operating business units that offer sophisticated information processing and software services and products. These business units are reported as three operating segments (Financial Services, Output Solutions and

Customer Management). In addition, certain investments in equity securities, financial interests and real estate holdings are reflected in an Investments and Other Segment. A summary of each of the Company's segments follows:

## **FINANCIAL SERVICES**

The Financial Services Segment provides sophisticated information processing and computer software services and products primarily to mutual funds, investment managers, insurance companies, banks, brokers and financial planners. The Company's proprietary software systems include mutual fund shareowner and unit trust accounting and recordkeeping systems offered to the U.S. and international mutual funds; a defined-contribution participant recordkeeping system for the U.S. market; a variety of portfolio accounting and investment management systems offered to U.S. and international fund accountants and investment managers; a workflow management system offered primarily to mutual funds, insurance companies, brokerage firms and banks; and a securities transfer system offered to corporate trustees and transfer agents and, through affiliated companies, to corporate clients.

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, 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 Output Solutions Segment provides complete bill and statement processing services and solutions, including electronic presentment, which include generation of customized statements that are produced in sophisticated automated facilities designed to minimize turnaround time and mailing costs. This Segment provides statement processing services and solutions in North America to customers of the Company's Financial Services and Customer Management business segments, and to telecommunications, utilities and other high volume industries which require high quality, accurate and timely statement processing.

## **CUSTOMER MANAGEMENT**

The Customer Management Segment provides sophisticated customer management and open billing solutions to the video/broadband, direct broadcast satellite ("DBS"), wireless, wire-line and Internet- protocol telephony, Internet and utility markets worldwide. The Company's software systems enable its clients to manage their operations across all aspects of their business including order processing, customer support, financial reporting, decision support, marketing, field services and collections.

The Customer Management Segment distributes its services and products on a direct basis and through subsidiaries in North America, the United Kingdom and parts of Europe and with international alliance partners in other regions of the world.

## **INVESTMENTS AND OTHER**

The Investments and Other Segment holds investments in equity securities, certain financial interests, the Company's real estate subsidiaries and the Company's computer hardware leasing subsidiary. The Company holds investments in equity securities with a market value of approximately \$1.3 billion at December 31, 1999, including approximately 8.6 million shares of Computer Sciences Corporation ("CSC") with a market value of \$817 million and 6.0 million shares of State Street Corporation ("State Street") with a market value of \$438 million. Additionally, the Company owns and operates real estate mostly in the U.S. which is held primarily for lease to the Company's other business segments.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include all majority-owned subsidiaries of DST. All significant intercompany balances and transactions have been eliminated. Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation.

### **USE OF ESTIMATES**

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

## **REVENUE RECOGNITION**

Computer processing and services revenues are recognized upon completion of the services provided. Revenues under bundled service agreements are recognized over the life of the agreement based on usage and as the bundled services are provided. Software license fees, maintenance fees and other ancillary fees are recognized as services are provided or delivered and all customer obligations have been met. The Company generally does not have customer obligations that extend past one year. Revenue from equipment sales and sales-type leases is recognized as equipment is shipped. Income from financing leases is recognized as revenue at a constant periodic rate of return on the net investment in the lease. Revenue from rentals and operating leases is recognized monthly as the rent accrues. Billing for services in advance of performance is recorded as deferred revenue. Allowances for billing adjustments are determined as revenues are recognized and are recorded as reductions in revenues. Doubtful account expense for the Company is immaterial.

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

## **COSTS AND EXPENSES**

Costs and expenses include all costs, excluding depreciation and amortization, incurred by the Company to produce revenues. The Company believes that the nature of its business as well as its organizational structure, in which virtually all officers and associates have operational responsibilities, does not allow for a meaningful segregation of selling, general and administrative costs. These costs, which the Company believes to be immaterial, are also included in costs and expenses. Substantially all depreciation and amortization are directly associated with the production of revenues.

## **SOFTWARE DEVELOPMENT AND MAINTENANCE**

Purchased software is recorded at cost and is amortized over the estimated economic lives of three to five years. Effective January 1, 1999, the Company adopted, as required, Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. SOP 98-1, effective for periods beginning after December 15, 1998, requires that certain costs for the development of internal use software including coding and software configuration costs, and costs of upgrades and enhancements be capitalized. These costs will be amortized under the Company's current policy on a straight-line basis, depending on the nature of the project, generally over a three year period. Prior to the adoption of SOP 98-1, costs of software developed for internal use were expensed as incurred. The Company capitalized \$24.0 million of costs related to the development of internal use software for the year ended December 31, 1999. If internal use software development costs had been expensed rather than capitalized, consolidated net income for the year ended December 31, 1999 would have been \$122.7 million (\$1.94 per basic share, \$1.89 per diluted share).

Research and development costs for software that will be sold or licensed to third parties are expensed as incurred and consist primarily of software development costs incurred prior to the achievement of technological feasibility. The Company capitalizes software development costs for software that will be sold or licensed to third parties after the products reach technological feasibility and it has been determined that the software will result in probable future economic benefits and management has committed to funding the project. These capitalized development costs are amortized on a product-by-product basis using the greater of the amount computed by taking the ratio of current year's net revenue to current year's net revenue plus estimated future net revenues or the amount computed by the straight-line method over the estimated useful life of the product, generally three to five years. The Company evaluates the net realizable value of capitalized software development costs on a product-by-product basis. The cost of custom development that is required and funded by a specific client is charged to costs and expenses as incurred.

A portion of the Company's development costs is funded by customers through various programs, including product support and shared-cost arrangements. Amounts received under the arrangements reduce the amount of development costs either expensed or capitalized, depending on the terms of the agreement and the nature of the software being developed.

Operating costs include non-capitalizable software development and maintenance costs relating to internal proprietary systems and non-capitalizable costs for systems to be sold or licensed to third parties of approximately \$145.8 million, \$163.0 million and \$132.5 million for the years ended December 31, 1999, 1998 and 1997, respectively. The Company capitalized \$24.0 million of costs related to the development of internal use software for the year ended December 31, 1999. Capitalized development costs for systems to be sold or licensed to third parties were \$5.0 million, \$2.5 million and \$3.1 million for the years ended December 31, 1999, 1998 and 1997, respectively. Amortization expense related to capitalized development costs totaled \$1.8 million and \$0.4 for the years ended December 31, 1999 and 1998, while no amortization expense was recognized in 1997.

## **CASH EQUIVALENTS**

Short-term liquid investments with a maturity of three months or less are considered cash equivalents. Due to the short-term nature of these investments, carrying value approximates market value.

## **INVENTORIES**

Inventories are valued at the lower of cost or market. Cost is determined on the specific identification or first-in, first-out basis. Inventories are comprised primarily of paper and envelope stocks.

## **INVESTMENTS IN SECURITIES**

The equity method of accounting is used for all entities in which the Company or its subsidiaries have at least a 20% voting interest and significant influence but do not control; the cost method of accounting is used for investments of less than 20% voting interest. Investments classified as available-for-sale securities are reported at fair value with unrealized gains and losses excluded from earnings and recorded net of deferred taxes directly to stockholders' equity as accumulated other comprehensive income.

## **PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost with major additions and improvements capitalized. Cost includes the amount of interest cost associated with significant capital additions. Depreciation of buildings is recorded using the straight-line method over 15 to 40 years. Equipment and furniture are depreciated using straight-line and accelerated methods over the estimated useful lives, principally three to five years. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or life of the improvements. The Company reviews, on a quarterly basis, its property and equipment for possible impairment. In management's opinion, no such impairment exists at December 31, 1999.

## **INTANGIBLES**

Goodwill resulting from the cost of investments in excess of the underlying fair value of identifiable net assets acquired is amortized over periods ranging from 3 to 20 years. On a quarterly basis, the Company reviews the recoverability of goodwill. The measurement of possible impairment is based primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis. These analyses are performed on an individual investment basis with the primary focus of the analyses being the expected future cash flows from significant products of each of the investments. In management's opinion, no such impairment exists at December 31, 1999.

## **INCOME TAXES**

Deferred income tax effects of transactions reported in different periods for financial reporting and income tax return purposes are recorded by the liability method. This method gives consideration to the future tax consequences of deferred income or expense items and immediately recognizes changes in income tax laws upon enactment. The income statement effect is generally derived from changes in deferred income taxes on the balance sheet.

## **CUSTOMER DEPOSITS**

The Company requires postage deposits from certain of its clients based on long-term contractual arrangements. The Company does not anticipate repaying in the next year amounts classified as non-current.

## **FOREIGN CURRENCY TRANSLATION**

The Company's international subsidiaries use the local currency as the functional currency. The Company translates all assets and liabilities at period end exchange rates and income and expense accounts at average rates during the period. Translation adjustments are recorded in stockholders' equity and were not material at December 31, 1999 and 1998. While it is generally not the Company's practice to enter into derivative contracts, from time to time the Company and its subsidiaries do utilize forward foreign currency exchange contracts to minimize the impact of currency movements.

## **EARNINGS PER SHARE**

Basic earnings per share is determined by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined by including the diluted effect of all potential common shares outstanding during the year.

## **STOCK-BASED COMPENSATION**

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and has presented the required SFAS No. 123, "Accounting for Stock-Based Compensation," pro forma disclosures in Note 9.

## **COMPREHENSIVE INCOME**

The Company's comprehensive income consists of net income, unrealized gains (losses) on available-for-sale securities, net of deferred income taxes, and foreign currency translation adjustments and is presented in the Consolidated Statement of Stockholders' Equity.

## **3. ACQUISITIONS AND DISPOSITIONS**

### **USCS MERGER**

The Company's December 21, 1998 merger with USCS was accounted for as a pooling of interests. Accordingly, the Company's consolidated financial statements for periods prior to December 21, 1998 were restated in 1998 to include the financial position and results of operations of USCS.

In December 1998, DST's management approved plans which included initiatives to integrate the operations of certain DST and USCS subsidiaries and consolidate facilities. Total accrued integration costs of \$16.9 million were recorded in the fourth quarter of 1998, of which \$0.7 million, \$12.8 million and \$3.4 million related to the Financial Services, Output Solutions, and Customer Management Segments, respectively.

1998 integration costs included \$3.2 million for the severance cost of involuntary separation benefits related to approximately 250 employees. Employee separations affect the majority of business functions and job classifications across the Output Solutions (\$1.5 million) and Customer Management (\$1.7 million) Segments, principally in North America. At December 31, 1999, approximately \$1.8 million of employee separation accruals remain related to approximately 50 employees.

The 1998 integration costs included \$10.2 million related to lease abandonment costs, elimination of certain non-strategic business lines and the closing of certain production and administration centers associated with the Output Solutions (\$9.1 million) and Customer Management (\$1.1 million) Segments. For the locations to be closed and the non-strategic business lines to be eliminated, the tangible and intangible assets to be disposed of were written down by \$4.6 million to fair value. The integration costs also included \$2.7 million (\$0.7 million, \$1.8 million, and \$0.2 million for the Financial Services, Output Solutions, and Customer Management Segments, respectively) related to purchased software and other committed costs of software/communications systems that will be abandoned. Additionally, \$0.8 million (\$0.4 million in each of the Output Solutions and Customer Management Segments) of costs were expensed related to terminating certain contractual obligations which had no future benefit as a result of the USCS Merger.

The cash and non-cash elements of the integration costs were approximately \$9.5 million and \$7.4 million, respectively. Details of the merger charge are as follows (in millions):

	ORIGINAL AMOUNT	UTILIZED IN 1998	BALANCE AT DECEMBER 31, 1998	UTILIZED IN 1999	BALANCE AT DECEMBER 31, 1999
Employee severance benefits	\$ 3.2	\$ 0.6	\$ 2.6	\$ 0.8	\$ 1.8
Other	6.3	--	6.3	2.8	3.5
Write down of long-lived assets	7.4	7.4	--	--	--
	<b>\$16.9</b>	<b>\$ 8.0</b>	<b>\$ 8.9</b>	<b>\$ 3.6</b>	<b>\$ 5.3</b>

Most of the remaining employee severance benefits are expected to be paid in 2000. The balance of the accrued costs relates primarily to facilities that will be closed. Lease payments on closed facilities and abandoned equipment have terms which end in 2000 through 2003. Four locations have been closed as of December 31, 1999. The remainder will be closed in 2000 once arrangements have been made to process continuing business at other facilities. The costs of transitioning the continuing business have not been accrued.

During 1999, the Company expensed additional integration costs that could not be accrued in the integration plans under current accounting rules. These amounts did not materially impact the Company's consolidated results of operations, liquidity or financial position. The Company expects that other integration costs will be incurred in the future which cannot be accrued under current accounting rules and are dependent on management decisions. Such costs could include, among other things, additional employee costs, relocation and integration costs of moving to common internal systems. Although precise estimates cannot be made, management does not believe such costs will have a material adverse effect on the Company's consolidated results of operations, liquidity or financial position.

A summary of historical results of DST and USCS for 1998 and 1997 are as follows (in millions):

	YEAR ENDING DECEMBER 31,	
	1998	1997
<b>Revenues</b>		
DST Systems, Inc	\$ 749.0	\$ 650.7
USCS International, Inc	347.1	299.3
Total revenues	\$1,096.1	\$ 950.0
<b>Net income</b>		
DST Systems, Inc	\$ 73.9	\$ 59.0
USCS International, Inc	21.0	22.4
Conforming of accounting policies	(3.9)	(2.0)
Merger costs	(19.4)	--
Total net income	<b>\$ 71.6</b>	<b>\$ 79.4</b>

In conjunction with the USCS Merger, certain conforming accounting adjustments were recorded to conform the accounting policies relating primarily to USCS' depreciation and amortization policies and the accounting for the costs of software developed for internal USCS use. As a result of conforming accounting policies, net income decreased \$3.9 million and \$2.0 million for the years ended December 31, 1998 and 1997, respectively. Non-current assets decreased \$33.3 million at December 31, 1998 as a result of conforming accounting policies. DST purchased 1.1 million shares of USCS common stock during the fourth quarter of 1997 at a cost of \$21.7 million. Prior to the USCS Merger, there were no significant intercompany transactions between the Company and USCS.

In the fourth quarter of 1998, the Company recorded \$26.0 million (\$19.4 million net of taxes) of charges related to the USCS Merger. Transaction costs for the USCS Merger of \$9.1 million include investment banker fees, legal fees and other costs paid in connection with the merger.

## EQUISERVE

In December 1998, Boston EquiServe LP ("Boston EquiServe") and First Chicago Trust Company of New York completed a transaction creating EquiServe LP ("EquiServe"), the largest securities transfer agent in the U.S. Prior to the transaction, Boston EquiServe was a limited partnership 50% owned by Boston Financial Data Services, Inc. ("BFDS") (a 50% owned joint venture of DST and State Street Corporation) and 50% by BankBoston Corporation.

DST is currently developing Fairway, a new securities transfer system to be used exclusively by EquiServe to process all of its accounts. DST has also agreed with EquiServe to provide data processing services for EquiServe to use Fairway. Upon acceptance of defined components of Fairway, DST will, subject to approval of the Office of the Comptroller of the Currency ("OCC"), contribute Fairway and its non-EquiServe securities transfer processing business (approximately 2 million accounts) to EquiServe for a 20% direct ownership interest in EquiServe (the "EquiServe Contribution"). DST will also have a 10% indirect ownership interest in EquiServe through BFDS after the EquiServe Contribution. DST believes that an ownership in EquiServe provides the most effective participation in the opportunities presented by the consolidation of the securities transfer industry.

Acceptance of the initial defined components of Fairway is expected to occur in the first part of 2000 and will result in DST receiving its initial equity participation in EquiServe, subject to OCC approval. Acceptance of the remaining defined components of Fairway and the transfer of DST's non-EquiServe stock transfer business to EquiServe is expected to occur in stages through 2001. The Company expects to account for the investment in EquiServe on the equity method.

As Fairway is accepted and the transaction is completed, the Company plans to account for the EquiServe Contribution as a non-cash, non-taxable, like-kind exchange of similar productive assets. Accordingly, no gain will be recognized from the EquiServe Contribution. The capitalizable costs associated with Fairway development along with the net assets of the securities transfer business contributed will become the basis of the Company's investment in EquiServe. The Company expensed costs of Fairway development of \$9.1 million, \$8.7 million and \$3.6 million in 1999, 1998 and 1997, respectively.

## **CUSTIMA**

In August 1998, USCS purchased 100% of the stock ("Custima Acquisition") of United Kingdom based Custima International Holdings, plc ("Custima") for approximately \$15.4 million. The business acquired provides customer management software for the utilities industry. The acquisition was accounted for as a purchase, and accordingly, the Company's financial statements include Custima's results of operations from the date of acquisition.

The purchase included existing technology, in-process research and development (IPR&D), trademarks and in-place workforce with an aggregate value of approximately \$18.1 million. The purchase price exceeded the fair market value of net tangible assets acquired by \$15.1 million; however, the purchase price was less than the estimated fair value of all assets (tangible and intangible) acquired. Accordingly, the non-current assets recorded in the transaction (including IPR&D projects) were reduced on a pro-rata basis such that the total amount of the assets recorded did not exceed the consideration paid.

The Company engaged a third party to perform an appraisal of the Custima Acquisition (including the IPR&D projects acquired). The IPR&D projects included improvements and increased functionality to the core billing product to adapt it for competitive use within the U.S. and development of a new Java-based product which will allow large utilities to benefit from an advanced billing system while utilizing their existing legacy database.

The IPR&D projects were estimated to be approximately 60% complete as of the date of acquisition and were assigned a total value of \$7.1 million (using the income method discounted at 30% which did not differ significantly from the stage of completion method) which was reduced to \$6.0 million as a result of the total amount of the assets acquired from Custima exceeding the consideration paid. Phased completion and delivery of the projects are expected through 2000. As with any software development project, there are inherent development risks and periodic review of the projects can result in changes to the development plan and the Company's business plans for the software.

In accordance with applicable accounting principles, the assigned value of the IPR&D (\$6.0 million) was expensed at the date of acquisition. Also, a charge for redundant facilities and workforce of \$1.1 million was recorded in connection with USCS's purchase and consolidation of Custima. Intangible assets (other than IPR&D) are being amortized on a straight-line basis over periods ranging from 3 to 10 years. On a pro forma basis, the acquisition did not have a material impact on the Company's historical results of operations or financial position.

## **DBS SYSTEMS CORPORATION ("DBS SYSTEMS")**

In October 1997, the Company purchased the remaining 20% minority interest in DBS Systems for \$13.2 million in cash. The excess of the purchase price over the net assets acquired of \$11.6 million has been assigned a useful life of 12 years. The Company had previously acquired 20% and 60% of DBS Systems in December 1995 and May 1993, respectively. On

a pro forma basis, the acquisition did not have a material impact on the Company's historical results of operations or financial position.

#### 4. PROPERTIES

Properties and related accumulated depreciation are as follows (in millions):

	DECEMBER 31,	
	1999	1998
Land	\$ 25.9	\$ 20.1
Buildings	128.5	128.2
Data processing equipment	264.1	296.9
Data processing software	151.1	120.7
Furniture, fixtures and other equipment	233.1	214.1
Leasehold improvements	46.3	35.9
Construction-in-progress	24.1	28.6
	<b>873.1</b>	<b>844.5</b>
Less accumulated depreciation and amortization	534.4	516.1
Net properties	<b>\$ 338.7</b>	<b>\$ 328.4</b>

Depreciation expense for the years ended December 31, 1999, 1998 and 1997, was \$108.2 million, \$92.9 million and \$94.8 million, respectively.

#### 5. INVESTMENTS

Investments are as follows (in millions):

	1999 OWNERSHIP PERCENTAGE	CARRYING VALUE DECEMBER 31,	
		1999	1998
<b>Available-for-sale securities:</b>			
Computer Sciences Corporation.	5%	\$ 816.8	\$ 554.6
State Street Corporation	4%	438.4	420.8
Euronet Services, Inc	12%	14.4	4.5
Other available-for-sale securities	--	63.3	38.7
	--	<b>1,332.9</b>	<b>1,018.6</b>
<b>Unconsolidated affiliates:</b>			
Boston Financial Data Services, Inc	50%	48.3	39.4
European Financial Data Services Ltd	50%	8.0	5.5
Argus Health Systems, Inc.	50%	6.4	3.8
Other unconsolidated affiliates	--	34.8	25.6
	--	<b>97.5</b>	<b>74.3</b>
<b>Other:</b>			
Net investment in leases	--	16.0	16.3
Other	--	31.3	21.3
	--	47.3	37.6
Total investments	--	<b>\$ 1,477.7</b>	<b>\$ 1,130.5</b>

Computer Sciences Corporation ("CSC") is a provider of outsourcing, system integration, information technology, management consulting and other professional services to industry and government. The aggregate market value of the Company's investment in CSC's common stock presented above was based on the closing price on the New York Stock Exchange.

State Street Corporation ("State Street") is a financial services corporation that provides banking, trust, investment management, global custody, administration and securities processing services to both U.S. and non-U.S. customers. The aggregate market value of the Company's investment in State Street's common stock presented above was based on the

closing price on the New York Stock Exchange. The Company received \$3.5 million, \$3.0 million and \$2.5 million in dividends from State Street in 1999, 1998 and 1997, respectively, which have been recorded in other income.

Euronet Services, Inc. ("Euronet") operates an independent, non-bank owned automatic teller machine network as a service provider to banks and other financial institutions in certain Central European countries. The aggregate market value of the Company's investment in Euronet's common stock presented above was based on the closing price on the NASDAQ.

The Company's investments in available-for-sale securities had an aggregate market value of \$1,332.9 million and \$1,018.6 million and an aggregate cost basis of \$456.5 million and \$427.9 million at December 31, 1999 and 1998, respectively. Proceeds of \$24.8 million and \$7.0 million and gross realized gains of \$12.4 million and \$1.9 million were recorded in 1999 and 1998, respectively, from the sale of available-for-sale securities. Gross unrealized holding gains totaled \$877.9 million, \$591.2 million and \$326.2 million at December 31, 1999, 1998 and 1997, respectively. Gross unrealized holding losses totaled \$1.5 million and \$0.5 million at December 31, 1999 and 1998. There were no gross unrealized holding losses at December 31, 1997.

Boston Financial Data Services, Inc. ("BFDS") is a corporate joint venture of the Company and State Street Corporation. BFDS performs shareowner accounting services for mutual fund companies using the Company's proprietary application system for mutual fund shareowner recordkeeping, TA2000, and retirement plan recordkeeping services using TRAC2000. BFDS also performs remittance and proxy processing, teleservicing and class action administration services.

European Financial Data Services Limited ("EFDS") is a United Kingdom joint venture of DST and State Street. EFDS provides full and remote processing for United Kingdom unit trusts and related products. EFDS is also implementing a new unit trust accounting system for the United Kingdom market.

Argus Health Systems, Inc. ("Argus") is a corporate joint venture of the Company and a privately held life insurance holding company. Argus provides pharmacy benefit plan processing services to the health care industry. Argus utilizes the Company's data processing facility for its claims processing services. The Company received a \$9.5 million cash dividend from Argus in 1998.

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

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
BFDS	\$ 8.9	\$ 7.2	\$ 6.2
EFDS	(5.3)	(11.1)	(11.8)
Argus	2.6	2.7	4.5
Other	0.4	(1.5)	(0.2)
	<b>\$ 6.6</b>	<b>\$ (2.7)</b>	<b>\$ (1.3)</b>

Certain condensed financial information of the unconsolidated affiliates follows (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Revenues	\$ 439.3	\$ 411.1	\$ 336.1
Costs and expenses	412.6	418.9	337.6
Net income (loss)	26.7	(7.8)	(1.5)
Current assets	123.8	118.0	--
Noncurrent assets	286.5	223.6	--
Current liabilities	50.3	51.8	--
Noncurrent liabilities	186.2	221.7	--
Partners' and stockholders' equity	173.8	68.1	--

Net investment in leases of \$16.0 million and \$16.3 million at December 31, 1999 and 1998, respectively, reflects the gross lease receivable from sales-type leases and the estimated residual value of the leased equipment less unearned income.

## 6. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets include the following items (in millions):

	DECEMBER 31,	
	1999	1998
Intangibles	\$ 96.3	\$ 103.3
Less accumulated amortization	52.3	43.9
Net	44.0	59.4
Other assets	1.4	2.9
<b>Total</b>	<b>\$ 45.4</b>	<b>\$ 62.3</b>

Intangibles exclude goodwill of \$4.2 million and \$4.5 million at December 31, 1999 and 1998, respectively, related to unconsolidated affiliates which is classified as part of the investments in the unconsolidated affiliates. Amortization expense, including amortization related to goodwill recorded in investments, totaled \$14.9 million, \$13.8 million and \$8.7 million for the years ended December 31, 1999, 1998 and 1997, respectively.

## 7. LONG-TERM DEBT

The Company is obligated under notes and other indebtedness as follows (in millions):

	DECEMBER 31,	
	1999	1998
Secured notes payable	\$ 12.2	\$ 10.5
Mortgage notes	21.3	24.8
Revolving credit facilities	27.4	24.2
Other	<u>1.9</u>	<u>2.3</u>
	<b>62.8</b>	<b>61.8</b>
Less debt due within one year	<u>(18.4)</u>	<u>(12.1)</u>
Long-term debt	<u>\$ 44.4</u>	<u>\$ 49.7</u>

The secured notes payable primarily represent notes, which are secured by data processing and production equipment and minimum rental receivables. These notes are generally payable over 12 to 24 month periods with interest rates from 3.73% to 8.81% at December 31, 1999.

The mortgage notes represent real estate borrowings due in installments with the balance due at the end of the term. Interest rates are fixed and range from 8.25% to 10.0% at December 31, 1999.

In December 1996, the Company entered into an amended and restated five-year revolving credit facility of \$105 million (increased to \$125 million in February 1997) with a syndicate of U.S. and international banks. Borrowings under the facility are available at rates based on the Eurodollar, Prime, Base CD, or Federal Funds rates. A commitment fee of 0.085% per annum is required on the total amount of the facility. An additional utilization fee of .050% is required if the principal amount outstanding is greater than 50% of the total facility. Among other provisions, the agreement limits subsidiary indebtedness and sales of assets and requires the Company to maintain certain coverage and leverage ratios. No borrowings were outstanding at December 31, 1999 or 1998.

The Company and its subsidiaries maintain additional lines of credit totaling \$110 million for working capital requirements and general corporate purposes of which \$60 million matures May 2000 and \$50 million matures March 2001. Borrowings under the facilities are available at rates tied to the Eurodollar, federal funds rates or LIBOR rates. Commitment fees of 0.25% to 0.50% per annum are required on the unused portions. Borrowings of \$20.7 million and \$23.0 million were outstanding under these additional lines of credit at December 31, 1999 and 1998, respectively.

Future principal payments of indebtedness at December 31, 1999 are as follows (in millions):

2000	\$18.4
2001	26.7
2002	2.0
2003	2.2
2004	2.5
Thereafter	11.0
<b>Total</b>	<b>\$62.8</b>

Based upon the borrowing rates currently available to the Company and its subsidiaries for indebtedness with similar terms and average maturities, the carrying value of long-term debt is considered to approximate fair value at December 31, 1999 and 1998.

## 8. INCOME TAXES

As a result of the USCS Merger, USCS was included with the Company and its consolidated U.S. subsidiaries in filing a consolidated federal income tax return after December 21, 1998. Prior to the USCS Merger, USCS and its consolidated U.S. subsidiaries filed a separate consolidated federal income tax return.

Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is generally the result of changes in the assets or liabilities for deferred taxes.

The following summarizes pretax income (loss) (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
U.S.	\$ 187.4	\$ 108.9	\$ 133.0
International	26.9	6.7	(10.1)
<b>Total</b>	<b>\$ 214.3</b>	<b>\$ 115.6</b>	<b>\$ 122.9</b>

Income tax expense consists of the following components (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>Current</b>			
Federal	\$ 55.1	\$ 43.3	\$ 37.0
State and local	5.2	5.0	6.0
International	8.2	6.0	3.0
<b>Total current</b>	<b>68.5</b>	<b>54.3</b>	<b>46.0</b>
<b>Deferred</b>			
Federal	7.2	(5.0)	(1.2)
State and local	(0.1)	(2.8)	(0.7)
International	1.3	(2.2)	(1.2)
<b>Total deferred</b>	<b>8.4</b>	<b>(10.0)</b>	<b>(3.1)</b>
<b>Total income tax expense</b>	<b>\$ 76.9</b>	<b>\$ 44.3</b>	<b>\$ 42.9</b>

Differences between the Company's effective income tax rate and the U.S. federal income tax statutory rate are as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Income tax expense using the statutory rate in effect	\$ 75.0	\$ 40.5	\$ 43.0
<b>Tax effect of:</b>			
State and local income taxes, net	3.3	1.4	3.4
International income taxes, net	1.1	(0.6)	1.1
Earnings of U.S. unconsolidated affiliates	(3.4)	(2.8)	(3.1)
Transaction costs for USCS Merger	--	3.2	--
Acquired in-process research and development costs	--	2.1	--
Other	0.9	0.5	(1.5)
Total income tax expense	\$ 76.9	\$ 44.3	\$ 42.9
Effective tax rate	35.9%	38.4%	34.9%
Statutory federal tax rate	35.0%	35.0%	35.0%

The federal and state deferred tax assets (liabilities) recorded on the Consolidated Balance Sheet are as follows (in millions):

	DECEMBER 31,	
	1999	1998
<b>Liabilities:</b>		
Investments in available for sale securities	\$ (483.4)	\$ (359.8)
Unconsolidated affiliates and investments	(0.5)	(2.1)
Other	(3.1)	(9.4)
Gross deferred tax liabilities	<u>(487.0)</u>	<u>(371.3)</u>
<b>Assets:</b>		
Book accruals not currently deductible for tax	12.1	17.2
Accumulated depreciation and amortization	13.5	16.0
Deferred compensation and other employee benefits	16.5	11.9
International operating loss carryforwards	--	2.5
Other	3.0	1.8
Gross deferred tax assets	<u>45.1</u>	<u>49.4</u>
Net deferred tax liability	<u>\$ (441.9)</u>	<u>\$ (321.9)</u>

Prior to 1993, the Company generally did not provide deferred income taxes for unremitted earnings of certain investees accounted for under the equity method because those earnings have been and will continue to be reinvested. Beginning in 1993, pursuant to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, the Company began providing deferred taxes for unremitted earnings of U.S. unconsolidated affiliates net of the 80% dividends received deduction provided for under current tax law. Through December 31, 1999, the cumulative amount of such unremitted earnings was \$50.5 million. These amounts would become taxable to the Company if distributed by the affiliates as dividends, in which case the Company would be entitled to the dividends received deduction for 80% of the dividends; alternatively, these earnings could be realized by the sale of the affiliates' stock, which would give rise to tax at federal capital gains rates and state ordinary income tax rates, to the extent the stock sale proceeds exceeded the Company's tax basis. Deferred taxes provided on unremitted earnings through December 31, 1999 and 1998 were \$3.5 million and \$2.5 million, respectively. Determination of the amount of the unrecognized deferred tax liability related to investments in international subsidiaries, including but not limited to unremitted earnings and cumulative translation adjustments, is not practicable.

## 9. STOCKHOLDERS' EQUITY

### EARNINGS PER SHARE

The computation of basic and diluted earnings per share is as follows (in millions, except per share amounts):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net income	\$ 138.1	\$ 71.6	\$ 79.4
Average common shares outstanding	63.2	62.7	63.6
Incremental shares from assumed conversions of stock			
Options	1.6	1.6	1.1
Diluted shares outstanding	64.8	64.3	64.7
Basic earnings per share	\$ 2.19	\$ 1.14	\$ 1.25
Diluted earnings per share	\$ 2.13	\$ 1.11	\$ 1.23

### COMPREHENSIVE INCOME

Components of other comprehensive income consist of the following (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>Unrealized gains on investments:</b>			
Unrealized holding gains arising during the Period	\$ 298.1	\$ 266.4	\$170.9
Less reclassification adjustment for gains included in net income	(12.4)	(1.9)	--
Foreign currency translation adjustments	(0.7)	--	(1.6)
Deferred income taxes	(111.6)	(103.3)	(66.8)
Other comprehensive income	\$ 173.4	\$ 161.2	\$102.5

Components of the related tax provision of other comprehensive income consists of the following (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>Unrealized gains on investments:</b>			
Unrealized holding gains arising during the Period	\$ 116.4	\$ 104.0	\$ 66.8
Less reclassification adjustment for gains included in net income	(4.8)	(0.7)	--
Deferred income taxes	\$ 111.6	\$ 103.3	\$ 66.8

### STOCK ISSUANCE AND REPURCHASES

In May 1996, the Board of Directors determined it was necessary for the Company to have common stock available to provide to employees under its stock award program and to provide to option holders who exercise options. The Board of Directors authorized the purchase of up to 1.2 million shares during a twenty-four month period in approximately equal monthly amounts. The Company expended \$10.0 million and \$20.3 million in 1998 and 1997, respectively, to complete the purchases under this plan.

In December 1998, the Board of Directors approved a plan for DST to repurchase 600,000 shares of DST common stock at the rate of approximately 25,000 shares per month in approximately equal monthly amounts beginning in February 1999, to provide additional shares needed as a result of the USCS Merger for use under various DST option and benefit programs. In August 1999, as a result of expected additional share requirements under these programs, the Board of Directors authorized the repurchase of an additional 3,575,000 shares for a total of 4,175,000, with the then 4,000,000 remaining unpurchased shares to be purchased during a twenty-four month period commencing September 1999. Such purchases may be made in

private or market transactions and will be made in compliance with SEC regulations. The Company expended \$52.2 million in 1999 to purchase 840,000 shares under this plan.

During the fourth quarter 1999, the Company entered into a forward stock purchase agreement for the repurchase of up to 2.7 million shares of its common stock through September 2002 as a means of securing potentially favorable prices for future purchases of its stock. During 1999, no shares were purchased by the Company under this agreement. As of February 29, 2000, the cost to settle the agreement would be approximately \$158.1 million for 2.6 million shares of common stock. The agreement contains provisions which allow the Company to elect a net cash or net share settlement in lieu of physical settlement of the shares.

In the fourth quarter 1997, DST expended \$21.7 million to purchase 1.1 million shares of USCS common stock. These shares were retired in conjunction with the USCS Merger.

USCS, prior to the USCS Merger, expended approximately \$6.2 million in 1998 and \$10.2 million in 1997 for the repurchase of common stock in order to meet obligations under stock option plans, employee stock purchase plans and 401(k) retirement plans. Substantially all these shares were reissued prior to the USCS Merger.

The Company had 0.7 million and 0.9 million shares of common stock held in treasury at December 31, 1999 and 1998, respectively.

### **STOCK BASED COMPENSATION**

In September 1995, the Company established the Stock Option and Performance Award Plan, which now provides for the availability of 9,000,000 shares of the Company's common stock for the grant of awards to officers, directors and other designated employees. The awards may take the form of an option, stock appreciation right, limited right, performance share or unit, dividend equivalent, or any other right, interest or option relating to shares of common stock granted under the plan. The option prices must be at least equal to the fair market value of the underlying shares on the date of grant. Options become exercisable and expire as determined by the Compensation Committee of the Board of Directors at the date of grant.

USCS, prior to its merger with DST, issued stock options under five stock option plans to directors, officers and key employees of USCS. Under the 1988, 1990, 1993 and 1996 USCS Stock Option Plans, options were granted at prices and with terms and conditions established by USCS' Board of Directors at the date of grant. Options under these plans vest over periods of up to sixty months and expire ten years after the date of grant. Under the USCS Director's Stock Option Plan, options were granted at fair market value and vested annually over three years and expire five years after the date of grant. Upon completion of the USCS Merger, each outstanding option to purchase USCS common stock issued pursuant to USCS' stock option plans was assumed by DST. Each such option now constitutes an option to acquire, on the same terms and conditions as were applicable under such assumed option, the number of shares of DST common stock equal to the product of the merger exchange ratio of 0.62 and the number of shares of USCS common stock subject to such option rounded down to the nearest whole share. The exercise price per share of DST common stock is equal to the exercise price per share of such option before the USCS Merger divided by the merger exchange ratio of 0.62, rounded up to the nearest whole cent. Pursuant to certain change in control provisions in the USCS Option Plans, approximately 50% of the unvested portions of the options accelerated and became exercisable at the completion of the USCS Merger.

Summary stock option activity is presented in the table below (shares in millions):

	1999		1998		1997	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1	5.3	\$ 29.28	4.6	\$ 23.01	3.7	\$ 18.50
Granted	1.5	55.44	1.3	47.69	1.3	31.95
Exercised	(1.1)	24.21	(0.4)	16.34	(0.3)	7.52
Forfeited	(0.2)	43.31	(0.2)	31.30	(0.1)	20.67
Outstanding at December 31	5.5	\$ 36.87	5.3	\$ 29.28	4.6	\$ 23.01
Exercisable at December 31	3.5	\$ 29.02	3.5	\$ 23.45	1.7	\$ 18.87

Summary information concerning outstanding and exercisable stock options as of December 31, 1999 follows:

RANGE OF EXERCISE PRICES PER SHARE	OUTSTANDING OPTIONS			EXERCISABLE OPTIONS		
	NUMBER OF OPTIONS (IN MILLIONS)	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN MILLIONS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	NUMBER OF OPTIONS (IN MILLIONS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	
\$0.34 -- \$11.91	0.1	4.6	\$ 6.79	0.1	\$ 6.76	
20.17 -- 21.51	1.9	5.9	20.86	1.8	20.89	
26.21 -- 41.74	1.2	7.4	31.55	0.9	31.80	
47.79 -- 68.28	2.3	8.9	54.78	0.7	52.14	
\$0.34 -- \$68.28	5.5	7.4	\$ 36.87	3.5	\$ 29.02	

Had compensation cost been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income would have been reduced to the following pro forma amounts:

		YEAR ENDED DECEMBER 31,		
		1999	1998	1997
Net income (millions)	As reported	\$ 138.1	\$ 71.6	\$ 79.4
	Pro forma	120.0	58.0	71.3
Basic earnings per share	As reported	2.19	1.14	1.25
	Pro forma	1.90	0.92	1.12
Diluted earnings per share:	As reported	2.13	1.11	1.23
	Pro forma	1.85	0.90	1.10

The weighted average fair value of options granted was \$20.01, \$17.31 and \$13.06 for 1999, 1998 and 1997, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997, respectively: expected option term of 5.0, 5.3 and 5.7 years, volatility of 29.4%, 28.4% and 30.7%, dividend yield of 0% and risk-free interest rate of 5.3%, 5.4% and 6.2%.

Prior to the USCS Merger, shares were issued under the USCS Employee Stock Purchase Plan ("Plan"). Common stock purchases under the Plan totaled approximately 32,000 shares and 12,000 shares in 1998 and 1997, respectively. The weighted average fair value of the employee purchase rights and compensation expense was not material.

## RIGHTS PLAN

The Company is party to a Stockholder's Right Agreement (the "Rights Plan") dated as of October 6, 1995, and amended as of July 9, 1998 and September 10, 1999. Each share of the Company's common stock held of record on October 18, 1995 (when Kansas City Southern Industries, Inc. ("KCSI") was then the sole stockholder of the Company) and all shares of common stock issued in and subsequent to the Offerings have received one Right. Each Right entitles its holder to purchase 1/1000th share of preferred stock of the Company, or in some circumstances, other securities of the Company. In certain

circumstances, the Rights entitle their holders to purchase shares in a surviving entity or its affiliates resulting from transactions in which the Company is not the surviving entity or disposes of more than 50% of the Company's assets or earnings power.

The Rights, which are automatically attached to common stock, are not exercisable or transferable separately from shares of common stock until ten days following the earlier of an announcement that a person or group (an "Acquiring Person"), has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of the Company's common stock, or ten days following the commencement or announcement of any person's intention to make a tender offer or exchange offer that would result in ownership of 15% or more of the outstanding common stock, unless the Board of Directors sets a later date in either event. The Rights attached to the stock of an Acquiring Person become void. KCSI, its indirect subsidiary, Stilwell Management, Inc. ("Stilwell"), and certain entities affiliated with Stilwell are in certain circumstances excluded from the definition of an "Acquiring Person" under the Rights Plan.

The Rights Plan is intended to encourage a potential acquiring person to negotiate directly with the Board of Directors, but may have certain anti-takeover effects. The Rights Plan could significantly dilute the interests in the Company of an acquiring person. The Rights Plan may therefore have the effect of delaying, deterring or preventing a change in control of the Company.

## 10. BENEFITS PLANS

The Company sponsors defined contribution plans that cover domestic and non-domestic employees following the completion of an eligibility period. The total expense under these plans was \$15.5 million, \$12.5 million and \$11.7 million in 1999, 1998 and 1997, respectively.

Prior to 1998, DST participated in a multi-employer ESOP. In January 1998, the Company formed The DST Systems, Inc. Employee Stock Ownership Plan ("DST ESOP") and transferred all balances from DST's portion of the multi-employer ESOP to the DST ESOP. This plan provides for employer contributions made at the discretion of the Board of Directors, and based primarily upon employee participation. The total expense under this plan was \$1.0 million, \$1.0 million and \$2.0 million in 1999, 1998 and 1997, respectively. The DST ESOP was terminated effective January 1, 2000, upon which all active participants became fully vested, and future contributions will not be made to the plan.

The Company has active and non-active non-qualified deferred compensation plans for senior management, certain highly compensated employees and directors. The active plans permit participants to defer a portion of their compensation and may provide additional life insurance benefits until termination of their employment, at which time payment of amounts deferred is made in a lump sum or annual installments. Deferred amounts earn interest at a rate determined by the Board of Directors or are credited with deemed gains or losses of the underlying hypothetical investments. Amounts deferred under the plans totaled approximately \$31.5 million and \$22.5 million at December 31, 1999 and 1998, respectively.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Interest paid during the year	\$ 5.0	\$ 11.4	\$ 6.2
Income taxes paid during the year	55.2	40.7	43.6

The Company purchased mainframe computer equipment and other capital additions in the amount of \$30.2 million in 1997 through secured notes payable or vendor financed installment notes which required no direct outlay of cash. No such purchases occurred in 1999 or 1998.

The renegotiation of certain third party software agreements, effective March 31, 1998, resulted in certain amounts being recorded as costs and expenses instead of as depreciation expense.

## 12. COMMITMENTS AND CONTINGENCIES

The Company has future obligations under certain software license agreements and operating leases. The operating leases, which include facilities, data processing and other equipment have lease terms ranging from 1 to 25 years excluding options to extend the leases for various lengths of time. Rental expense from operating leases was \$59.7 million, \$40.9 million and \$43.2 million for the years ended December 31, 1999, 1998 and 1997, respectively. Future minimum rentals for the non-cancelable term of all operating leases and obligations under software license agreements are as follows (in millions):

	<b>NON-CANCELABLE LEASES</b>	<b>SOFTWARE LICENSE AGREEMENTS</b>	<b>TOTAL</b>
2000	\$ 51.4	\$ 8.0	\$ 59.4
2001	46.7	9.3	56.0
2002	44.1	10.4	54.5
2003	34.3	11.4	45.7
2004	20.0	13.4	33.4
Thereafter	63.9	16.8	80.7
<b>Total</b>	<b>\$ 260.4</b>	<b>\$ 69.3</b>	<b>\$ 329.7</b>

Certain leases have clauses that call for the annual rents to be increased during the term of the lease. Such lease payments are expensed on a straight-line basis.

The Company leases certain facilities from unconsolidated real estate affiliates and incurred occupancy expenses of \$8.3 million, \$6.8 million and \$6.6 million for the years ended December 31, 1999, 1998 and 1997, respectively.

The Company has also entered into agreements with co-participants in certain joint venture subsidiaries whereby upon defined circumstances constituting a change in control of either party to the venture, the other party has the right to acquire, at a specified price, the entire interest in the joint venture.

The Company has entered into agreements with certain officers whereby upon defined circumstances constituting a change in control of the Company, certain benefit entitlements are automatically funded and such officers are entitled to specific cash payments upon termination of employment.

The Company has also established trusts to provide for the funding of corporate commitments and entitlements of Company officers, directors, employees and others in the event of a change in control of the Company. Assets held in such trusts at December 31, 1999 were not significant.

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

## 13. SEGMENT AND GEOGRAPHIC INFORMATION

The Company has several operating business units that offer sophisticated information processing and software services and products. These business units are reported as three operating segments (Financial Services, Output Solutions and Customer Management). In addition, certain investments in equity securities, financial interests and real estate holdings are reflected in an Investments and Other Segment. The Company evaluates the performance of its segments based on income before income taxes, non-recurring items and interest expense. Effective July 1, 1999, certain intersegment revenue agreements between the Output Solutions Segment and the Customer Management Segment were revised. The segment information prior to July 1, 1999 have been restated to reflect this change. Intersegment revenues are reflected at rates prescribed by the Company and may not be reflective of market rates. Summarized financial information concerning the segments is shown in the following tables (in millions):

YEAR ENDED DECEMBER 31, 1999						
	FINANCIAL SERVICES	OUTPUT SOLUTIONS	CUSTOMER MANAGEMENT	INVESTMENTS/ OTHER	ELIMINATIONS	CONSOLIDATED TOTAL
External revenues	\$ 553.3	\$ 435.1	\$ 203.0	\$ 11.9	\$ --	\$ 1,203.3
Intersegment revenues	1.6	52.9	--	21.0	(75.5)	--
Total revenues	554.9	488.0	203.0	32.9	(75.5)	1,203.3
Costs and expenses	365.6	406.0	167.3	17.4	(75.5)	880.8
Depreciation and amortization	66.5	33.0	14.4	8.9	--	122.8
Income from operations	122.8	49.0	21.3	6.6	--	199.7
Other income (loss), net	(1.0)	0.2	(0.6)	14.5	0.1	13.2
Equity in earnings of unconsolidated affiliates	6.1	0.2	--	0.3	--	6.6
Earnings before interest and income taxes	\$ 127.9	\$ 49.4	\$ 20.7	\$ 21.4	\$ 0.1	\$ 219.5

YEAR ENDED DECEMBER 31, 1998						
	FINANCIAL SERVICES	OUTPUT SOLUTIONS	CUSTOMER MANAGEMENT	INVESTMENTS/ OTHER	ELIMINATIONS	CONSOLIDATED TOTAL
External revenues	\$ 506.4	\$ 358.5	\$ 220.1	\$ 11.1	\$ --	\$ 1,096.1
Intersegment revenues	1.2	53.9	--	23.0	(78.1)	--
Total revenues	507.6	412.4	220.1	34.1	(78.1)	1,096.1
Costs and expenses	360.5	350.8	184.0	17.5	(78.1)	834.7
Depreciation and amortization	61.7	27.7	11.6	7.8	--	108.8
Merger charges	--	--	--	--	33.1	33.1
Income from operations	85.4	33.9	24.5	8.8	(33.1)	119.5
Other income (loss), net	1.5	0.5	(0.6)	5.4	0.6	7.4
Equity in losses of unconsolidated affiliates	(1.4)	--	--	(1.3)	--	(2.7)
Earnings before interest and income taxes	\$ 85.5	\$ 34.4	\$ 23.9	\$ 12.9	\$ (32.5)	\$ 124.2

YEAR ENDED DECEMBER 31, 1998						
	FINANCIAL SERVICES	OUTPUT SOLUTIONS	CUSTOMER MANAGEMENT	INVESTMENTS/ OTHER	ELIMINATIONS	CONSOLIDATED TOTAL
External revenues	\$ 424.3	\$ 312.2	\$ 201.6	\$ 11.9	\$ --	\$ 950.0
Intersegment revenues	0.7	54.2	--	21.8	(76.7)	--
Total revenues	425.0	366.4	201.6	33.7	(76.7)	950.0
Costs and expenses	302.3	312.8	163.2	18.0	(76.7)	719.6
Depreciation and amortization	56.5	29.3	10.1	7.6	--	103.5
Income from operations	66.2	24.3	28.3	8.1	--	126.9
Other income (loss), net	0.8	0.7	(0.6)	4.7	0.2	5.8
Equity in losses of unconsolidated affiliates	(0.9)	--	--	(0.4)	--	(1.3)
Earnings before interest and income taxes	\$ 66.1	\$ 25.0	\$ 27.7	\$ 12.4	\$ 0.2	\$ 131.4

Earnings before interest and income taxes in the segment reporting information above less interest expense of \$5.2 million, \$8.6 million and \$8.5 million for the years ended December 31, 1999, 1998 and 1997, respectively, is equal to the Company's income before income taxes and minority interests on a consolidated basis for the corresponding year.

The Financial Services Segment derives its revenues from two primary products and services. Revenues from shareowner accounting products and services totaled \$434.5 million, \$384.0 million and \$326.8 million in 1999, 1998, and 1997, respectively. Revenues from portfolio/investment management accounting products and services totaled \$96.6 million, \$101.0 million and \$77.1 million in 1999, 1998, and 1997, respectively

Information concerning principal geographic areas is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>Revenues (1) :</b>			
U. S	\$ 1,022.9	\$ 929.0	\$ 817.0
U. K	57.8	55.9	55.7
Canada	39.4	31.4	26.4
Australia	16.8	13.9	13.8
Netherlands	9.1	8.3	4.6
Switzerland	9.1	6.1	0.5
South Africa	5.7	6.1	5.6
Germany	4.0	8.6	1.3
Others	38.5	36.8	25.1
	<b>\$ 1,203.3</b>	<b>\$ 1,096.1</b>	<b>\$ 950.0</b>

(1) Revenues are attributed to countries based on location of the client.

	DECEMBER 31,	
	1999	1998
<b>Long-lived assets:</b>		
U. S	\$ 344.8	\$ 347.4
Europe	17.5	17.0
Canada	13.0	12.5
Others	8.8	13.8
	<b>\$ 384.1</b>	<b>\$ 390.7</b>

#### 14. QUARTERLY FINANCIAL DATA (UNAUDITED)

(dollars in millions, except per share amounts) :

	YEAR ENDED DECEMBER 31, 1999				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL 1999
Revenues	\$ 292.8	\$ 299.6	\$ 298.7	\$ 312.2	\$ 1,203.3
Cost and expenses	215.4	220.4	221.6	223.4	880.8
Depreciation and amortization	27.5	27.8	28.8	38.7	122.8
Income from operations	49.9	51.4	48.3	50.1	199.7
Interest expense	(1.5)	(1.2)	(1.2)	(1.3)	(5.2)
Other income, net	1.7	(0.9)	4.2	8.2	13.2
Equity in earnings of unconsolidated affiliates	2.2	2.6	1.5	0.3	6.6
Income before income taxes and minority interests	52.3	51.9	52.8	57.3	214.3
Income taxes	18.8	18.6	19.0	20.5	76.9
Income before minority interests	33.5	33.3	33.8	36.8	137.4
Minority interests	(0.1)	(0.1)	(0.1)	(0.4)	(0.7)
Net income	\$ 33.6	\$ 33.4	\$ 33.9	\$ 37.2	\$ 138.1
Basic average shares outstanding	63.0	63.1	63.4	63.2	63.2
Basic earnings per share	\$ 0.53	\$ 0.53	\$ 0.53	\$ 0.59	\$ 2.19(1)
Diluted average shares outstanding	64.7	64.8	65.1	64.8	64.8
Diluted earnings per share	\$ 0.52	\$ 0.52	\$ 0.52	\$ 0.57	\$ 2.13
Common stock price ranges: High	\$ 68.25	\$ 64.63	\$ 69.00	\$ 76.31	\$ 76.31
Low	\$ 51.19	\$ 51.88	\$ 55.75	\$ 51.69	\$ 51.19

(1) Earnings per share are computed independently for each of the quarters presented. Accordingly, the accumulation of 1999 quarterly earnings per share may not equal the total computed for the year.

	YEAR ENDED DECEMBER 31, 1998				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL 1998
Revenues	\$ 266.0	\$ 269.8	\$ 268.8	\$ 291.5	\$ 1,096.1
Cost and expenses	198.4	207.6	207.0	221.7	834.7
Depreciation and amortization	27.2	24.6	26.2	30.8	108.8
Merger charges	--	--	7.1	26.0	33.1
Income from operations	40.4	37.6	28.5	13.0	119.5
Interest expense	(2.6)	(2.3)	(2.0)	(1.7)	(8.6)
Other income, net	1.0	1.3	3.7	1.4	7.4
Equity in earnings (losses) of unconsolidated affiliates	(0.4)	0.1	(1.2)	(1.2)	(2.7)
Income before income taxes and minority interests	38.4	36.7	29.0	11.5	115.6
Income taxes	14.3	13.6	11.3	5.1	44.3
Income before minority interests	24.1	23.1	17.7	6.4	71.3
Minority interests	--	(0.2)	--	(0.1)	(0.3)
Net income	\$ 24.1	\$ 23.3	\$ 17.7	\$ 6.5	\$ 71.6
Basic average shares outstanding	62.6	62.8	62.8	62.8	62.7
Basic earnings per share	\$ 0.38	\$ 0.37	\$ 0.28	\$ 0.10	\$ 1.14(1)
Diluted average shares outstanding	64.0	64.2	64.5	64.5	64.3
Diluted earnings per share	\$ 0.38	\$ 0.36	\$ 0.27	\$ 0.10	\$ 1.11
Common stock price ranges: High	\$ 53.00	\$ 56.81	\$ 69.94	\$ 59.75	\$ 69.94
Low	\$ 40.25	\$ 50.13	\$ 47.88	\$ 35.81	\$ 35.81

(1) Earnings per share are computed independently for each of the quarters presented. Accordingly, the accumulation of 1998 quarterly earnings per share may not equal the total computed for the year.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY**

The Company has incorporated by reference certain information in response or partial response to the Items under this Part III of this Annual Report on Form 10-K pursuant to General Instruction G(3) of this Form 10-K and Rule 12b-23 under the Exchange Act. The Company's definitive proxy statement in connection with its annual meeting of stockholders scheduled for May 9, 2000 (the "Definitive Proxy Statement"), will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 1999.

**(A) DIRECTORS OF THE COMPANY**

The information set forth in response to Item 401 of Regulation S-K under the headings "Proposal-Election of Three Directors" and "The Board of Directors" in the Company's Definitive Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

**(B) EXECUTIVE OFFICERS OF THE COMPANY**

The information set forth in response to Item 401 of Regulation S-K under the heading "Executive Officers of the Company" in Part I of this Form 10-K is incorporated herein by reference in partial response to this Item 10.

**(C) COMPLIANCE WITH SECTION 16 (A) OF THE EXCHANGE ACT**

The information set forth in response to Item 405 of Regulation S-K under the heading "Other Matters-Section 16 (a) Beneficial Ownership Reporting Compliance" in the Company's Definitive Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

**ITEM 11. EXECUTIVE COMPENSATION**

The information set forth in response to Item 402 of Regulation S-K under "The Board of Directors - Compensation of Directors" and under "Executive Compensation" in the Company's Definitive Proxy Statement (other than The Compensation Committee Report on Executive Compensation and the Stock Performance Graph) is hereby incorporated herein by reference in response to this Item 11.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information set forth in response to Item 403 of Regulation S-K under the heading "Principal Stockholders and Stockholdings of Management" in the Company's Definitive Proxy Statement is hereby incorporated herein by reference in response to this Item 12.

The Company has no knowledge of any arrangement the operation of which may at a subsequent date result in a change of control of the Company.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information set forth in response to Item 404 of Regulation S-K under the heading "Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement is incorporated herein by reference in response to this Item 13.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

#### (A) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

##### (1) Consolidated Financial Statements

The consolidated financial statements and related notes, together with the report of PricewaterhouseCoopers LLP, appear in Part II Item 8 Financial Statements and Supplementary Data of this Form 10-K.

##### (2) Consolidated Financial Statement Schedules

All schedules have been omitted because they are not applicable, insignificant or the required information is shown in the consolidated financial statements or notes thereto.

##### (3) List of Exhibits

The Company has incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 under the Exchange Act.

#### 2. PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION

- 2 The Company's Agreement and Plan of Merger, dated September 2, 1998 by and among DST Systems, Inc., DST Acquisitions, Inc. and USCS International, Inc, which is attached as Exhibit 2 to the Company's Registration Statement on Form S-4 dated November 20, 1998, (Commission file no. 333-67611) ("S-4"), is hereby incorporated by reference as Exhibit 2.

#### 3. ARTICLES OF INCORPORATION AND BY - LAWS

- 3.1 The Company's Amended Delaware Certificate of Incorporation, as restated, which is attached as Exhibit 3.1 to the Company's Registration Statement dated September 1, 1995, as amended August 31, 1995 (Commission file no. 33-96526) (the "IPO Registration Statement"), is hereby incorporated by reference as Exhibit 3.1.
- 3.2 The Company's Amended and Restated By-laws as adopted August 28, 1995, which are attached as Exhibit 3.2 to the Company's IPO Registration Statement, are hereby incorporated by reference as Exhibit 3.2.

#### 4. INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

- 4.1 The Registration Rights Agreement dated October 24, 1995, between the Company and Kansas City Southern Industries, Inc. ("KCSI"), which is attached as Exhibit 4.1 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 4.1.
- 4.1.1 The First Amendment to the Registration Rights Agreement dated June 30, 1999, between the Company and KCSI, which is attached as Exhibit 4.15.1 to the Company's Form 10-Q dated August 13, 1999, is hereby incorporated by reference as Exhibit 4.1.1.
- 4.1.2 The Assignment, Consent and Acceptance to the Registration Rights Agreement dated August 11, 1999, between the Company and KCSI, and KCSI's wholly-owned subsidiary, Stilwell Financial, Inc., which is attached as Exhibit 4.15.2 to the Company's Form 10-Q dated August 13, 1999, is hereby incorporated by reference as Exhibit 4.1.2.

- 4.2 The Certificate of Designations dated October 16, 1995, establishing the Series A Preferred Stock of the Company, which is attached as Exhibit 4.3 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 4.2.
- 4.3. The Summary of the preferred stock purchase rights set forth in Form 8-A dated November 15, 1995 (Commission file no. 1-14036), and the related Rights Agreement dated as of October 6, 1995, between the Company and State Street Bank and Trust Company, as rightsagent, which is attached as Exhibit 4.4 to the Company's IPO Registration Statement, are hereby incorporated by reference as Exhibit 4.3.
  - 4.3.1 The First Amendment dated as of July 9, 1998 to the Rights Agreement dated as of October 6, 1995 between the Registrant and State Street Bank and Trust Company attached as Exhibit 99 to Amendment No.1, dated July 30, 1998, to the Company's Registration Statement on Form 8-A for its Preferred Share Purchase Rights (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.3.1.
  - 4.3.2 The Second Amendment dated as of September 10, 1999 to the Rights Agreement dated as of October 6, 1995 and as amended on July 9, 1998, between the Registrant and State Street Bank and Trust Company attached as Exhibit 99 to Amendment No.2, dated September 27, 1999, to the Company's Registration Statement on Form 8-A12B/A for its Preferred Share Purchase Rights (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.3.2.
- 4.4. The Registration Rights Agreement dated October 31, 1995, between the Company and UMB Bank, N.A. as trustee of The Employee Stock Ownership Plan of DST Systems, Inc. ("UMB"), which is attached as Exhibit 4.4 to the Company's Annual Report for the year ended December 31, 1995 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.4.
- 4.5. The Stock Exchange Agreement dated October 26, 1995, between KCSI and UMB, which is attached as Exhibit 4.6 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 4.5.
- 4.6. The description set forth under the heading "Dividend Policy" in the Company's IPO Registration Statement of the Common Stock on Form 8-A (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.6.
- 4.7 The description of the Company's common stock, par value \$0.01 per share, set forth in the Company's Registration Statement on Form 8-A dated January 21, 1998, (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.7.
- 4.8 Paragraphs fourth, fifth, sixth, seventh, tenth, eleventh, and twelfth of Exhibit 3.1 are hereby incorporated by reference as Exhibit 4.8.
- 4.9 Article I, Sections 1, 2, 3, and 11 of Article II, Article V, Article VIII, Article IX of Exhibit 3.2 are hereby incorporated by reference as Exhibit 4.9.
- 4.10 The Affiliate Agreement with James C. Castle dated October 28, 1998, which is attached as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.10.
- 4.11 The Affiliate Agreement with George L. Argyros, Sr., dated September 3, 1998, is attached as Exhibit 4.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.11.

- 4.12 The Stockholder Agreement with KCSI dated September 2, 1998, which is attached as Exhibit 4.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.12.
- 4.12.1 The First Amendment to the Stockholder Agreement with Kansas City Southern Industries, Inc. dated October 29, 1998, which is attached as Exhibit 4.2.1 to the Company's S-4, is hereby incorporated by reference as Exhibit 4.12.1.
- 4.13 The Stockholder Agreement with George L. Argyros, Sr. dated September 2, 1998, which is attached to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.13.
- 4.14 The Stockholder Agreement with James C. Castle, dated September 2, 1998, which is attached as Exhibit 4.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.14.
- 4.15 The Registration Rights Agreement with George L. Argyros, Sr., James C. Castle and certain other individuals dated December 21, 1998, which is attached as Exhibit 4.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.15.
- 4.16 The Five-Year Competitive Advance and Revolving Credit Facility Agreement ("Chase Agreement") among the Company, the lenders named therein, The Chase Manhattan Bank, N.A. as Documentation, Syndication, and Administrative Agent dated December 30, 1996, which is attached as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.16.
- 4.16.1 The Amendment to the Chase Agreement dated November 19, 1998, which is attached as Exhibit 4.16.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 4.16.1.

The Company agrees to furnish to the Commission a copy of any long-term debt agreements that do not exceed 10 percent of the total assets of the Company upon request.

## **9. VOTING TRUST AGREEMENT**

Not applicable.

## **10. MATERIAL CONTRACTS**

- 10.1. The Tax Disaffiliation Agreement between the Company and KCSI dated October 23, 1995, which is attached as Exhibit 10.4 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.1
- 10.2. The Stock Purchase, Sale of Assets, Assignment and Assumption Agreement dated August 30, 1995, among the Company, DST Realty, Inc., Tolmak, Inc., Mulberry Western Company and KCSI, which is attached as Exhibit 10.5 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.2.
- 10.3. The Agreement between State Street Boston Financial Corporation and Data-Sys-Tance dated June 1, 1974 ("State Street Agreement"), which is attached as Exhibit 10.14 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.3.
- 10.3.1. The Amendment to the State Street Agreement between the Company and State Street, dated October 1, 1987, which is attached as Exhibit 10.14.1 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.3.1.

- 10.3.2. The Amendment to the State Street Agreement between the Company and State Street, dated February 6, 1992, which is attached as Exhibit 10.3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.3.2. Portions of this agreement are subject to confidential treatment.
- 10.4. The Data Processing Services Agreement between the Company and The Continuum Company, Inc. dated October 1, 1993, which is attached as Exhibit 10.15 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.4.
- 10.5. The Agreement among the Company, Financial Holding Corporation, KCSI and Argus Health Systems, Inc. dated June 30, 1989, which is attached as Exhibit 10.16 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.5.
- 10.6. The Stock Transfer Restriction and Option Agreement between the Company, Argus Health Systems, Inc. and Financial Holding Corporation dated June 30, 1989, which is attached as Exhibit 10.16.1 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.6.
- 10.7. The Contribution Agreement between DST Systems, Inc. and Boston EquiServe Limited Partnership dated November 30, 1998, which is attached as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.7.
- 10.8. The Fairway System Software Development Agreement dated November 30, 1998, which is attached as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.8.
- 10.9. The Company's Executive Plan effective as of October 31, 1995, which is attached as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.9.
- 10.10. The Company's Officers Incentive Plan as amended and restated on February 2, 2000, is attached as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (Commission file no. 1-14036).
- 10.11. The Company's Deferred Compensation Plan dated May 12, 1998, which is attached as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.11.
- 10.12. The Company's DST Systems, Inc. Supplemental Executive Retirement Plan effective January 1, 1999, attached as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (Commission file no. 1-14036).
- 10.13. The Company's Directors' Deferred Fee Plan effective September 1, 1995, which is attached as Exhibit 10.19 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.13.
- 10.14. The 1999 USCS Executive Bonus Plan, which is attached as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.14. Portions of this agreement are subject to confidential treatment.

- 10.15. The USCS International, Inc. Deferred Compensation Plan, which is attached as Exhibit 10.7 to USCS International, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 (Commission file no. 000-28268), is hereby incorporated by reference as Exhibit 10.15.
- 10.16. The USCS International, Inc. Bonus Deferral Plan, which is attached as Exhibit 4.1 to USCS International, Inc.'s Registration Statement on Form S-8 dated August 29, 1997 (Commission file no. 333-34801), is hereby incorporated by reference as Exhibit 10.16.
- 10.17. The Trust Agreement between the Company as settlor and United Missouri Bank of Kansas City, N.A. as Trustee dated December 31, 1987, which is attached as Exhibit 10.20 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.17.
- 10.17.1. The Eighth Amendment to the Trust Agreement between the Company as settlor and United Missouri Bank of Kansas City, N.A. as Trustee dated December 31, 1998, which is attached as Exhibit 10.16.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.17.1.
- 10.18. Trust Agreement by and between the Company as settlor and United Missouri Bank of Kansas City, N.A., Trustee dated June 30, 1989, for the benefit of James Horan, which is attached as Exhibit 10.20.1 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.18.
- 10.18.1. The Amendment to the Trust Agreement by and between the Company as settlor and United Missouri Bank of Kansas City, N.A., Trustee dated December 31, 1998, for the benefit of James Horan, which is attached as Exhibit 10.17.1 to the Company's Annual Report of Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.18.1.
- 10.19. The Employment Agreement between the Company and Thomas A. McDonnell dated January 1, 1999, which is attached as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.19.
- 10.20. The Employment Agreement between the Company, KCSI and Thomas A. McCullough dated April 1, 1992, as amended October 9, 1995, which is attached as Exhibit 10.9 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.20.
- 10.21. The Employment Agreement between the Company, KCSI and James P. Horan dated April 1, 1992, as amended October 9, 1995, which is attached as Exhibit 10.10 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.21.
- 10.22. The Employment Agreement between the Company, KCSI and Robert C. Canfield, dated April 1, 1992, as amended October 9, 1995, which is attached as Exhibit 10.11 to the Company's IPO Registration Statement, is hereby incorporated by reference as Exhibit 10.22.
- 10.23. The Employment Agreement between the Company, KCSI and Charles W. Schellhorn, dated April 1, 1992, as amended October 9, 1995, which is attached as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (Commission file no. 1-14036), is hereby incorporated by reference as Exhibit 10.23.
- 10.24. The Employment Agreement between USCS and James C. Castle dated August 10, 1992, which is attached to USCS' Registration Statement on Form S-1, Registration No. 333-03842, is hereby incorporated by reference as Exhibit 10.24.

- 10.25. The USCS International, Inc. 1996 Directors' Stock Option Plan (the "Directors' Plan") dated as of April 18, 1996, which is attached as Exhibit 10.5 to USCS International, Inc.'s Registration Statement on Form S-1 (Commission File No. 333-3842) dated May 29, 1996, is hereby incorporated by reference as Exhibit 10.25.\*
- 10.25.1. The First Amendment to the Directors' Plan dated February 22, 1998, which is attached as Exhibit 4.6.2 to the Company's Registration Statement on Form S-8 dated March 2, 1999 (Commission File No. 333-73241), is hereby incorporated by reference as Exhibit 10.25.1.\*
- 10.26. The USCS International, Inc. 1988 Incentive Stock Option Plan ("the 1988 USCS Plan") dated July 1, 1988, as amended and restated as of March 5, 1997, which is attached as Exhibit 4.6.1 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.26.\*
- 10.26.1. The Amendment dated January 22, 1998, to the 1988 USCS Plan, which is attached as Exhibit 4.6.2 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.26.1.\*
- 10.27. The USCS International, Inc. 1990 Stock Option Plan ("the 1990 USCS Plan") dated December 31, 1990, as amended and restated as of March 5, 1997, which is attached as Exhibit 4.7.1 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.27.\*
- 10.27.1. The Amendment dated January 22, 1998, to the 1990 USCS Plan, which is attached as Exhibit 4.7.2 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.27.1.\*
- 10.28. The USCS International, Inc. 1993 Incentive Stock Option Plan ("the 1993 USCS Plan") dated May 18, 1993, as amended and restated as of March 5, 1997, which is attached as Exhibit 4.8.1 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.28.\*
- 10.28.1. The Amendment dated January 22, 1998, to the 1993 USCS Plan, which is attached as Exhibit 4.8.2 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.28.1.\*
- 10.29. The USCS International, Inc. 1996 Stock Option Plan ("the 1996 USCS Plan") dated April 12, 1996, which is attached as Exhibit 4.9.1 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.29.\*
- 10.29.1. The Amendment dated July 25, 1996, to the 1996 USCS Plan, which is attached as Exhibit 4.9.2 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.29.1.\*
- 10.29.2. The Amendment dated January 23, 1997, to the 1996 USCS Plan, which is attached as Exhibit 4.9.3 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.29.2.\*
- 10.29.3. The Amendment dated January 22, 1998, to the 1996 USCS Plan, which is attached as Exhibit 4.9.4 to the Company's Registration Statement on Form S-8 dated December 21, 1998 (Commission File No. 333-69393), is hereby incorporated by reference as Exhibit 10.29.3.\*
- 10.30. The Company's 1995 Stock Option and Performance Award Plan, amended and restated as of February 29, 2000, is attached as Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (Commission file no. 1-14036).

10.31. The Employment Agreement between the Company and J. Michael Winn, dated June 23, 1993, is attached as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (Commission file no. 1-14036).

\* The agreements and the amendments thereto are included as exhibits only to the extent that they are incorporated into the option agreements assumed by the Company with its acquisition of USCS.

**11. STATEMENT RE COMPUTATION OF PER SHARE EARNINGS**

Not applicable.

**12. STATEMENTS RE COMPUTATION OF RATIOS**

Not applicable.

**13. ANNUAL REPORT TO SECURITY HOLDERS, FORM 10-Q OR QUARTERLY REPORT TO SECURITY HOLDERS**

Not applicable.

**16. LETTER RE CHANGE IN CERTIFYING ACCOUNTANT**

Not applicable.

**18. LETTER RE CHANGE IN ACCOUNTING PRINCIPLES**

Not applicable.

**21. SUBSIDIARIES OF THE COMPANY**

The list of the Company's significant subsidiaries, which is attached as Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, (Commission file no. 1-14036).

**22. PUBLISHED REPORT REGARDING MATTERS SUBMITTED TO VOTE OF SECURITY HOLDERS**

Not applicable.

**23. CONSENTS OF EXPERTS AND COUNSEL**

The consent of PricewaterhouseCoopers LLP is attached hereto as Exhibit 23.1.

**24. POWER OF ATTORNEY**

Not applicable.

**27. FINANCIAL DATA SCHEDULE**

A Financial Data Schedule prepared in accordance with Item 601 (c) of Regulation S-K is attached hereto as Exhibit 27.1.

**99. ADDITIONAL EXHIBITS**

Not applicable.

**(B) REPORTS ON FORM 8-K DURING THE LAST CALENDAR QUARTER**

The Company filed a Form 8-K dated October 22, 1999, under Item 5 of such form, reporting the announcement of financial results for the three and nine months ended September 30, 1999.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DST SYSTEMS, INC.

By:           /s/ Thomas A. McDonnell          

Thomas A. McDonnell  
PRESIDENT AND CHIEF EXECUTIVE  
OFFICER,  
DIRECTOR

Dated: February 29, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company and in capacities indicated on February 29, 2000.

          /s/ A. Edward Allinson          

          /s/ Thomas A. McDonnell          

A. EDWARD ALLINSON  
DIRECTOR

THOMAS A. MCDONNELL  
PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
DIRECTOR

          /s/ George L. Argyros, Sr.          

          /s/ Thomas A. McCullough          

GEORGE L. ARGYROS, SR.  
DIRECTOR

THOMAS A. MCCULLOUGH  
EXECUTIVE VICE PRESIDENT, DIRECTOR

          /s/ Michael G. Fitt          

          /s/ James C. Castle          

MICHAEL G. FITT  
DIRECTOR

JAMES C. CASTLE  
DIRECTOR

          /s/ William C. Nelson          

          /s/ Kenneth V. Hager          

WILLIAM C. NELSON  
DIRECTOR

KENNETH V. HAGER  
VICE PRESIDENT, CHIEF FINANCIAL OFFICER AND  
TREASURER  
(PRINCIPAL FINANCIAL OFFICER)

          /s/ M. Jeannine Standjord          

          /s/ Gregg Wm. Givens          

M. JEANNINE STANDJORD  
DIRECTOR

GREGG WM. GIVENS  
VICE PRESIDENT AND CHIEF ACCOUNTING  
OFFICER  
(PRINCIPAL ACCOUNTING OFFICER)

### **DST SYSTEMS, INC., 1999 FORM 10-K ANNUAL REPORT INDEX TO EXHIBITS**

The following Exhibits are attached hereto. See Part IV of this Annual Report on Form 10-K for a complete list of exhibits.

<b>EXHIBIT NUMBER</b>	<b>DOCUMENT</b>
10.10	Officers Incentive Plan as amended and restated February 2, 2000
10.12	DST Systems, Inc. Supplemental Executive Retirement Plan
10.30	1995 Stock Option and Performance Award Plan, amended and restated as of February 29, 2000
10.31	Employment Agreement with J. Michael Winn
21.1	Subsidiaries of the Company
23.1	Consent of Independent Accountants
27.1	Financial Data Schedule

**EXHIBIT 10.10**

**DST SYSTEMS, INC.  
OFFICERS INCENTIVE PLAN  
(AMENDED AND RESTATED AS OF FEBRUARY 2, 2000)**

**SECTION 1. PURPOSE**

The purpose of the Officers Incentive Plan is to reward plan participants for achieving defined earnings per share objectives that support increasing profitability of DST Systems, Inc. The Plan provides both annual and long-term incentives, contingent upon meeting annual and cumulative Earnings Per Share goals. The Company intends that the Plan will facilitate in securing, retaining, and motivating employees of superior capability; in providing competitive management compensation; and in linking incentive awards to objectives that should enhance shareholder value.

**SECTION 2. DEFINITIONS**

When used in the Plan, the following words and phrases shall have the following meanings:

- (a) "Affiliate" means Boston EquiServe Limited Partnership, a Delaware limited partnership, and any successor thereto and any other entity (other than the Company or a Subsidiary) of which the Company or a Subsidiary directly or indirectly owns 50% or more of the combined voting power of all classes of stocks of such entity or 50% or more of the ownership interests in such entity.
- (b) "Beneficiary" means the person, persons, trust, or trusts which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Company to receive the benefits specified under this Plan, if any, upon the Participant's death, or, if there is no designated Beneficiary or surviving designated Beneficiary, then the person, persons, trust, or trusts entitled by will or the laws of descent and distribution to receive such benefits.
- (c) "Board" means the Board of Directors of the Company.
- (d) "Committee" means the Compensation Committee of the Board or such other Board Committee as may be designated by the Board to administer the Plan; provided, however, that the Committee shall consist of two or more directors of the Company each of whom is a "disinterested person" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended from time to time and an "outside director" as required by Section 162(m) of the Internal Revenue Code.
- (e) "Common Stock" means the Common Stock of the Company.

- (f) "Common Stock Outstanding" means the weighted average number of actual shares of Common Stock issued and outstanding during the Plan Year, determined in accordance with generally accepted principles. In the event of a reorganization, recapitalization, stock split, spin off, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the capital structure of the Company, the Committee may make such adjustment, if any, as it deems appropriate in the determination of Common Stock Outstanding.
- (g) "Company" means DST Systems, Inc., a corporation organized under the laws of Delaware, or any successor company.
- (h) "Disability" means the Participant, because of a physical or mental disability, will be unable to perform the duties of his or her customary position of employment (or is unable to engage in any substantial gainful activity for DST) for an indefinite period which the Committee considers will be of long continued duration. The Plan considers a Participant disabled on the date the Committee determines the Participant satisfies the definition of disability. The Committee may require a Participant to submit to a physical examination in order to confirm disability. The Committee will apply the provisions of this section in a nondiscriminatory, consistent and uniform manner.
- (i) "Earnings Per Share" or "EPS" means diluted earnings per share, determined in accordance with generally accepted accounting principles.
- (j) "Equity" shall mean either Restricted Common Stock or Options.
- (k) "Income" means net income of the Company and its consolidated Subsidiaries, determined in accordance with generally accepted principles, consistently applied, for any Plan Year for which the incentive awards are calculated, as reported by the Company and certified by the Company's independent certified public accountants.
- (l) "Market Price" means the closing price of Common Stock on the New York Stock Exchange.
- (m) "Options" shall mean non-qualified options to purchase Common Stock granted pursuant to Sections 5 and 7.
- (n) "Participant(s)" mean all officers of the Company and such officers of Subsidiaries and Affiliates as designated from time to time by the Compensation Committee.
- (o) "Plan" means this Officers Incentive Plan, as it may be amended from time to time.
- (p) "Plan Year" means the fiscal year of the Company. The first Plan Year will begin January 1, 1997 and end December 31, 1997.
- (q) "Restricted Common Stock" means Common Stock delivered in payment of an incentive award and subject to restrictions described in Section 7.
- (r) "Subsidiary" means a corporation, domestic or foreign, the majority of the voting stock of which is owned directly or indirectly by the Company.
- (s) "Targeted Earnings Per Share" or "Targeted EPS" means the Earnings Per Share criteria to be established by the Committee, from time to time and in its sole discretion, pursuant to Section 4(b) for purposes of determining incentive awards.

### **SECTION 3. ELIGIBILITY AND PARTICIPATION**

Except in the event of (i) retirement on or after age 60, (ii) Disability, (iii) death, or (iv) termination without cause, a Participant must be an active employee of the Company, a Subsidiary, or Affiliate on December 31 of the Plan Year to be eligible for an incentive award. In the event of retirement, Disability, death, or termination without cause, the incentive

award as calculated at the end of and for the full Plan Year shall be pro-rated to reflect the actual period of employment during the Plan Year.

#### **SECTION 4. INCENTIVE AWARD DETERMINATION**

- (a) **INCENTIVE AWARD OPPORTUNITY** As soon as practical after adoption of the Plan, the Committee shall establish Threshold, Target, and Maximum incentive award opportunity levels (expressed as percentages of base salary as of the beginning of the Plan Year) for each Participant level in the Plan for the 1997, 1998, and 1999 Plan Years. For Plan Years following 1999, the Committee shall establish award opportunity levels at the times and in the manner it deems appropriate for carrying out the intent of this Plan.

The amount of the incentive award earned will be pro-rated between incentive award opportunity levels to reflect actual performance attained. No incentive award will be payable with respect to a performance measure and weighting where less than Threshold performance has been attained. No incentive award for a Plan Year shall exceed 250% of the Participant's base salary as of the beginning of the Plan Year.

- (b) **PERFORMANCE MEASURES AND WEIGHTING** As soon as practical after adoption of the Plan, the Committee shall establish performance criteria and weighting between performance criteria for each level of incentive award opportunity for the 1997, 1998, and 1999 Plan Years. The performance criteria shall be based upon 1997 Targeted Earnings Per Share for each of the Threshold, Target and Maximum incentive award opportunity levels, annual increases in the Targeted Earnings Per Share for 1998 and 1999, and cumulative Targeted Earnings Per Share. For Plan Years following 1999, the Committee shall establish performance criteria and weighting among criteria for each Participant at the times and in the manner it deems appropriate for carrying out the intent of this Plan.

Weighting between annual and cumulative Targeted Earnings Per Share goals for the first three Plan Years shall be as follows:

1997 Plan Year: 100% on 1997 Targeted EPS.

1998 Plan Year: 67% on 1998 Targeted EPS; 33% on cumulative 1997 and 1998 Targeted EPS. 1999 Plan Year: 50% on 1999 Targeted EPS; 50% on cumulative 1997, 1998, and 1999 Targeted EPS.

#### **SECTION 5. PAYMENT OF EARNED INCENTIVE AWARDS**

As soon as practical after the end of the Plan Year and upon the compilation of the necessary information, the Committee shall determine the degree of attainment of the performance measures and the awards payable in accordance with Section 4 and this Section 5. The Committee shall certify, in writing, prior to the payment of incentive awards that the performance goals and other material terms of the Plan have been satisfied.

The aggregate incentive award determined for a Plan Year (annual and cumulative) shall be paid to the Participant in a combination of cash and Equity, depending on the level of incentive award earned, as follows:

- (a) 100% cash for that portion of a Participant's incentive award up to and including his or her Threshold incentive opportunity level;
- (b) 50% cash and 50% Equity for that portion of a Participant's incentive award above his or her Threshold incentive opportunity levels up to and including his or her Maximum incentive opportunity level; and

Upon the Committee's written certification, the Company shall pay the cash portion of the incentive award earned, less any amounts required to be withheld for federal, state and local taxes, as soon as practicable and shall grant the Equity portion in accordance with the procedures and restrictions set forth in Section 7.

## SECTION 6. LIMITATIONS ON INCENTIVE AWARDS

The aggregate value of all incentive awards for a Plan Year shall not exceed ten percent (10%) of the Company's pre-tax income for such Plan Year. If incentive awards generated in a Plan Year exceed this amount, the incentive awards for all Participants shall be reduced pro-rata.

## SECTION 7. EQUITY ELECTION AND PROCEDURES

- (a) **PARTICIPANT ELECTION** Each Participant who may receive an award of Equity pursuant to Section 5 may elect to receive either Restricted Stock or Options. The procedures for making such election shall be determined from time to time by the Committee.
- (b) **RESTRICTED COMMON STOCK**
- (i) **ISSUANCE OF RESTRICTED COMMON STOCK** Each Participant electing to receive Restricted Common Stock shall have issued in his or her name a number of full shares of Restricted Common Stock equal to the whole number of the quotient obtained by dividing the dollar amount of the incentive award to be settled in Equity, as determined in Section 5, by the Market Price on the "date of grant". The date that the Committee approves the incentive awards for the Plan Year shall be deemed to be the date of grant. If the amount of the award is not evenly divisible by such Market Price, then the remainder shall be paid to the Participant in cash
- (ii) **RIGHTS AND OBLIGATIONS ON RESTRICTED COMMON STOCK** A certificate for all shares of Restricted Common Stock registered in the name of a Participant shall be delivered to the office of the corporate secretary for safekeeping. The Participant shall thereupon be a stockholder and have all the rights of a stockholder with respect to such shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such shares; provided, that, in the discretion of the Compensation Committee, all such distributions that are not capital stock of the employer of the Participant shall be converted to capital stock of such employer, and provided further, that such shares of Restricted Common Stock, and any new, additional or different securities the Participant may become entitled to receive with respect to such shares by virtue of a stock split or stock dividend or any other change in the corporate or capital structure of the Company, shall be subject to the restrictions described in Section 7 (b)(iii).
- (iii) **RESTRICTIONS ON RESTRICTED COMMON STOCK** Prior to their release as provided in Section 7(b)(iv), the shares of Restricted Common Stock may not be sold, exchanged, transferred, pledged, hypothecated, or otherwise disposed of by the Participant. However, nothing herein shall preclude a Participant from making a gift of any shares of Restricted Common Stock to a spouse, child, step-child, grandchild, parent or sibling, or legal dependent of the Participant or to a trust of which the beneficiary or beneficiaries of the corpus and the income shall be either such a person or the Participant; provided that, the Restricted Common Stock so given shall remain subject to the restrictions, obligations and conditions described in this Section.
- (iv) **RELEASE OF RESTRICTIONS AND DELIVERY OF SHARES** All restrictions on Restricted Common Stock shall lapse on the first day of the fourth fiscal year following the Plan Year for which the Restricted Common Stock was awarded (the "Release of Restriction Date"); provided, however that in the event of termination of employment with the Company, Subsidiary, or Affiliate prior to the Release of Restriction Date for any reason other than the Participant's (i) retirement on or after 60, (ii) Disability, (iii) death, or (iv) termination by the Company without cause, all rights to any shares of Restricted Common Stock with respect to such award shall be forfeited to the Company and certificates for such shares shall be cancelled and of no further effect.

Any shares of Restricted Common Stock held by the office of the corporate secretary on the Release of Restriction Date shall be delivered, free and clear of all restrictions, to (A) the Participant upon the Release of Restriction Date, his or her retirement on or after 60, Disability, or termination without cause; or (B) his or her Beneficiary upon his or her death before retirement.

**(c) OPTIONS**

- (i) **COMPUTATION OF NUMBER** Each Participant electing to receive Options shall have granted to him or her an option for that number of shares of Common Stock equal to the whole number of the quotient obtained by dividing (A) the dollar amount of the incentive award to be settled in Common Stock options, as determined in Section 5 times 1.25 by (B) the Black-Scholes value of the options on the "date of grant." The date that the Committee approves the incentive awards for the Plan Year shall be deemed to be the date of grant. If the amount of the award is not evenly divisible by such value, then the remainder shall be paid to the Participant in cash.
- (ii) **OPTION TERMS** The Common Stock options shall be subject to an agreement between the grantee and the Corporation (an "Option Agreement") and will contain the following terms:
  - (A) the Common Stock options shall be non-qualified options granted pursuant to the DST Systems, Inc. 1995 Stock Option and Performance Award Plan (the "Option Plan");
  - (B) the option price shall be the fair market value (as defined in the Option Plan) on the date of grant;
  - (C) the options shall become exercisable on the last day of the third calendar year following the calendar year for which the bonus allocated to the option was earned, subject to becoming exercisable earlier upon retirement, death, disability;
  - (D) the options shall have a reload feature which would be effective only if the fair market value of the Common Stock has increased at least 20% from the date of grant to the date of exercise;
  - (E) the options shall be further subject to the terms and conditions set forth in the Option Agreement.

**SECTION 8. CHANGE IN CONTROL**

- (a) **EFFECT ON RESTRICTED COMMON STOCK AND OPTIONS** In the event of a Change in Control (as defined below), all time periods and requirements necessary to cause a release of restrictions as set forth in Section 7 (b) (iv) shall be deemed to have been met; and, the Release of Restrictions Date will be deemed to be upon such Change in Control. Any shares of Restricted Common Stock then held by the office of the corporate secretary shall be delivered to the Participant upon such Release of Restrictions, free and clear of all restrictions. The effect of a change of control on Options shall be determined under the Option Agreement.
- (b) **EFFECT ON PLAN YEAR** Notwithstanding anything in the Plan to the contrary, in the event of a Change in Control:
  - (i) the Plan Year will end as of the Change in Control;
  - (ii) the attained level of performance with respect to any and all performance goals and weighting and the resulting incentive award earned for the Plan Year shall be deemed to be at Maximum, without reduction for a short Plan Year; and
  - (iii) the incentive award for the Plan Year shall be paid promptly in cash.
- (c) **CHANGE IN CONTROL DEFINED** For purposes of this Plan, a "Change in Control" shall be deemed to have occurred if the conditions in (i), (ii), or (iii) are met:
  - (i) for any reason at any time less than seventy-five percent (75%) of the members of the Board shall be individuals who fall into any of the following categories:
    - (A) individuals who were members of such Board on September 1, 1995;

- (B) individuals whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least seventy-five percent (75%) of the members of the Board then still in office who were members of such Board on September 1, 1995; or
  - (C) individuals whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least seventy-five percent (75%) of the members of the Board then still in office who were elected in the manner described in (A) or (B) above.
- (ii) any "person" (as such term is used in Sections 13 (d) and 14 (d) (2) of the Exchange Act) shall have become, according to a public announcement or filing, without the prior approval of the Board, the "beneficial owner" (as defined in Rule 13 (d) - 3 under the Exchange Act) directly or indirectly, of securities of the Company representing twenty percent (20%) or more (calculated in accordance with Rule 13 (d) - 3) of the combined voting power of the Company's then outstanding voting securities (such "person" hereafter referred to as a "Major Stockholder"). For purposes of the Plan, Kansas City Southern Industries, Inc. shall not be deemed to be a Major Stockholder unless its ownership of voting securities of the Company, directly or indirectly, falls below twenty percent (20%) and subsequently increases to represent twenty percent (20%) or more of the Company's then outstanding voting securities.
- (iii) the stockholders of the Company shall have approved a merger, consolidation or dissolution of the Company or a sale, lease, exchange or disposition of all or substantially all of the Company's assets, or a Major Stockholder shall have proposed any such transaction, unless such merger, consolidation, dissolution, sale, lease, exchange or disposition shall have been approved by at least seventy-five percent (75%) of the members of the Board who are individuals falling into any combination of the following categories:
- (A) individuals who were members of such Board on September 1, 1995;
  - (B) individuals whose election or nomination for election by the Company's stockholders was approved by at least seventy-five percent (75%) of the members of the Board then still in office who are members of the Board on September 1, 1995; or
  - (C) individuals whose election, or nomination for election by the Company's stockholders was approved by a vote of at least seventy-five percent (75%) of the members of the Board then still in office who were elected in the manner described in (A) or (B) above.

## **SECTION 9. PLAN ADMINISTRATION**

The Plan shall be administered by the Committee which is authorized to establish such rules and procedures necessary to carry out its tasks. The Committee shall have sole discretion in interpreting and in exercising its authority under the Plan. Any action of the Committee with respect to the Plan shall be final, conclusive and binding on all persons including the Company, Subsidiaries, Affiliates, Participants, and any person claiming any rights under the Plan from or through any Participant.

Except for those functions that must be performed by the Committee pursuant to Section 16 of the Securities Exchange Act of 1934 and other applicable law, the Committee may delegate to officers of the Company the authority, subject to such terms as the Committee shall determine, to perform administrative functions. Notwithstanding anything herein to the contrary, the Committee shall be solely responsible for certifying, in writing, prior to payment of any incentive awards that the performance goals and other material terms were satisfied.

## **SECTION 10. NO RIGHT TO CONTINUED EMPLOYMENT**

Neither the establishment of the Plan, the participation by an individual in the Plan nor the payment of any award hereunder or any other action pursuant to the Plan shall be held or construed to confer upon any Participant the right to continue in the employ of the Company, a Subsidiary, or Affiliate or affect any right which the Company or its Subsidiaries have to terminate at will the employment of any such Participant.

**SECTION 11. NON-TRANSFERABILITY OF AWARDS**

Except as otherwise provided in this Plan, no amount payable at any time under the Plan shall be subject to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge, or encumbrance of any kind nor in any manner be subject to the debts or liabilities of any person, and any attempt to so alienate or subject any such amount shall be void.

**SECTION 12. AMENDMENT AND TERMINATION OF THE PLAN**

The Committee may amend or terminate this Plan in whole or in part at any time without the consent of or prior notice to any Participant including, but not limited to modifying (a) the Targeted EPS, (b) the incentive award opportunity levels for any or all Participants, (c) the weighting between annual and cumulative Targeted EPS, (d) the percentages of cash, restricted stock (or other equity components such as options) to be paid to a Participant as an incentive award. No such amendment or termination shall adversely affect the right of a Participant to receive any amount to which he has become entitled by achieving goals prior to such amendment or termination. In the event of a termination of the Plan or an amendment which adversely affects the computation of an award to a Participant which occurs during a Plan Year, the Participant shall be entitled to receive (i) a prorata award to the effective date of such termination or amendment, calculated under the terms and conditions of the Plan immediately prior to such effective date and (ii) any award provided by such amended Plan for the balance of such Plan Year. Upon termination of this Plan, any Restricted Common Stock held by the office of the corporate secretary shall remain subject to the restrictions, obligations, rights and conditions described in Sections 7 and 8 as though the Plan had not terminated.

**SECTION 13. INDEMNIFICATION**

The Company shall indemnify and hold harmless the Committee and each Committee member against any and all claims, loss, damage, expense or liability arising from any good faith action or failure to act with respect to this Plan.

**SECTION 14. INCAPACITY**

If the Committee determines that any person entitled to payments under the Plan is unable to care for his or her affairs because of illness or accident, or has died without naming a Beneficiary, unless a prior claim has been made by a duly appointed legal representative, any payment due to such person or his or her estate may, if the Committee so directs, be paid to the person's spouse, child, a relative, an institution maintaining or having custody of such person, or any other person the Committee deems to be a proper recipient on behalf of the person entitled to the payment.

**SECTION 15. GOVERNING LAW**

The provisions of the Plan shall be construed and interpreted according to the laws of the State of Missouri without reference to its principles of conflicts of law.

**SECTION 16. SEVERABILITY**

If any provision of the Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of the Plan, and the Plan shall be construed and enforced as if such provision had not been included.

**SECTION 17. HEADINGS**

The headings of sections of the Plan are for convenience of reference. In case of any conflict, the text of the Plan, rather than such headings, shall control.

\* \* \* \* \*

This Plan adopted by the Compensation Committee this 27th day of February, 1997.

By: /s/ M. Jeannine Strandjord

\_\_\_\_\_  
M. Jeannine Strandjord  
Chair, DST Systems, Inc. Compensation Committee

The Plan amended by the Compensation Committee on May 12, 1998, December 16, 1999 and February 2, 2000 and Restated as of February 2, 2000.

/s/ M. Jeannine Strandjord

M. Jeannine Strandjord  
Chair, DST Systems, Inc.  
Compensation Committee

## **EXHIBIT 10.12**

### **DST SYSTEMS, INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

#### **ARTICLE I. GENERAL**

##### **1.1 PURPOSE.**

The purpose of this Supplemental Executive Retirement Plan ("SERP") is to supplement the DST Systems, Inc. 401(k) Profit Sharing Plan and its predecessor plans (collectively called the "401(k) Plan"), and The Employee Stock Ownership Plan and Trust Agreement of DST Systems, Inc. (the "ESOP"). The 401(k) Plan and the ESOP are collectively referred to herein as the "Qualified Plan." The SERP is intended to generally replace lost benefits under the Qualified Plan due to limitations applicable to plans of that nature under the Internal Revenue Code of 1986, as amended (the "Code").

##### **1.2 NATURE OF SERP.**

The SERP is, and shall be administered as, an employee pension plan benefiting a select group of management or highly compensated employees under the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The SERP shall be "unfunded" for tax purposes and for purposes of Title I of ERISA. Any and all payments under the SERP shall be made solely from the general assets of DST Systems, Inc. ("DST"). A Participant's interests under the SERP do not represent or create a claim against specific assets of DST or any Affiliated Company. Nothing herein shall be deemed to create a trust of any kind or create any fiduciary relationship between DST or its Board of Directors, any Affiliated Company, the Committee or its delegates, and a Participant, a Beneficiary or any other person or entity claiming for or through a Participant or Beneficiary. To the extent any person acquires a right to receive payments from DST under this SERP, such right is no greater than the right of any other unsecured general creditor of DST.

#### **ARTICLE II. DEFINITIONS**

Except as expressly provided herein, capitalized terms used in the SERP shall have the same meanings as set forth in the 401(k) Plan, and the 401(k) Plan's definitions and operative terms are incorporated herein by reference. In the event of a conflict between the meaning of the terms used in the SERP and the meaning of terms used in the 401(k) Plan, the meaning as set forth in the SERP shall prevail.

**2.1 "ACCOUNT"** means the bookkeeping account established by the Committee or its delegate to reflect allocations made on behalf of a Participant and credited earnings, gains or losses thereon.

**2.2 "BENEFICIARY"** means the primary and contingent beneficiaries designated by a Participant by written instrument delivered to the Committee or its designee to receive any benefits payable hereunder following the Participant's death. A Participant may designate the proportions in which such beneficiaries are to receive such payments and may change such designation from time to time. The last written designation filed with the Committee or its designee prior to the Participant's death shall control. In the event no beneficiary is designated, or if the designated beneficiary predeceases the Participant, "Beneficiary" shall mean first the Participant's surviving spouse, then the Participant's known natural or adopted surviving children in equal amounts or, if there are no such surviving spouse or children, the Participant's estate.

**2.3 "COMMITTEE"** means the Compensation Committee of the DST Board of Directors.

**2.4 "COMPENSATION"** means the Participant's base salary actually paid during a specified Plan Year, plus the value of accrued cash bonuses for such year. Solely for the 1999 Plan Year, "Compensation" shall also include the dollar value of restricted stock granted to such Participant for 1999 under the DST Systems, Inc.

**Officers Incentive Plan.**

**2.5 "EFFECTIVE DATE"** means January 1, 1999, the first day of the first Plan Year for which this SERP is effective.

**2.6 "KEY EMPLOYEE"** means an employee of DST or an Affiliated Company who is in a select group of management or highly compensated employees.

**2.7 "PARTICIPANT"** means any individual who is designated as a participant by the Committee pursuant to Section 3.2 and whose benefits under the SERP have not been fully distributed.

**2.8 "RETIREMENT"** means a Termination of Employment by a Participant after attaining Normal Retirement Age, or such other Termination of Employment as determined by the Committee or its delegate from time to time .

**2.9 "VALUATION DATE"** means each March 31, June 30, September 30 and December 31 or such other dates as determined by the Committee in its sole discretion.

**ARTICLE III.  
PARTICIPATION**

**3.1 ELIGIBILITY.**

The following Key Employees shall be eligible to participate in the SERP:

- (a) For the 1999 Plan Year, Key Employees of DST and any Affiliated Company (other than USCS International, Inc. and its subsidiaries); and
- (b) For subsequent Plan Years, Key Employees of DST and its Affiliated Companies, including Key Employees of USCS International, Inc. and its subsidiaries, other than any Key Employee who is a participant in a nonqualified deferred compensation plan sponsored by such Affiliated Company.

**PARTICIPATION.**

An eligible individual under Section 3.1 shall become a Participant in the SERP for a Plan Year for which such individual is designated by the Committee or its delegate to receive an allocation credit for such Plan Year. Once an eligible individual is designated by the Committee to receive any allocation credit for such Plan Year, such individual shall continue to receive an allocation credit for following Plan Years unless he or she ceases to be a Key Employee or the Committee otherwise provides. Once amounts are credited to an individual's Account under Article IV, such individual shall remain a Participant until his or her Account is distributed in full in accordance with Article V. Notwithstanding anything in this Section 3.2 to the contrary, in order for the Participant's Account to be credited with an allocation for a Plan Year, the Participant must satisfy the requirements of Section 4.3 for such Plan Year.

**ARTICLE IV.  
SERP ACCOUNTS AND CREDITS**

**4.1 ESTABLISHMENT OF SERP ACCOUNTS.**

The Committee or its delegate shall establish an Account on behalf of each Participant. The amounts specified in Sections 4.4 and 4.5 shall be credited to the Participant's Account.

## **4.2 NATURE OF SERP ACCOUNTS.**

A Participant's Account shall be used solely as a measuring device to determine the amount (if any) to be paid a Participant under this SERP. No amounts shall actually be set aside with respect to any Account. All amounts at any time attributable to an Account shall be, and remain, the sole property of DST. A Participant's rights hereunder are limited to the right to receive SERP benefits as provided herein. An Account represents an unsecured promise by DST to pay the benefits provided by the SERP.

## **4.3 ALLOCATION REQUIREMENTS.**

To receive an allocation pursuant to Section 4.4 for a Plan Year, a Participant must satisfy each of the following requirements:

- (a) The Participant must have Compensation of at least the threshold amount. The threshold amount for 1999 is \$170,000. For all subsequent Plan Years, the threshold amount is equal to the annual compensation limit in effect for the Plan Year under Code Section 401(a)(17). Notwithstanding Section 2.4 to the contrary, in determining if the threshold amount is satisfied, the dollar value of the equity portion of awards granted to a Participant for any Plan Year under the DST Systems, Inc. Officers Incentive Plan shall always be disregarded in determining Compensation for purposes of this Section 4.3(a);
- (b) The Participant must be employed by DST or an Affiliated Company on the last day of such Plan Year;
- (c) The Participant must be credited with a Year of Service during such Plan Year; and
- (d) The Participant must be designated by the Committee, as provided in Section 3.2, as eligible to participate in any allocation credit for such year.

## **4.4 ALLOCATION CREDITS.**

With respect to each Participant who has satisfied the requirements of Section 4.3 for a Plan Year, the Committee or its delegate shall credit for such Plan Year to such Participant's Account, as of the last day of such Plan Year, the sum of the following amounts:

- (a) a percentage of Compensation, as defined for this purpose under the Qualified Plan, determined in the sole discretion of the Committee to generally approximate the percentage of employer contributions and forfeitures allocated under the Qualified Plan for the Plan Year, multiplied by the Participant's Compensation hereunder for the Plan Year in excess of the limit specified in Section 4.3(a); and
- (b) an additional percentage, if any, determined in the sole discretion of the Committee, multiplied by the Participant's Compensation for such Plan Year.

Notwithstanding anything to the contrary, the allocation credit under this Section 4.4 shall be at the discretion of the Committee. For a Plan Year, the Committee may determine a zero percentage (0%) allocation credit under (a) and/or (b) above. The formula of (a) above shall not be construed as an obligation to exactly match the applicable percentage under the Qualified Plan.

## **4.5 INCOME, GAIN OR LOSS ADJUSTMENT ON SERP ACCOUNTS.**

As of each Valuation Date, the Committee or its delegate shall also adjust each Account to reflect the income, gain or loss that would have been earned on the Account had such amounts been invested since the preceding Valuation Date in one or more investment vehicles as selected by the Committee or its delegate prior to the applicable valuation period. The investment vehicle(s) may be indexed or other mutual funds, but in no event shall the investment vehicle be common stock of DST.

**ARTICLE V.  
SERP BENEFITS**

**5.1 NO IN-SERVICE DISTRIBUTIONS.**

Benefits hereunder shall not be payable to a Participant prior to the Participant's Termination of Employment.

**5.2 BENEFITS UPON TERMINATION OF EMPLOYMENT (OTHER THAN RETIREMENT).**

Upon a Participant's Termination of Employment (for any reason other than Retirement), the vested portion of the Participant's SERP benefits shall be distributed to the Participant in a lump sum cash payment as soon as administratively practicable after the Valuation Date coinciding with or immediately following such Termination of Employment. The amount to be distributed to a Participant pursuant to this Section 5.2 shall be the value of the vested portion of the Participant's Account as of the Valuation Date coinciding with or immediately following the Participant's Termination of Employment.

**5.3 BENEFITS UPON RETIREMENT.**

Upon a Participant's Retirement, the Participant's SERP benefits shall be distributed to the Participant in a lump sum cash payment or in substantially equal annual cash installments over a fixed period not to exceed such period established by the Committee or its delegate, as elected by the Participant in accordance with Section 5.5.

- (a) If lump sum distribution is elected by the Participant or if no installment election is given effect under Section 5.5, the amount to be distributed shall be the value of the Participant's Account as of the Valuation Date immediately following the Participant's Retirement and such distribution shall be made as soon as administratively practicable after the Valuation Date coinciding with or immediately following such Retirement.
- (b) If installments are elected by the Participant, the first annual installment shall be made as soon as administratively practicable following December 31 of the Plan Year in which the Participant's Retirement occurs, and as soon as administratively practicable following each succeeding December 31 until the Participant's Account is distributed in full. The amount of the first installment payment shall equal the value of the Participant's Account as of the December 31 of the Plan Year in which the Participant's Retirement occurs, divided by the total number of annual installment payments to be made. The amount of each succeeding installment payment shall equal the value of the vested portion of the Participant's Account as of the December 31 immediately preceding such payment, divided by the total number of annual installment payments remaining to be made (including the installment being calculated).

**5.4 BENEFITS UPON DEATH.**

If the Participant dies prior to full payment of his or her SERP benefits under Section 5.2 or 5.3 above, the Participant's SERP benefits shall be paid to the Participant's Beneficiary in a lump sum cash payment as soon as administratively practicable after the Valuation Date coinciding with or immediately following the Participant's death.

**5.5 FORM ELECTION.**

If a Participant's Termination of Employment is due to Retirement, distribution may be made under Section 5.3 in substantially equal cash installments over a fixed period not to exceed ten (10) years. A Participant may file a distribution election with the Committee on forms prescribed by the Committee. A distribution election, once given effect under this Section 5.5, will apply to the Participant's total benefits. To be given effect under this Section 5.5, any distribution election for benefits payable under Section 5.3 must have been filed with the Committee at least twelve (12) months before the Participant's Retirement. If a Participant's distribution election has not been on file with the Committee for the full twelve (12)-month period, it will not be recognized or given effect by the Committee. In that event, distribution shall be made in accordance with the Participant's most recent distribution election which was filed with the Committee at least twelve (12) months before the Participant's Retirement.

**ARTICLE VI.  
VESTING AND FORFEITURE**

**6.1 VESTING.**

A Participant's right to amounts allocated to his Account pursuant to Article IV shall become nonforfeitable based on such Participant's credited Years of Service from the Effective Date of the Plan in accordance with the following schedule:

<b>YEARS OF SERVICE</b>	<b>PERCENTAGE VESTED</b>
Less than 5	0%
5 or more	100%

Notwithstanding the above, a Participant shall become fully vested in his or her Account upon his or her Retirement, death, Disability, or upon a "Change of Control" of DST, as the phrase "Change of Control" is defined under the DST Systems, Inc. 1995 Stock Option and Performance Award Plan, as may be amended or restated from time to time.

**6.2 APPLICATION OF FORFEITURES.**

Any amounts forfeited under this Article VI shall remain the sole property of DST and shall not be credited to the Accounts of other Participants as a forfeiture reallocation.

**ARTICLE VII.  
ADMINISTRATION**

**7.1 ADMINISTRATION.**

The Committee is responsible for the administration of the SERP. In such capacity, the Committee is granted the following rights and duties:

- (a) The Committee shall have the exclusive duty, authority and discretion to interpret and construe the provisions of the SERP, to determine eligibility for and the amount of any benefit payable under the SERP, and to decide any dispute which may arise regarding the rights of SERP Participants (or their Beneficiaries) under this SERP;
- (b) The Committee shall have the sole and complete authority to adopt, alter, and repeal such administrative rules, regulations, and practices governing the operation of the SERP as it shall from time to time deem advisable;
- (c) The Committee may appoint a person or persons to assist the Committee in the day-to-day administration of the SERP;
- (d) The decision of the Committee in matters pertaining to this SERP shall be final, binding, and conclusive upon DST and any Affiliated Company, and the SERP Participant, such Participant's Beneficiary, and upon any person affected by such decision, subject to the claims procedure set forth in Article VIII; and
- (e) In any matter relating solely to a Committee member's individual rights or benefits under this SERP, such Committee member shall not participate in any Committee proceeding pertaining to, or vote on, such matter.

**ARTICLE VIII.  
CLAIMS AND APPEALS PROCEDURES**

**8.1 GENERAL.**

Any claim for benefits under the SERP must be filed by the SERP Participant or Beneficiary ("claimant") in writing with the Committee or its delegate. If a claim for a SERP benefit is wholly or partially denied, notice of the decision will be furnished to the claimant by the Committee or its delegate within a reasonable period of time, not to exceed sixty (60) days, after receipt of the claim by the Committee or its delegate. Any claimant who is denied a claim for benefits will be furnished written notice setting forth:

- (a) the specific reason or reasons for the denial;
- (b) specific reference to the pertinent SERP provision upon which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim; and
- (d) an explanation of the SERP's appeals procedure.

## **8.2 APPEALS PROCEDURE.**

To appeal a denial of a claim, a claimant or the claimant's duly authorized representative:

- (a) may request a review by written application to the Committee not later than sixty (60) days after receipt by the claimant of the written notification of denial of a claim;
- (b) may review pertinent documents; and
- (c) may submit issues and comments in writing.

A decision on review of a denied claim will be made by the Committee not later than sixty (60) days after receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision will be rendered within a reasonable period of time, but not later than one hundred twenty (120) days after receipt of a request for review. The decision on review will be in writing and shall include the specific reasons for the denial and the specific references to the pertinent SERP provisions on which the decision is based.

## **ARTICLE IX. MISCELLANEOUS PROVISIONS**

### **9.1 AMENDMENT, SUSPENSION OR TERMINATION OF SERP.**

DST, by action of the Committee, reserves the right to amend, suspend or to terminate the SERP in any manner that it deems advisable. Notwithstanding the preceding sentence, the SERP may not be amended, suspended or terminated to cause a Participant to forfeit the Participant's then-existing vested Account.

### **9.2 NON - ALIENABILITY.**

The rights of a SERP Participant to the payment of benefits as provided in the SERP may not be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation. No SERP Participant may borrow against the Participant's interest in the SERP. No interest or amounts payable under the SERP may be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, whether voluntary or involuntary, including but not limited to, any liability which is for alimony or other payments for the support of a spouse or former spouse, or for any other relative of any Participant.

### **9.3 NO EMPLOYMENT RIGHTS.**

Nothing contained herein shall be construed as conferring upon a SERP Participant the right to continue in the employ of DST or any Affiliated Company in the Participant's current position or in any other capacity.

### **9.4 WITHHOLDING AND EMPLOYMENT TAXES.**

DST or an Affiliated Company may withhold from a SERP Participant's current compensation or from SERP distributions, as the case may be, such taxes as are required to be withheld for federal, state or local government purposes.

## **9.5 INCOME AND EXCISE TAXES.**

Each SERP Participant (or the Participant's Beneficiaries) is solely responsible for the payment of all federal, state, and local income and excise taxes resulting from the Participant's participation in this SERP.

## **9.6 SUCCESSORS AND ASSIGNS.**

The provisions of this SERP are binding upon and inure to the benefit of DST, its successors and assigns, and each SERP Participant, such Participant's Beneficiaries, heirs, and legal representatives.

## **9.7 FORFEITURE OF UNCLAIMED AMOUNTS.**

Unclaimed amounts shall consist of the amounts credited to the Account of a Participant that cannot be distributed because of the Committee's inability, after a reasonable search, to locate a Participant or his Beneficiary, as applicable, within a period of two (2) years after the date on which the payment of benefits became due. Unclaimed amounts shall be forfeited at the end of such two-year period. These forfeitures will reduce the obligations of DST under the SERP. After an unclaimed amount has been forfeited, the Participant or Beneficiary, as applicable, shall have no further right to his Account.

## **9.8 GOVERNING LAW.**

This SERP shall be subject to and construed in accordance with the laws of the State of Missouri to the extent not preempted by federal law.

**IN WITNESS WHEREOF**, this Supplemental Executive Retirement Plan has been executed as of the 29th day of February, 2000, to be effective January 1, 1999.

DST SYSTEMS, INC.  
By: /s/ Kenneth V. Hager

\_\_\_\_\_  
Title: VICE PRESIDENT, CHIEF FINANCIAL  
OFFICER AND TREASURER  
\_\_\_\_\_

## **EXHIBIT 10.30**

### **DST SYSTEMS, INC. 1995 STOCK OPTION AND PERFORMANCE AWARD PLAN, AMENDED AND RESTATED AS OF 02/29/2000**

#### **SECTION 1. PURPOSE.**

The purposes of the DST Systems, Inc. 1995 Stock Option and Performance Award Plan (the "Plan") are to generate an increased incentive for Employees of the Company to contribute to the Company's future success, to secure for the Company and its stockholders the benefits inherent in equity ownership by Employees of the Company and to enhance the ability of the Company and its Affiliates to attract and retain exceptionally qualified Employees upon whom, in large measure, the sustained progress, growth and profitability of the Company depend. By encouraging Employees of the Company and its Affiliates to acquire a proprietary interest in the Company's growth and performance, the Company intends to more closely align the interests of the Company's Employees, management and stockholders and motivate Employees to enhance the value of the Company for the benefit of all stockholders.

#### **SECTION 2. DEFINITIONS.**

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) "Affiliate" means (i) any Person that directly, or through one (1) or more intermediaries, controls, or is

controlled by, or is under common control with, the Company, (ii) any entity in which the Company has an equity interest of at least fifty percent (50%), and (iii) any entity in which the Company has any other significant equity interest, as determined by the Committee.

- (b) "Award" means any Option, Stock Appreciation Right, Limited Right, Performance Share, Performance Unit, Restricted Stock, Shares, Dividend Equivalent, or any other right, interest, or option relating to Shares granted pursuant to the provisions of the Plan.
- (c) "Award Agreement" means any written agreement, contract, or other instrument or document evidencing any Award granted hereunder and signed by both the Company and the Participant or by both the Company and an Outside Director.
- (d) "Board" means the Board of Directors of the Company.
- (e) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (f) "Committee" means the Compensation Committee of the Board, or such other committee designated by the Board, authorized to administer the Plan under Section 3 hereof. The Committee shall consist of not less than three (3) directors, each of whom is a Disinterested Person within the meaning of Rule 16b-3 and an outside director within the meaning of Code Section 162(m). Until the date of completion of the Public Offering, the KCSI Compensation and Organization Committee shall serve as the Committee authorized to administer this Plan.
- (g) "Company" means DST Systems, Inc., a Delaware corporation.
- (h) "Dividend Equivalent" means any right granted pursuant to Section 13(f) hereof.
- (i) "Employee" means any management employee or employee with long standing service with the Company or of any Affiliate, as determined by the Committee, regularly employed for more than twenty (20) hours per week and more than five (5) months per year.
- (j) "Exchange Act" means the Securities and Exchange Act of 1934, as amended, or any successors thereto, and the rules and regulations promulgated thereunder, all as shall be amended from time to time.
- (k) "Fair Market Value" means, with respect to any property, the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.
- (l) "Incentive Stock Option" means an Option granted under Section 6 hereof that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.
- (m) "KCSI" means Kansas City Southern Industries, Inc., a Delaware corporation.
- (n) "Limited Right" means any right granted to a Participant pursuant to Section 7(b) hereof.
- (o) "Non-Qualified Stock Option" means an Option granted under Section 6 hereof that is not intended to be an Incentive Stock Option, and an Option granted to an Outside Director pursuant to Section 9 hereof.
- (p) "Option" means an Incentive Stock Option or Non-Qualified Stock Option.
- (q) "Outside Director" means a member of the Board who is not an Employee of the Company or of any Affiliate.
- (r) "Participant" means an Employee who is selected to receive an Award under the Plan.
- (s) "Performance Award" means any Award of Performance Shares or Performance Units pursuant to Section 8

hereof.

- (t) "Performance Period" means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.
- (u) "Performance Share" means any grant pursuant to Section 8 hereof of a unit valued by reference to a designated number of Shares.
- (v) "Performance Unit" means any grant pursuant to Section 8 hereof of (i) a bonus consisting of cash or other property the amount or value of which, and/or the entitlement to which, is conditioned upon the attainment of any performance goals specified by the Committee, or (ii) a unit valued by reference to a designated amount of property other than Shares.
- (w) "Person" means any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or government or political subdivision thereof.
- (x) "Public Offering" means a public offering of Shares of the Company which results in a reduction of KCSI's ownership of Shares to less than eighty percent (80%).
- (y) "Rule 16b-3" means Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation thereto.
- (z) "Shares" means shares of the common stock of the Company, one cent (\$.01) par value.
- (aa) "Stock Appreciation Right" means any right granted to a Participant pursuant to Section 7(a) hereof.
- (ab) "Stockholders Meeting" means the annual meeting of stockholders of the Company in each year.
- (ac) "Restricted Stock" means any Share issued with the restriction that the holder may not sell, transfer, pledge, or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including, without limitation, any restriction on the right to vote such Share, and the right to receive any cash dividends), which restrictions may lapse separately or in combination upon such conditions and at such time or times, in installments or otherwise, as the Committee may deem appropriate, and which restriction shall provide that the Shares subject to such restriction shall be forfeited if the restriction does not lapse prior to such date or such event as the Committee may deem appropriate.
- (ad) "Restricted Stock Award" means an award of Restricted Stock under Section 8A hereof.

### **SECTION 3. ADMINISTRATION.**

The Plan shall be administered by the Committee. Subject to applicable law and the terms of the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant hereunder; (iii) determine the number of Shares to be covered by or with respect to which payments, rights, or other matters are to be calculated in connection with each Award; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards, or other property, or canceled, forfeited, or suspended, and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent and under what circumstances cash, Shares, other securities, other Awards, other property and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the Participant or the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. Subject to the terms of the Plan (including without limitation Section 11 hereof), the Committee shall also have the authority to grant Awards in replacement of Awards previously granted under this Plan or any other compensation plan of the Company or an Affiliate. Unless otherwise expressly

provided in the Plan, all determinations, designations, interpretations, and other decisions of the Committee shall be final, conclusive and binding upon all Persons, including the Company, any Participant, any stockholder, and any Employee of the Company or of any Affiliate. All determinations of the Committee shall be made by a majority of its members. The Committee, in its discretion, may delegate its authority and duties under the Plan to the Chief Executive Officer and/or to other officers of the Company under such conditions and/or limitations as the Committee may establish; provided, however, that only the Committee may select and grant Awards, or otherwise take any action with respect to Awards, to Participants who are (i) officers or directors of the Company for purposes of Section 16 of the Exchange Act; or (ii) Participants who are "covered employees" under Section 162(m) of the Code.

#### **SECTION 4. SHARES SUBJECT TO THE PLAN.**

- (a) Subject to adjustment as provided in Section 4(c), a total of Nine Million (9,000,000) Shares shall be available for the grant of Awards under the Plan. Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares. If any Shares subject to any Award granted hereunder are forfeited or such Award otherwise terminates without the issuance of such Shares or of other consideration in lieu of such Shares, the Shares subject to such Award, to the extent of any such forfeiture or termination, shall again be available for grant under the Plan. In addition, to the extent permitted by Section 422 of the Code, any Shares issued by, and any Awards granted by or that become obligations of, the Company through or as the result of the assumption of outstanding grants or the substitution of Shares under outstanding grants of an acquired company shall not reduce the Shares available for grants under the Plan (except in the case of Awards granted to Participants who are officers or directors of the Company to the extent required by Section 16 of the Exchange Act).
- (b) For purposes of this Section 4,
  - (i) If an Award (other than a Dividend Equivalent) is denominated in Shares, the number of Shares covered by such Award, or to which such Award relates, shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan;
  - (ii) Dividend Equivalents and Awards not denominated in Shares shall be counted against the aggregate number of Shares available for granting Awards under the Plan in such amount and at such time as the Committee shall determine under procedures adopted by the Committee consistent with the purposes of the Plan; and
  - (iii) Awards that operate in tandem with (whether granted simultaneously with or at a different time from), or that are substituted for, other Awards or awards under other Company plans may be counted or not counted under procedures adopted by the Committee in order to avoid double counting.
- (c) In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, or other securities or property), stock split, reverse stock split, merger, reorganization, consolidation, recapitalization, split-up, spin-off, repurchase, exchange of shares, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee may: (i) make adjustments in the aggregate number and class of shares or property which may be delivered under the Plan and may substitute other shares or property for delivery under the Plan, including shares of another entity which is a party to any such merger, reorganization, consolidation or exchange of shares; and (ii) make adjustments in the number, class and option price of shares or property subject to outstanding Awards and Options granted under the Plan, and may substitute other shares or property for delivery under outstanding Awards and Options, including shares of another entity which is a party to any such merger, reorganization, consolidation or exchange of shares, as may be determined to be appropriate by the Committee in its sole discretion, provided that the number of Shares subject to any Award or Option shall always be a whole number. The preceding sentence shall not limit the actions which may be taken by the Committee under Section 10 of the Plan. No adjustment shall be made with respect to Awards of Incentive Stock Options that would cause the Plan to violate Section 422 of the Code.

## **SECTION 5. ELIGIBILITY.**

Any Employee shall be eligible to be selected as a Participant. Notwithstanding any other provision of the Plan to the contrary, no Participant may be granted an Option, Limited Right, Stock Appreciation Right, Performance Shares, Shares or Restricted Stock with respect to a number of Shares in any one (1) calendar year which, when added to the Shares subject to any other Option, Limited Right, Stock Appreciation Right, Performance Shares, Shares or Restricted Stock granted to such Participant in the same calendar year shall exceed Four Hundred Thousand (400,000) Shares. If an Option, Limited Right, Stock Appreciation Right, or Performance Share is cancelled, the cancelled Option, Limited Right, Stock Appreciation Right or Performance Share continues to count against the maximum number of Shares for which an Option, Limited Right, Stock Appreciation Right or Performance Share may be granted to a Participant in any calendar year. All Shares specified in this Section 5 shall be adjusted to the extent necessary to reflect adjustments to Shares required by Section 4(c) hereof. No Participant may be granted Performance Units in any one (1) calendar year which when added to all other Performance Units granted to such Participant in the same calendar year shall exceed 300% of the Participant's annual base salary as of the first day of such calendar year (or, if later, as of the date on which the Participant becomes an Employee); provided, however, that no more than \$1,000,000 of annual base salary may be taken into account for purposes of determining the maximum amount of Performance Units which may be granted in any calendar year to any Participant.

## **SECTION 6. STOCK OPTIONS.**

Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Options may be Incentive Stock Options within the meaning of Section 422 of the Code or Non-Qualified Stock Options (i.e., stock options which are not Incentive Stock Options), or a combination thereof. Any Option granted to a Participant under the Plan shall be evidenced by an Award Agreement in such form as the Committee may from time to time approve. Any such Option shall be subject to the following terms and conditions and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable:

- (a) **Option Price.** The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that such purchase price shall not be less than one hundred percent (100%) of the Fair Market Value of the Share on the effective date of the grant of the Option (or, if the Committee so determines, in the case of any Option retroactively granted in tandem with or in substitution for another Award or any outstanding Award granted under any other plan of the Company, on the effective date of grant of such other Award or award under another Company plan).
- (b) **Option Term.** The term of each Option shall be fixed by the Committee in its sole discretion; except as provided below for Incentive Stock Options.
- (c) **Exercisability.** Options shall be exercisable at such time or times and subject to such exercise acceleration conditions (if any) as determined by the Committee at or subsequent to grant; except as otherwise provided in Section 10(a).
- (d) **Method of Exercise.** Subject to the other provisions of the Plan and any applicable Award Agreement, any Option may be exercised by the Participant in whole or in part at such time or times, and the Participant may make payment of the option price in such form or forms as the Committee shall determine, including, without limitation, payment by delivery of cash, Shares, Restricted Stock, or other consideration (including, where permitted by law and the Committee, Awards) having a Fair Market Value on the exercise date equal to the total option price, or by any combination of cash, Shares, Restricted Stock and other consideration as the Committee may specify in the applicable Award Agreement; provided, however, that if Restricted Stock is surrendered to pay the option price, an equal number of shares issued as a result of the option exercise shall be subject to the same restrictions.

- (e) Incentive Stock Options. In accordance with rules and procedures established by the Committee, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options held by any Participant are exercisable for the first time by such Participant during any calendar year under the Plan (and under any other benefit plans of the Company or of any parent or subsidiary corporation of the Company as defined in Section 424 of the Code) shall not exceed One Hundred Thousand Dollars (\$100,000) or, if different, the maximum limitation in effect at the time of grant under Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. The option price per Share purchasable under an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Share on the date of grant of the Option. Each Incentive Stock Option shall expire not later than ten (10) years from its date of grant. No Incentive Stock Option shall be granted to any Participant if at the time the Option is granted such Participant owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, its parent or its subsidiaries unless (i) the option price per Share is at least one hundred and ten percent (110%) of the Fair Market Value of the Share on the date of grant, and (ii) such Option by its terms is not exercisable after the expiration of five (5) years from the date such Option is granted. The terms of any Incentive Stock Option granted hereunder shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder.
- (f) Form of Settlement. In its sole discretion, the Committee may provide at the time of grant that the Shares to be issued upon an Option's exercise shall be in the form of Shares subject to restrictions as the Committee may determine, or other similar securities, or may reserve the right so to provide after the time of grant.
- (g) Reload Options. If and to the extent the Committee expressly provides, at the time of grant or later, that the Participant shall have the right to receive reload options with respect to Non-Qualified Stock Options, the Participant shall receive reload options in accordance with and subject to the following terms and conditions:
  - (i) Grant of the Reload Option; Number of Shares; Price. Subject to paragraph (ii) of this Subsection and, except as provided in paragraph (viii) hereof, to the availability of Shares to be optioned to the Participant under the Plan (including the limitations set forth in Section 5), if a Participant has an Option (the "original option") with reload rights and pays for the exercise of the original option by surrendering Shares or Restricted Stock (whether by means of delivering Shares or Restricted Stock previously held by the optionee or by delivering Shares or Restricted Stock simultaneously acquired on exercise of the original option), the Participant shall receive a new Option ("reload option") for the number of Shares or Restricted Shares so surrendered at an option price per Share equal to the Fair Market Value of a Share on the date of the exercise of the original option.
  - (ii) Conditions to Grant of Reload Option. A reload option will not be granted: (A) if the Fair Market Value of a Share on the date of exercise of the original option is less than the exercise price of the original option; or (B) if the Participant is no longer an Employee of the Company or an Affiliate.
  - (iii) Term of Reload Option. The reload option shall expire on the same date as the original option, or at such later date as the Committee may provide.
  - (iv) Type of Option. The reload option shall be a Non-Qualified Stock Option.
  - (v) Additional Reload Options. Except as expressly provided by the Committee (at the time of the grant of the original option or reload option or later), reload options shall not include any right to subsequent reload options.
  - (vi) Date of Grant, Vesting. The date of grant of the reload option shall be the date of the exercise of the original option. The reload options shall be exercisable in full beginning from date of grant, except as otherwise provided by the Committee.
  - (vii) Stock Withholding; Grants of Reload Options. If and to the extent permitted by the Committee, if the other requirements of this Subsection are satisfied, and if Shares are withheld or Shares surrendered for tax withholding pursuant to Section 13(g), a reload option will be granted for the number of Shares surrendered as payment for the exercise of the original option plus the number of Shares surrendered or withheld to satisfy tax withholding.

- (viii) Share Limits. Reload options shall not be counted against or as a reduction from the number of shares available for grant under Section 4 hereof because such grants are a substitute for Shares transferred to or withheld by the Company.
- (ix) Other Terms and Conditions. In Connection with reload options for officers who are subject to Section 16 of the Exchange Act, the Committee may at any time impose any limitations which, in the Committee's sole discretion, are necessary or desirable in order to comply with Section 16(b) of the Exchange Act and the rules and regulations thereunder, or in order to obtain any exemption therefrom. Except as otherwise provided in this Subsection, all the provisions of the Plan shall apply to reload options.

## **SECTION 7. STOCK APPRECIATION AND LIMITED RIGHTS.**

- (a) Stock Appreciation Rights may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each recipient. Any Stock Appreciation Right related to a Non-Qualified Stock Option may be granted at the same time such Option is granted or at any time thereafter before exercise or expiration of such Option. Any Stock Appreciation Right related to an Incentive Stock Option must be granted at the same time such Option is granted and must have a grant price equal to the option price of such Option. In the case of any Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Shares not covered by the Stock Appreciation Right. Any Option related to any Stock Appreciation Right shall no longer be exercisable to the extent the related Stock Appreciation Right has been exercised. Any Stock Appreciation Right related to an Option shall be exercisable to the extent, and only to the extent, that the related Option is exercisable. The Committee may impose such other conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of one (1) Share on the date of exercise or with respect to any right related to an Option other than an Incentive Stock Option, at any time during a specified period before or after the date of exercise as determined by the Committee over (ii) the grant price of the right as specified by the Committee, which shall not be less than the Fair Market Value of one (1) Share on the date of grant of the Stock Appreciation Right (or, if the Committee so determines, in the case of any Stock Appreciation Right retroactively granted in tandem with or in substitution for another Award or any outstanding award granted under any other plan of the Company, on the date of grant of such other Award or award), multiplied by the number of Shares as to which the holder is exercising the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.
- (b) Limited Rights may be granted hereunder to Participants only with respect to an Option granted under Section 6 hereof or a stock option granted under another plan of the Company. The provisions of Limited Rights need not be the same with respect to each recipient. Any Limited Right related to a Non-Qualified Stock Option may be granted at the same time such Option is granted or at any time thereafter before exercise or expiration of such Option. Any Limited Right related to an Incentive Stock Option must be granted at the same time such Option is granted. A Limited Right shall terminate and no longer be exercisable upon termination or exercise of the related Option, except that a Limited Right granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Shares not covered by the Limited Right. Any Option related to any Limited Right shall no longer be exercisable to the extent the related Limited Right has been exercised. Any Limited Right shall be exercisable to the extent, and only to the extent, the related Option is exercisable and only during the three (3) month period immediately following a Change in Control of the Company (as defined in Section 10 hereof). The Committee may impose such other conditions or restrictions on the exercise of any Limited Right as it shall deem appropriate. Subject to the terms of the Plan and any applicable Award Agreement, a Limited Right granted under the Plan shall confer on the holder thereof a right to receive, upon exercise thereof, an amount equal to

the excess of (i) the Fair Market Value of one (1) Share on the date of exercise or if greater and only with respect to any Limited Right related to an Option other than an Incentive Stock Option, the highest price per Share paid in connection with any Change in Control of the Company, over (ii) the option price of the related Option, multiplied by the number of Shares as to which the holder is exercising the Limited Right. The amount payable to the holder shall be paid by the Company in cash. Subject to the terms of the Plan and any applicable Award Agreement, the terms and conditions of any Limited Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Limited Right as it may deem appropriate.

## **SECTION 8. PERFORMANCE AWARDS.**

Performance Awards may be issued hereunder to Participants in the form of Performance Shares or Performance Units, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The value represented by a Performance Share or Unit shall be payable to, or upon the exercise by, the Participant holding such Award, in whole or in part, following achievement of such performance goals during such Performance Period as determined by the Committee. Except as provided in Section 10, Performance Awards will be paid only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, Restricted Stock, Options, other property or any combination thereof, in the sole discretion of the Committee at the time of payment. The length of the Performance Period, the performance criteria or levels to be achieved for each Performance Period, and the amount of the Award to be distributed shall be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis. Notwithstanding the foregoing, an Award Agreement may condition the vesting or exercise of a Performance Award on any combination of the achievement of one or more performance goals and/or the completion of a specified period of service as the Committee shall determine at the time of grant. To the extent determined by the Committee, when making Performance Awards the Committee shall adopt performance goals, certify completion of such goals and comply with any other Code requirements necessary to be in compliance with the performance-based compensation requirements of Code Section 162(m). Performance goals for Performance Awards may be based, in whole or in part, on one or more of the following performance-based criteria or such other criteria as the Committee may determine: (i) attainment during the Performance Period of a specified price per share of the Company's common stock; (ii) attainment during the Performance Period of a specified rate of growth or increase in the amount of growth in the price per share of the Company's common stock; (iii) attainment during the Performance Period of a specified level of the Company's earnings or earnings per share of the Company's common stock; (iv) attainment during the Performance Period of a specified rate of growth or increase in the amount of growth of the Company's earnings or earnings per share of the Company's common stock; (v) attainment during the Performance Period of a specified level of the Company's cash flow or cash flow per share of the Company's common stock; (vi) attainment during the Performance Period of a specific rate of growth or increase in the amount of growth of the Company's cash flow or cash flow per share of the Company's common stock; (vii) attainment during the Performance Period of a specified level of the Company's return on equity; (viii) attainment during the Performance Period of a specific rate of growth or increase in the amount of growth of the Company's return on equity; (ix) attainment during the Performance Period of a specified level of the Company's return on assets; or (x) attainment during the Performance Period of a specific rate of growth or increase in the amount of growth of the Company's return on assets.

## **SECTION 8A. RESTRICTED STOCK.**

- (a) Issuance. Restricted Stock Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The provisions of Restricted Stock Awards need not be the same with respect to each recipient. The granting of Restricted Stock shall take place on the date the Committee decides to grant the Restricted Stock, or if the Restricted Stock Award provides that the grant of Restricted Stock is conditioned upon the achievement of performance goals specified in the Restricted Stock Award, on a date established by the Committee following the achievement of such performance goals.
- (b) Registration. Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded under the Plan, such certificate shall be registered in the name of the Participant, shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable

to such Award, and shall be held in escrow by the Company.

- (c) Forfeiture. A Restricted Stock Award may condition the grant of Restricted Stock and/or the lapse of any restriction or restrictions on Restricted Stock on any combination of the achievement of one or more performance goals and/or the completion of a specified period of service as the Committee shall determine at the time the Restricted Stock Award is made. To the extent determined by the Committee, when making Restricted Stock Awards the Committee shall adopt performance goals, certify completion of such goals and comply with any other Code requirements necessary to be in compliance with the performance-based compensation requirements of Code Section 162(m). Performance goals for Restricted Stock Awards may be based, in whole or in part, on one or more of the following performance-based criteria or such other criteria as the Committee may determine: (i) attainment during the Performance Period of a specified price per share of the Company's common stock; (ii) attainment during the Performance Period of a specified rate of growth or increase in the amount of growth in the price per share of the Company's common stock; (iii) attainment during the Performance Period of a specified level of the Company's earnings or earnings per share of the Company's common stock; (iv) attainment during the Performance Period of a specified rate of growth or increase in the amount of growth of the Company's earnings or earnings per share of the Company's common stock; (v) attainment during the Performance Period of a specified level of the Company's cash flow or cash flow per share of the Company's common stock; (vi) attainment during the Performance Period of a specific rate of growth or increase in the amount of growth of the Company's cash flow or cash flow per share of the Company's common stock; (vii) attainment during the Performance Period of a specified level of the Company's return on equity; (viii) attainment during the Performance Period of a specific rate of growth or increase in the amount of growth of the Company's return on equity; (ix) attainment during the Performance Period of a specified level of the Company's return on assets; or (x) attainment during the Performance Period of a specific rate of growth or increase in the amount of growth of the Company's return on assets.

As soon as practicable following the lapse of the restrictions on Restricted Stock, unrestricted Shares, evidenced in such manner as the Committee shall deem appropriate, shall be issued to the grantee.

Except as otherwise determined by the Committee at the time of grant, upon termination of employment for any reason before the restriction lapses, all shares of Restricted Stock still subject to restriction shall be forfeited by the Participant (who shall sign any document and take any other action required to assign such shares back to the Company) and reacquired by the Company.

## **SECTION 9. OUTSIDE DIRECTORS' OPTIONS.**

- (a) Grant of Options. Immediately prior to the Public Offering, and when an Outside Director first takes a position on the Board after the Public Offering, the Outside Director shall receive an Option to purchase Shares ("Initial Options"). On the date of each Stockholders' Meeting, each Outside Director shall automatically be granted an Option to purchase Shares ("Annual Options"); provided, however, that an Outside Director shall not be entitled to receive and shall not be granted any Annual Options on the date of any particular Stockholders' Meeting if he will not continue to serve as an Outside Director immediately following such Stockholders' Meeting. An Outside Director who first takes a position on the Board at the annual Stockholders' Meeting shall be entitled to receive the Initial Options plus the Annual Options. All such Options shall be Non-Qualified Stock Options. The number of Shares to be subject to the Initial Option and Annual Option grants shall be determined from time to time by the Committee. The price at which each Share covered by such Options may be purchased shall be one hundred percent (100%) of the fair market value of a Share on the date the Option is granted. Fair market value for purposes of this Section 9 shall be deemed to be the average of the high and low prices of the Shares as reported on the New York Stock Exchange Composite Transactions tape on the day the Option is granted or, if no sale of Shares shall have been made on that day, the next preceding day on which there was a sale of Shares. For purposes of Options granted immediately prior to the Public Offering, the Fair Market Value of the Shares subject to such Options shall be the offering price at which Shares are first sold in the Public Offering.
- (b) Exercise of Options. Except as set forth in this Section 9, all Shares subject to an Option granted to an Outside Director shall become exercisable as follows: fifty percent (50%) on the day preceding the date of the first Stockholders' Meeting after the date of the grant of the Option; twenty-five percent (25%) on the day preceding the date of the second Stockholders' Meeting after the date of grant of the Option; and the

remaining twenty-five percent (25%) on the day preceding the third Stockholders' Meeting after the date of grant of the Option. However, no Option shall be exercisable more than ten (10) years after the date of grant. Options may be exercised by an Outside Director during the period that: (i) the Outside Director remains a member of the Board; (ii) for a period of one (1) year after ceasing to be a member of the Board by reason of death; (iii) for the remaining term of the Option in the event of an Outside Director's disability; (iv) for the remaining term of the Option if the Outside Director retires (as defined below) from the Board; or (v) for a period of ninety (90) days after ceasing to be a member of the Board for reasons other than retirement, death or disability; however, only those Options exercisable at the date the Outside Director ceases to be a member of the Board shall remain exercisable. All Options held by an Outside Director shall become exercisable immediately prior to termination of the Outside Director's service on the Board by reason of an Outside Director's death, disability or retirement, except that Options shall not be exercisable earlier than six (6) months from the date of grant to the extent required by Section 16(b) of the Exchange Act. For purposes of this Section 9, "retire" or "retirement" shall mean discontinuance of service as a director after the director has reached age sixty (60) and has at least five (5) years or more of service on the Board. Notwithstanding any provision herein to the contrary, no Option hereunder shall be exercisable more than ten (10) years after the date of grant. All Options shall immediately become exercisable in the event of a Change in Control, as hereinafter defined, except that Options shall not be exercisable earlier than six (6) months from the date of grant if required for exemption under Rule 16(b)-3 under the Exchange Act.

If a former Outside Director shall die holding an Option that has not expired and has not been fully exercised, the Option shall remain exercisable until the later of one (1) year after the date of death or the end of the period in which the former Outside Director could have exercised the Option had he not died, but in no event shall the Option be exercisable more than ten (10) years after the date of grant. In the event of the death of an Outside Director or former Outside Director, his Options shall be exercisable only to the extent that they were exercisable at his date of death and only by the executor or administrator of the Outside Director's estate, by the person or persons to whom the Outside Director's rights under the Option shall pass under the Outside Director's will or the laws of descent and distribution, or by a beneficiary designated in writing in accordance with Section 13(a) hereof.

- (c) Payment. An Option granted to an Outside Director shall be exercisable only upon payment to the Company of the full purchase price of the Shares with respect to which the Option is being exercised. Payment for the Shares shall be in United States dollars, payable in cash or by check or by delivery of Shares having a Fair Market Value on the exercise date equal to the total option price, or by any combination of cash and Shares.

## **SECTION 10. CHANGE IN CONTROL.**

- (a) In order to maintain the Participants' rights in the event of any Change in Control of the Company, as hereinafter defined, the Committee, as constituted before such Change in Control, may, in its sole discretion, as to any Award, either at the time an Award is made hereunder or any time thereafter, take any one (1) or more of the following actions: (i) provide for the purchase by the Company of any such Award, upon the Participant's request, for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Participant's rights had such Award been currently exercisable or payable; (ii) make such adjustment to any such Award then outstanding as the Committee deems appropriate to reflect such Change in Control; or (iii) cause any such Award then outstanding to be assumed, or new rights substituted therefor, by the acquiring or surviving corporation after such Change in Control. In the event of a Change of Control, there shall be an automatic acceleration of any time periods relating to the exercise or realization of any such Award and all performance award standards shall be deemed satisfactorily completed without any action required by the Committee so that such Award may be exercised or realized in full on or before a date fixed by the Committee, except no Award shall be exercisable earlier than six (6) months after the date of grant to the extent required by Section 16 of the Exchange Act. The Committee may, in its discretion, include such further provisions and limitations in any agreement documenting such Awards as it may deem equitable and in the best interests of the Company.
- (b) For purposes of this Plan, a "Change in Control" shall be deemed to have occurred if (i) for any reason at any time less than seventy-five percent (75%) of the members of the Board of Directors of the Company

shall be individuals who fall into any of the following categories: (A) individuals who were members of such Board on September 1, 1995; or (B) individuals whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least seventy-five percent (75%) of the members of the Board then still in office who were members of such Board on September 1, 1995; or (C) individuals whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least seventy-five percent (75%) of the members of the Board then still in office who were elected in the manner described in (A) or (B) above, or (ii) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) shall have become, according to a public announcement or filing, without the prior approval of the Board of Directors of the Company, the "beneficial owner" (as defined in Rule 13(d)-3 under the Exchange Act) directly or indirectly, of securities of the Company representing forty percent (40%) or more (calculated in accordance with Rule 13(d)-3) of the combined voting power of the Company's then outstanding voting securities (such "person" hereafter referred to as a "Major Stockholder"); or (iii) the stockholders of the Company shall have approved a merger, consolidation or dissolution of the Company or a sale, lease, exchange or disposition of all or substantially all of the Company's assets, or a Major Stockholder shall have proposed any such transaction, unless such merger, consolidation, dissolution, sale, lease, exchange or disposition shall have been approved by at least seventy-five percent (75%) of the members of the Board of Directors of the Company who are individuals falling into any combination of the following categories: (A) individuals who were members of such Board of Directors on September 1, 1995, or (B) individuals whose election or nomination for election by the Company's stockholders was approved by at least seventy-five percent (75%) of the members of the Board of Directors then still in office who are members of the Board of Directors on September 1, 1995, or (C) individuals whose election, or nomination for election by the Company's stockholders was approved by a vote of at least seventy-five percent (75%) of the members of the Board then still in office who were elected in manner described in (A) or (B) above.

#### **SECTION 11. AMENDMENTS AND TERMINATION.**

The Board may amend, alter, suspend, discontinue, or terminate the Plan, but no amendment, alteration, suspension, discontinuation, or termination shall be made that would materially impair the rights of an optionee or Participant under an Award theretofore granted, without the optionee's or Participant's consent. In addition, the Board may consider for each amendment whether the approval of stockholders is desirable or is necessary for the amendment to be effective.

The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, and may also substitute new Awards for Awards previously granted under this Plan or for awards granted under any other compensation plan of the Company or an Affiliate to Participants, including without limitation previously granted Options having higher option prices, but no such amendment or substitution shall materially impair the rights of any Participant without his consent.

The Committee shall be authorized, without the Participant's consent, to make adjustments in Performance Award criteria or in the terms and conditions of other Awards in recognition of events that it deems in its sole discretion to be unusual or nonrecurring that affect the Company or any Affiliate or the financial statements of the Company or any Affiliate, or in recognition of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent the dilution or enlargement of benefits or potential benefits under the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry it into effect. In the event the Company shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Committee may, in its discretion, make such adjustments in the terms of Awards under the Plan as it shall deem appropriate.

#### **SECTION 12. TERMINATION OF EMPLOYMENT AND NONCOMPETITION.**

The Committee shall have full power and authority to determine whether, to what extent and under what circumstances any Award shall be canceled or suspended and shall promulgate rules and regulations to (i) determine what events constitute disability, retirement, termination for an approved reason and termination for cause for purposes of the Plan, and (ii) determine the treatment of a Participant under the Plan in the event of his death, disability, retirement, or termination for an approved reason. If a Participant's employment with the Company or an Affiliate is terminated for cause, all unexercised, unearned, and/or unpaid Awards, including, but not by way of limitation, Awards earned, but not yet paid,

all unpaid dividends and dividend equivalents, and all interest accrued on the foregoing shall be canceled or forfeited, as the case may be, unless the Participant's Award Agreement provides otherwise. In addition, but without limitation, all outstanding Awards to any Participant shall be canceled if the Participant, without the consent of the Committee, while employed by the Company or after termination of such employment, becomes associated with, employed by, renders services to, or owns any interest in (other than any nonsubstantial interest, as determined by the Committee), any business that is in competition with the Company or any Affiliate, or with any business in which the Company or any Affiliate has a substantial interest as determined by the Committee or such officers or committee of senior officers to whom the authority to make such determination is delegated by the Committee.

### **SECTION 13. GENERAL PROVISIONS.**

- (a) **Nonassignability.** No Award shall be assignable or transferable by a Participant or an Outside Director otherwise than by will or by the laws of descent and distribution; provided, however, that a Participant or Outside Director may, pursuant to a written designation of beneficiary filed with and approved by the Committee prior to his death, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant or Outside Director. Each Award shall be exercisable during the lifetime of the Participant or the Outside Director, only by the Participant or the Outside Director or, if permissible under applicable law, by the guardian or legal representative of the Participant or Outside Director.
- (b) **Terms.** Except for Options granted pursuant to Section 9, the term of each Award shall be for such period of months or years from the date of its grant as may be determined by the Committee; provided, however, that in no event shall the term of any Incentive Stock Option or any Stock Appreciation or Limited Right related to any Incentive Stock Option exceed a period of ten (10) years from the date of its grant.
- (c) **Rights to Awards.** No Employee, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, Participants, or holders or beneficiaries of Awards under the Plan.
- (d) **No Cash Consideration for Awards.** Awards shall be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.
- (e) **Restrictions.** All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable Federal or state securities law, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.
- (f) **Dividend Equivalents.** Subject to the provisions of this Plan and any Award Agreement, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, interest or dividends, or interest or dividend equivalents, with respect to the number of Shares covered by the Award, as determined by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested.
- (g) **Withholding.** The Company shall be authorized to withhold from any Award granted, payment due or shares or other property transferred under the Plan the amount of income, withholding and payroll taxes due and payable in respect of an Award, payment or shares or other property transferred hereunder and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. The Company may require the Participant or Outside Director to pay to it such tax prior to and as a condition of the making of such payment or transfer of Shares or property under the Plan. In accordance with any applicable administrative guidelines it establishes, the Committee may allow a Participant to pay the amount of taxes due or payable in respect of an Award by withholding from any payment of Shares due as a result of such Award, or by permitting the Participant to deliver to the Company, Shares having a fair market value, as determined by the Committee, equal to the amount of such taxes.

- (h) **Deferral of Awards.** At the discretion of the Committee, payment of a Performance Dividend Equivalent or any portion thereof may be deferred by a Participant until such time as the Committee may establish. All such deferrals shall be accomplished by the delivery on a form provided by the Company of a written, irrevocable election by the Participant prior to such time payment would otherwise be made. Further, all deferrals shall be made in accordance with administrative guidelines established by the Committee to ensure that such deferrals comply with all applicable requirements of the Code and its regulations. Deferred payments shall be paid in a lump sum or installments, as determined by the Committee. The Committee may also credit interest, at such rates to be determined by the Committee, on cash payments that are deferred and credit Dividend Equivalents on deferred payments denominated in the form of Shares.
- (i) **No Limit on Other Compensation Arrangements.** Nothing contained in this Plan shall prevent the Company or any Affiliate from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required and such arrangements may be either generally applicable or applicable only in specific cases.
- (j) **Governing Law.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law.
- (k) **Severability.** If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, it shall be stricken and the remainder of the Plan and any such Award shall remain in full force and effect.
- (l) **No Right to Employment.** The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or an Affiliate may at any time terminate the employment of a Participant, free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.
- (m) **No Trust or Fund Created.** Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.
- (n) **No Fractional Shares.** No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares, or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.
- (o) **Headings.** Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- (p) **With respect to persons subject to Section 16 of the Exchange Act,** transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Plan or action by the Committee fails to so comply, the Committee may deem, for such persons, such provision or action null and void to the extent permitted by law.

#### **SECTION 14. EFFECTIVE DATE OF PLAN.**

The Plan shall be effective as of September 1, 1995.

**SECTION 15. TERM OF PLAN.**

No Award shall be granted pursuant to the Plan after August 31, 2005, but any Award theretofore granted may extend beyond that date.

**Exhibit 10.31**

DATED 23rd June 1993

(1) **CLARK & TILLEY LIMITED**

(2) **MICHAEL WINN**

**DIRECTOR'S SERVICE AGREEMENT**

**CAMERON MARKBY HEWITT**

**Sceptre Court**

**40 Tower Hill**

**London EC3N 4BB**

**Tel: 071-702-2345**

**Fax: 071-702-2303**

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**(NM/55800)**

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THIS AGREEMENT is made as of the 23rd day of June 1993 BETWEEN:

- (1) CLARKE & TILLEY LIMITED whose registered office is situate at Hanover House Station Approach Cheam Surrey SM2 7AU (hereinafter called the "Company") and

(2) MICHAEL WINN of Rosemary Cottage Northchurch Berkhamsted Hertfordshire HP4 3QS (hereinafter called the "Director")

WHEREBY IT IS AGREED as follows:

## 1. DEFINITIONS

IN this Agreement

1.1 Unless the context otherwise requires the following expressions shall have the meanings following:

the "Act"	means the Employment Protection (Consolidation) Act of 1978 (as amended)
the "Appointment"	means the employment of the Director by the Company on the terms and conditions set out herein
the "Board"	means the Board of Directors for the time being of the Company
the "Effective Date"	means 23rd June 1993
the "Group"	means
(i)	a company having an ordinary share capital (as defined in S.832 of the Income and Corporation Taxes Act 1988) of which not less than 25% is owned directly or indirectly by the Company or its holding company applying the provisions of S.838 of the Income and Corporation Taxes Act 1988 in the determination of ownership;
(ii)	a holding company (as defined in S.736 of the Companies Act 1985) of the Company; or
(iii)	a Subsidiary (as defined in S.736 of the Companies Act 1985) of any such holding company
"Incapacity"	means illness of the Director or other cause incapacitating him from attending fully to his duties under the Appointment
"Intellectual Property"	includes letters patent trade marks whether registered or unregistered registered or unregistered designs utility models copyrights including design copyrights applications for any of the foregoing and the right to apply for them in any part of the world discoveries creations inventions or improvements upon or additions to an invention confidential information know-how and any research effort relating to any of the above mentioned business names whether registrable or not moral rights and any similar rights in any country
"Member of the Group"	means any such company as is included in the definition of "Group"

1.2 Any reference to a statutory provision shall be deemed to include a reference to any statutory modification or re-enactment of the same and in particular (but without limiting the generality of the foregoing) references to the Companies Act 1985 are to such act as amended by the Companies Act 1989

1.3 References to any statute include reference to any regulations or other subordinate legislation made thereunder

1.4 The index and clause headings are included for guidance only and do not affect the interpretation of this Agreement

1.5 Any reference to the Director shall if appropriate include his personal representatives

1.6 References to a person being "connected with" the Director shall be construed in accordance with the

provisions of section 346 of the Companies Act 1985

1.7 Reference to Schedules herein are references to the Schedules to this Agreement

## **2. EMPLOYMENT**

2.1 THE Appointment shall (unless terminated in accordance with the provisions of clauses 8 or 13) continued from the Effective Date for an initial period of three years and thereafter until terminated by either party given to the other notice of termination in accordance with the provisions of sub-clause 2.2

2.2 The Appointment may be terminated at the end of the initial three year term or thereafter by either party giving to the other a period of notice being not less than twelve months

## **3. DUTIES OF DIRECTOR**

3.1 DURING the continuation of the Appointment the Director shall unless prevented by ill health devote his whole time and attention during normal working hours (or such greater amount of time and attention to the businesses of the Company or the Group as is necessary for the proper and diligent performance of the Director's duties hereunder) to the businesses of the Company and the Group and shall do all in his power to promote develop and extend the businesses of the Company and the Group and shall undertake such duties and exercise such powers in relation to the businesses of the Company and the Group as the Board shall from time to time assign to or vest in him

3.2 The Director shall in the discharge of such duties and in the exercise of such powers give at all times the full benefit of his knowledge, expertise, technical skill and ingenuity and shall perform such duties and exercise such powers (being consistent with the appointment hereunder) in relation to the conduct and management of the affairs of the Company and the Group as may from time to time reasonably be assigned or communicated to or vested in him by the Board and shall use his best endeavours to give to the Board such information regarding the affairs of the Company and the Group as it shall reasonably require and at all times shall observe and comply with all reasonable resolutions regulations and directions from time to time made or given to him by the Board

3.3 During the continuation of the Appointment the Director shall not without the previous consent in writing of the Board (evidenced by a Board Resolution in writing)

3.3. do or refrain from doing any act whereby his office as a director of the Company is or becomes liable to be vacated  
1

3.3. do anything that would cause him to be disqualified from continuing to act as a Director of the Company  
2

3.3. engage or be interested directly or indirectly in any trade business or occupation whatsoever other than the businesses of the Company or the Group; or  
3

3.3. be concerned or interested directly or indirectly in any other business of a similar nature to or competitive with that carried on by the Company or by any Member of the Group Provided always that nothing contained in this sub-clause shall prevent the Director or any person connected with him from holding (whether directly or through nominees) or being otherwise interested as an investor in any shares or other securities of any company which are for the time being quoted on any recognised Stock Exchange so long as not more than five per cent (5%) of the shares or stock of any class of any one company shall be so held or beneficially owned by the Director together with all persons connected with him. In this Clause the expression "occupation" shall include any public or private work which in the reasonable opinion of the Company may hinder or otherwise interfere with the performance by the Director of his duties under this Agreement  
4

3.4 Subject to and in accordance with the provisions of this Agreement the Director shall serve the Company in the capacity of Managing Director or in such other executive capacity (of equal or greater status with the position of Managing Director) as the Board shall from time to time request the Director to fulfil

3.5 The Company shall be at liberty from time to time to appoint any other person or persons to act jointly with the Director in the capacity of Managing Director or in such other executive capacity and to assign to him or them duties

and responsibilities identical to or similar with those placed upon the Director hereunder or to require the Director to cease to perform or exercise the said or any executive duties or powers

3.6 The Director shall:

3.6. at all times promote the interests and welfare and maintain the goodwill of the Company and (if and to the extent the Board has required the Director to render services to any other Member of the Group) those of such other company;

3.6. faithfully and diligently perform such duties and exercise such powers as may from time to time be assigned to or vested in him and in the performance thereof have particular regard to any specific directions or requirements of the Board from time to time in respect of the Director's responsibilities the initial statement thereof being as annexed hereto;

3.6. perform services for such Member of the Group wheresoever situate as the Board may require without further fees or remuneration; and

3.6. accept appointment as a director of any Member of the Group as the Board may require in connection with the Appointment and also a director of any other company as the Company may reasonably require and shall resign without claim for compensation from office as a director of any Member of the Group or any such other company at any time on request by the Company which resignation shall not affect the continuation in any way of this Agreement

#### **4. REMUNERATION**

4.1 SUBJECT as hereinafter provided the Company shall pay to the Director during the continuance of his employment hereunder at a salary at the rate of L100,000 per annum (or such higher rate as may from time to time be agreed between the parties or determined upon and notified to the Director by the Company and so that reference in this Agreement to the basic salary shall refer to the salary at the level at which the same is payable following any increase or increases). In the event of any increase of salary being so agreed or notified such increase shall thereafter have effect as if it were specifically provided for as a term of this Agreement. No additional payment shall be made to the Director in respect of director's fees of the Company or any other Member of the Group, or in respect of any services provided by him to such other company. The said salary shall be payable by equal monthly instalments (and proportionately for any lesser period each monthly instalment being deemed to accrue rateably from day to day) in arrears on the last day of each month.

4.2 The salary referred to in sub-clause 4.1 of this Clause shall be reviewed (such review not leading to any decrease) not less frequently than once in every year of this Agreement, having regard to all relevant circumstances. The amount of any increase made in the light of such review shall be determined by the Board in its absolute discretion.

4.3 In addition to the salary payable to the Director there shall be paid to the Director in respect of each financial year of the Company during the continuance of his employment commencing with the financial year ending 31st December 1992:

4.3.1 a commission which shall accrue be calculated and be paid in accordance with the provisions set out in the First Schedule hereto [SEE NOTE AT BEGINNING OF THE FIRST SCHEDULE]; and

4.3.2 a bonus at the rate of L12,500 per annum (and pro rata in respect of any lesser period) which shall be paid by monthly intervals in arrears [SEE NOTE AT BEGINNING OF THE FIRST SCHEDULE].

4.4 As additional consideration to the Director for the services to be performed hereunder during the initial term, the Company shall pay to the Director within ten days of the execution of this Agreement, a payment of L540,000.

#### **5. PENSION PHI AND MEDICAL INSURANCE**

5.1 THE Director shall during his employment under this Agreement become a member of the Clarke & Tilley Limited Pension Scheme (the "Scheme" which includes any scheme set up in place of it) and the Company will

promptly pay contributions due under the Scheme in accordance with sub-clause 5.2 hereof.

- 5.2 The Company shall contribute to the Company's money purchase pension scheme an amount equal to the lower of 20% of the Director's basic salary (as referred to in sub-clause 4.1) and such lesser amount as would not cause the Inland Revenue limits as to the benefits which may be available to the Director under the Scheme to be exceeded.
- 5.3 Subject in each case to the Director being acceptable (following medical inspections from time to time if required) for coverage at normal rates the Company shall (through its relevant scheme from time to time in place and subject to the respective terms and conditions thereof) during the Appointment pay the cost of membership at such normal rates for the Director of:
  - 5.3.1 the Company's death in service and permanent health insurance scheme subject in each case to the rules of the respective schemes; and
  - 5.3.2 the Company's medical plan with the British United Provident Association (BUPA) or such other reputable medical expenses insurance scheme as shall be notified by the Company to the Director subject in each case to the rules of the respective schemes.

## **6. EXPENSES**

THE Company shall reimburse the Director all reasonable hotel and other expenses wholly necessarily and exclusively incurred by him in or about the performance of his duties hereunder, the Director providing to the Company such vouchers or other evidence of actual payment of such expenses as the Company may reasonably require.

## **7. MOTOR CAR**

- 7.1 THE Director shall be responsible for providing at his own cost and expense an appropriate car for use by him for business purposes (in addition to use by him of the said car for private purposes) and for paying all insurance premiums maintenance and repair expenses and other standing and running expenses except for the costs of petrol and oil which costs shall be paid by the Company.
- 7.2 For the purposes of this Clause "an appropriate car" shall be construed as a car of a cost and standard not less than a Ford Granada not more than three years old and of a type otherwise suitable for use by the Director in connection with the Company's or the Group's business.
- 7.3 It is a term of the Director's employment hereunder that he be the holder at all times of a valid UK driving licence entitling him to drive motor cars.

## **8. ILLNESS**

- 8.1 IN case of Incapacity the Director shall continue to be paid his basic salary during such absence (such payment to be inclusive of any Statutory Sick Pay or social security benefits to which the Director may be entitled and for Statutory Sick Pay purposes the Director's qualifying days shall be Monday to Friday) and commission shall continue to accrue in accordance with clause 4.3 and the First Schedule provided that if such absences shall aggregate in all thirteen weeks in any fifty two consecutive weeks the Company may forthwith by notice in writing to the Director given on a date not more than twenty eight days after the end of the last of such thirteen weeks:
  - 8.1.1 discontinue payment in whole or in part of the said salary and accrual of the commission on and from such date as may be specified in the notice until the Incapacity shall cease or
  - 8.1.2 (whether or not payment of the said salary and accrual of the said commission shall already have been discontinued as aforesaid) determine this Agreement forthwith or on such date as may be specified in the notice.
- 8.2 If in the case of Incapacity the same shall be or appear to be occasioned by actionable negligence of a third

party in respect of which damages are or may be recoverable the Director shall immediately notify the Board of that fact and of any claim compromise settlement or judgment made or awarded in connection with it and shall give the Board all particulars the Board may reasonably require and shall if required by the Board refund to the Company that part of any damages recovered relating to loss of earnings for the period of the Incapacity as the Board may reasonably determine provided that the amount to be refunded shall not exceed the amount of damages or compensation recovered by him less any costs borne by the Director in connection with the recovery of such damages or compensation and shall not exceed the total remuneration paid to him by way of salary and commission in respect of the period of Incapacity.

Subject as herein provided the said salary shall notwithstanding the Incapacity continue to be paid to the Director in accordance with Clause 4 hereof and the said commission shall continue to accrue in respect of the service of the Director in respect of the period of Incapacity prior to the date of effective discontinuance or determination as herein provided.

- 8.3 Except as expressly provided by this Clause the Director shall not be entitled to any salary or commission in respect of any period during which he shall fail or be unable from any cause to perform all or any of his duties hereunder without prejudice to any right of action accruing or accrued to either party in respect of any breach of this Agreement.
- 8.4 The Director shall submit himself to a medical examination at the reasonable request and expense of the Board at any time during the continuation of the Appointment and whether or not the Director is or has been absent by reason of Incapacity.

## **9. HOLIDAYS**

THE Director shall (in addition to the usual public and bank holidays) be entitled to twenty five weekdays paid holiday in each calendar year to be taken at such time or times as the Board shall consider most convenient having regard to the business of the Company and the Group. The Director may not without the consent of the Board carry forward any unused part of his holiday entitlement to a subsequent calendar year. The Director's holiday entitlement accrues pro rata over the course of the calendar year.

## **10. INVENTIONS**

- 10.1 THE parties foresee that the Director may make discover or create Intellectual Property in the course of the Appointment and agree that in this respect the Director has a special obligation to further the interests of the Company.
- 10.2 Subject to the provisions of the Patents Act 1977 and the Copyright, Designs and Patents Act 1988 if at any time during the Appointment the Director makes or discovers or participates in the making or discovery of any Intellectual Property relating to or capable of being used in the business for the time being carried on by the Company or any member of the Group full details of the Intellectual Property shall immediately be communicated by him to the Company and shall be the absolute property of the Company. At the request and expense of the Company the Director shall give and supply all such information data drawings and assistance as may be requisite to enable the Company to exploit the Intellectual Property to the best advantage and shall execute all documents and do all things which may be necessary or desirable for obtaining patent or other protection for the Intellectual Property in such parts of the world as may be specified by the Company and for vesting the same in the Company or as it may direct.
- 10.3 The Director irrevocably appoints the Company to be his attorney in the name and on his behalf to sign execute or do any such instrument or thing and generally to use his name for the purpose of giving to the Company (or its nominee) the full benefit of the provisions of his Clause and in favour of any third party a certificate in writing signed by any director or the secretary of the Company that any instrument or act falls within the authority conferred by this Clause shall be conclusive evidence that such is the case.
- 10.4 The Director hereby waives all "Moral Rights" as defined in the Copyright, Design and Patents Act 1988 in respect of any acts of the Company or any acts of third parties done with the Company's authority in relation to the property which is the property of the Company by virtue of clause 10.2.

- 10.5 Rights and obligations under this Clause shall continue in force after termination of this agreement in respect of Intellectual Property made during the Appointment and shall be binding upon the Director's personal representatives.

## **11. CONFIDENTIALITY**

THE Director is aware that in the course of the Appointment he may have access to and be entrusted with information in respect of the business and financing of the Company and the Group and its and their respective dealings, transactions and affairs all of which information is or may be confidential. Without prejudice to the Director's legal duties in respect thereof the Director shall not (except in the proper course of his duties hereunder) either during or after the period of the Appointment divulge to any person or persons whatsoever, or otherwise make use of, and shall use his best endeavours to prevent the publication or disclosure of, any trade secret or manufacturing process or any confidential information concerning the business or finances of the Company or the Group or any of its or their respective dealings transactions or affairs or those of any of its or their respective suppliers, agents, distributors or customers. All notes and memoranda of such trade secrets or confidential information made or received by the Director during the course of the Appointment shall be the property of the Company and shall be surrendered by the Director to someone duly authorised in that behalf at the termination of the Appointment or at the request of the Board at any time during the course of the Appointment.

## **12. LOCATION**

- 12.1 THE normal place of work of the Director shall be at Hanover House Station Approach Cheam but the Company may at any time change the location of the Director's normal place of work to anywhere else in the United Kingdom either in Central London or South or West of Central London.
- 12.2 The Director may be required to travel on business of the Company anywhere in the world but shall not be required to reside outside the United Kingdom.

## **13. SUMMARY TERMINATION**

- 13.1 THE Appointment may be terminated by the Company without notice or payment in lieu of notice:
- 13.1.1 if the Director shall commit any serious or persistent breach of any of the provisions herein contained; or
- 13.1.2 if the Director shall be guilty of any material default misconduct or neglect in the discharge of his duties or in connection with or affecting the business of the Company or the Group; or
- 13.1.3 in the event of any breach of non-observance by the Director of any of the stipulations herein contained which is materially detrimental to the Company's interest and which (if capable of remedy) is not remedied within thirty days' notice in writing to the Director specifying the breach complained of an requiring remedy; or
- 13.1.4 if the Director becomes bankrupt of makes any composition or enters into any deed of arrangement with his creditors; or
- 13.1.5 if the Director is convicted of any arrestable criminal offence (other than an offence under the road traffic legislation in the United Kingdom or elsewhere for which a fine or non-custodial penalty is imposed and which does not result in the loss or withdrawal or suspension for a period in excess of three months of the Director's driving licence); or
- 13.1.6 if the Director shall become of unsound mind or become a patient under the Mental Health Act 1983; or
- 13.1.7 if the Director is convicted of an offence under the Companies Securities (Insider Dealing) Act 1985; or
- 13.1.8 if the Director shall at any time and for any reason cease to be the holder of a valid UK driving licence or the Director's licence shall be withdrawn or his right to drive thereunder suspended for a period in excess of three months and the Board shall in its sole discretion determine that the business of the Company or the Group or the ability of the Director to perform his services hereunder is materially adversely affected as a result thereof;

or

- 13.1.9 if the Director shall be disqualified from acting as a director by reason of any provision of the Companies Act 1985 or otherwise.
- 13.2 If the Director shall cease to be a Director of the Company this Agreement shall thereupon automatically determine but if such cessation shall be caused by any act or omission of either party without the consent concurrence or complicity of the other such act or omission shall be deemed a breach of this Agreement and determination hereunder shall be without prejudice to any claim for damages in respect of such breach.
- 13.3 Upon the termination of this Agreement for whatsoever reason the Director shall deliver up to the Company all written information (whether or not written by such Director) of any sort pertaining or relating to the customers and business of the Company or any company in the Group and all other property of the Company or the Group in his possession.
- 13.4 Any termination of this Agreement shall be without prejudice to any rights of either of the parties against the other which may have accrued up to the date of such termination.

#### **14. RESIGNATION FORM DIRECTORSHIPS**

UPON termination by whatever means of this Agreement or the Appointment:

- 14.1 The Director shall at the request of the Company immediately resign from office as a director of the Company and of any other Member of the Group without claim for compensation and in the event of his failure so to do the Company is hereby irrevocably authorised to appoint some person in his name and on his behalf to sign and deliver such resignation or resignations to the Company and such other Members of the Group.
- 14.2 The Director shall not without the consent of the Company at any time thereafter represent himself still to be connected with the Company or any other Member of the Group.

#### **15. RECONSTRUCTION OR AMALGAMATION**

IF the Appointment shall be terminated by reason of the liquidation of the Company for the purpose of reconstruction or amalgamation and the Director shall be offered employment with any concern or undertaking resulting from such reconstruction or amalgamation on terms and conditions not less favourable than the terms of this Agreement then the Director shall have no claim against the Company in respect of the termination of the Appointment by reason of such liquidation.

#### **16. NON - SOLICITATION - COMPANY CLIENTS**

THE Director HEREBY COVENANTS with the Company that he will not (without the prior consent of the Company in writing under the hand of a Director) within one year after the termination (howsoever caused or arising) of the Appointment in connection with the carrying on of any business similar to the business of the Company as carried on during the period of this Agreement on his own behalf or on behalf of any person, firm or company and whether directly or indirectly:

- 16.1 seek to procure orders from or to do business with any person, firm or company who has at any time during the twelve months immediately preceding such termination done business with the Company and with whom in the course of the Appointment the Director shall have had dealings; or
- 16.2 offer employment to or procure employment for any person who has at any time during the twelve months immediately preceding such termination been employed by the Company or any Member of the Group (whether or not such person would commit any breach of his contract of employment with the Company or such Member of the Group by reason of his leaving service).

Provided always that nothing contained in this Clause shall prohibit the seeking or procuring of orders or the doing of business not relating or similar to the business or businesses aforesaid or any of them.

## **17. NON-SOLICITATION - GROUP CLIENTS**

THE Director HEREBY COVENANTS with the Company in identical terms to Clause 16 hereof save that the reference to a client or customer shall refer only to a person who is or was during the period specified therein a client or customer of any other Member of the Group and with whom in the course of the Appointment the Director shall have had dealings.

## **18. NON-COMPETITION**

THE Director HEREBY COVENANTS with the Company that he will not in the United Kingdom within one year after termination of the Appointment (howsoever caused or arising) without such consent as is specified in Clause 16 hereof either alone or jointly with or as manager or agent consultant or employee for any person firm or company and whether directly or indirectly carry on or be engaged in any business similar to the business or businesses carried on by the Company (or (as a separate and independent covenant) any other Member of the Group to whom the Director has provided services hereunder at any time within the period of twelve months prior to such date of termination) at the date of termination of the Appointment.

## **19. AMBIT OF RESTRICTIONS**

The restrictions contained in Clauses 16, 17 and 18 are considered reasonable by the parties but in the event that any such restriction shall be found to be void but would be valid if some part thereof were deleted or the period or area of application reduced such restriction shall apply with such modifications as may be necessary to make it valid and effective.

## **20. NOTICES**

ANY notice given under this Agreement shall be in writing and shall be deemed well served if it is sent by first class mail addressed in the case of notice to the Director to him at the address shown in this Agreement or to such other address as he may from time to time notify to the Company (in accordance with the provisions of this Clause) for the giving of notices or in the case of a notice to the Company to its registered office for the time being and in the case of service by post every notice so given shall be deemed to have been served forty eight hours after the time of posting.

## **21. PRIOR AGREEMENTS**

THIS Agreement shall take effect in substitution with effect from the Effective Date for all previous agreements and arrangements whether written oral or implied between the Company and the Director relating to the service of the Director all of which agreements and arrangements shall be deemed to have been terminated by mutual consent with effect from the Effective Date.

## **22. PARTICULARS OF EMPLOYMENT**

THE Appointment shall also be subject to the terms set out in the Second Schedule paragraph 2 of which is added in accordance with the requirements of Section 1 of the Act.

## **23. MISCELLANEOUS**

23.1 THE invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

23.2 The determination of this Agreement howsoever arising shall not affect such of the provisions hereof as are expressed to operate or have effect thereafter and shall be without prejudice to any right of action already accrued to either party in respect of any breach of this Agreement by the other party.

23.3 The Director shall during the continuance of this Agreement account to the Company for any remuneration received by him as a director or other officer of or shareholder in any company promoted by the Company or any Member of the Group.

- 23.4 The Director warrants that he will not by virtue of entering into or performing this Agreement be in breach of any express or implied terms of any contract or other obligation binding upon him.
- 23.5 The Director and the Company confirm and agree that any outstanding offer or commitments by the Company to grant options to the Director are hereby withdrawn and of no further effect.

IT WITNESS where these presents have been executed and delivered as a Deed the day and year first above written.

NOTE: MR. WINN AND DST INTERNATIONAL LIMITED ("DSTI") HAVE AGREED THAT SECTIONS 4.3.1 AND 4.3.2 OF THE AGREEMENT AND THIS FIRST SCHEDULE DO NOT APPLY TO MR. WINN'S COMPENSATION. DSTI HAS PAID MR. WINN ANNUAL BONUSES AS DESCRIBED IN THE DST SYSTEMS, INC. PROXY STATEMENT DATED MARCH 30, 2000.

## **THE FIRST SCHEDULE**

### **COMMISSION**

- (A) The Company shall during the continuation of the Appointment pay to the Director in respect of each financial year or part thereof during which he shall be employed by the Company a commission which shall accrue be calculated and be paid as provided in this Schedule.
- (B) For the purposes of this Schedule:
- (1) references to a financial year are to a financial year of the Company commencing on 1st January and ending on 31st December; each financial year shall be divided into four quarters ("financial quarters") ending on respectively 31st March 30th June 30th September and 31st December in each year.
  - (2) "the Profits" shall mean the profits of the Company as shown in the audited profit and loss account of the Company or (if the Company has any subsidiaries) the audited consolidated profit and loss account of the Company and all subsidiaries from time to time for the financial period in question computed on recognised accounting principles applied on a consistent basis from year to year with the following adjustments unless already taken into account in such profit and loss account:
    - (i) after deducting all expenses of working and management and directors' fees and remuneration (other than commission under (iv) below) depreciation as charged in the accounts interest on borrowed monies and any revenue expenses charged directly against reserves;
    - (ii) after excluding any profits or gains arising from any disposal of property or other fixed assets (whether or not such profits or gains are treated in the said accounts as items of an extraordinary or exceptional nature) or otherwise of a capital nature but including (for the avoidance of doubt) any profits or gains or losses arising from any disposal of computer hardware forming part of the trading stock from time to time of the Company or the relevant Subsidiary;
    - (iii) before deducting any taxation on profits ("Taxation", which shall include corporation tax and any similar or additional or substituted tax)
    - (iv) before deducting the commission payable to the Director hereunder but after deducting any commission payable by reference to the profits of the Company (or the Company and its subsidiaries from time to time) payable to any other director or employee of the Company;
    - (v) before any extraordinary item but after any prior year adjustment to the profit and loss account or (as applicable) the consolidated profit and loss account;
    - (vi) after crediting interest received and after deducting Notional Interest; and
    - (vii) after making such other adjustments (if any) as the Auditors shall consider fair and reasonable.
  - (3) "The Distributable Profits" shall mean an amount calculated by deducting from the amount of the Profits

- in respect of a particular financial period an amount (the "Margin Amount") equivalent to four per cent (4%) of the turnover of the Company for such financial period.
- (4) "The Reduced Rate" means subject as referred to in paragraph (I) below three and three quarters per cent (3-3/4%).
- (5) "The Full Rate" means subject as referred to in paragraph (I) below ten percent (10%).
- (6) For the purposes of this Schedule the Excluded Reasons comprise:
- (i) death of the Director;
  - (ii) Incapacity of the Director; or
  - (iii) wrongful or constructive dismissal of the Director.
- (7) (i) "Notional Interest" shall mean the amount by which an investment of the "Notional Reserve" would have increased over the Relevant Period if it had been invested in N M Rothschild's Old Court Reserve Sterling Fund (the "Fund") on the first working day of the financial year provided that if at any time the Fund shall cease to be available there shall be substituted in the said calculations for the rate or rates of interest which would have been available during the Relevant Period in respect of the Fund such rate or rates of interest as the Auditors of the Company for the time being shall advise as would in their opinion have represented the rate or rates which would have been available in respect of the Fund had the same continued to be available.
- (ii) "The Relevant Period" shall mean in respect of any part of the Notional Reserve which shall remain held by the Company throughout the whole of the financial year such period and in respect of any part of the Notional Reserve which shall be received by the Company at any time after the beginning of the financial year and/or be paid by the Company to any other person (whether to the Inland Revenue pursuant to sub-paragraphs (B)(8)(iii) or (iv) or to shareholders of the Company pursuant to sub-paragraphs (B)(8)(v), (vi) or (viii) or to loan stockholders pursuant to subparagraph (B)(8)(x)) at any time before the end of such financial year shall mean the relevant part of the financial year (accrued from day to day and calculated on the basis of a year of 365 days) and so that Notional Interest shall be calculated separately in relation to each part of the Notional Reserve (according to whether such part shall have been held by the Company during the whole or part only of a financial period) and such calculations aggregated.
- (8) "The Notional Reserve" shall mean the first working day of 1992, the cash sum of L1,329,258 and at each anniversary thereof shall mean the Notional Reserve of the preceding year:
- (i) increased by the Notional Interest for the preceding year;
  - (ii) increased by the Profits for the preceding year;
  - (iii) reduced by the amount of advance corporation tax payable in respect of the current year;
  - (iv) reduced by the amount of Taxation for the preceding year (the amount of such Taxation being calculated after allowing for any credit against the same in respect of such advance corporation tax to the extent such advance corporation tax shall have previously been deducted from the Notional Reserve);
  - (v) reduced by the net amount (net of advance corporation tax) of any dividends paid by the Company;
  - (vi) reduced by the amount of any payment made by the Company for the purchase of its own shares;
  - (vii) increased by the amount of any payments received by the Company on the exercise by any person

- of any option to subscribe for any shares of the Company;
- (viii) reduced by any capital repayment or other distribution made to shareholders;
  - (ix) increased by any subscriptions for the allotment of shares or other capital receipts from shareholders;
  - (x) reduced by net amount (net of any income tax or advance corporation tax) of all interest payments made by the Company to holders of any unsecured loan stock of the Company which may be created and constituted.

For the avoidance of doubt the Notional Reserve:

- (a) shall not be reduced by the amount of any losses of the Company or of the Company and its Subsidiaries but;
  - (b) shall include any unsecured loan stock of the Company which may at any time or from time to time be created and constituted by the Company and distributed to members of the Company full paid or credited as fully paid by way of application of any cash forming part of the said sum initially or subsequently constituting the Notional Reserve and referred to above.
- (C) The Director's entitlement to commission shall be as follows:
- (1) if he shall be employed by the Company at the end of the relevant financial year provided that notice shall not have been given on or before expiry of such financial year by either the Director or the Company to the other to terminate the Appointment (other than for an Excluded Reason) to commission of such amount as shall (but subject to the provisions of this Schedule) equal the Full Rate of the Distributable Profits:
  - (2) If:
    - (i) a notice shall have been given on or before expiry of such financial year to terminate the Appointment (other than for an Excluded Reason) or;
    - (ii) if the Appointment shall have been terminated (other than for an Excluded Reason) prior to expiry of such financial year to commission of such amount as shall (but subject to the provisions of this Schedule) equal the Reduced Rate of the Distributable Profits.
- (D) If the Director shall be employed under the Agreement of which this Schedule forms part for part only of any financial year of the Company he (or his personal representatives where applicable) shall subject to the remaining provisions of this Schedule and the said Agreement be entitled to a rateable proportion of the commission he would have received if he had been employed for the whole of that year on the basis that the Director shall:
- (1) if either:
    - (i) the circumstances referred to in paragraph (C)(1) shall apply or;
    - (ii) if the Appointment shall have terminated (or notice thereof shall have been given) for an Excluded Reason;be entitled to a rateable proportion of commission at the Full Rate; or
  - (2) if either of the circumstances referred to in paragraph (C)(2) shall apply be entitled to a rateable proportion of commission at the Reduced Rate.
- (E) Where the Director (or, in the case of death, his personal representatives) shall be entitled to a rateable proportion (in accordance with paragraph (D)) of the commission at the Full Rate or the Reduced Rate (as applicable) which the Director would have received if he had been employed for the whole of the financial year during which the

Appointment terminated such proportion shall be calculated on a time basis and the Director (or, where applicable, his personal representatives) shall be entitled to the same proportion of the commission at the Full Rate or the Reduced Rate (as applicable) which the number of days during which the Director shall have been employed by the Company during the relevant financial year bears to the number of days in such financial year.

- (F) In calculating the amount of commission to which the Director shall be entitled in respect of a financial year there shall be deducted from such amount any amount determined to be deductible therefrom in accordance with paragraph (H).
- (G) There shall be deducted from the amount of commission which shall be determined to be due to the Director or his personal representatives hereunder in respect of any financial year (adjusted if applicable by the deduction as referred to in paragraph (F)) an amount equal to the aggregate of:
- (1) the amount of any dividend paid in cash on the Option Shares during any financial year;
  - (2) the amount of any tax credit relating to such dividend; and
  - (3) the amount of all payments on account of or by way of commission made to the Director during or in respect of a financial year.
- (H) If the result of the calculation set out in paragraph (G) shall be a positive amount the Company shall pay the same to the Director (or, if applicable, his personal representatives) within one month after the making of the calculation referred to in paragraph (G); if the result of the calculation set out in paragraph (G) shall be a negative amount the same shall be carried forward and shall be deducted from any commission payments (if any) which would otherwise be or become due to the Director (or his personal representatives) in respect of the next succeeding financial year of the Company. For the avoidance of doubt any negative amount resulting from such calculation shall not be treated as a debt due from the Director to the Company and if no further commission shall be or become due to the Director (or his personal representatives) any such negative amount shall not have any further effect or significance.
- (I) (1) Upon each occasion on which the Director shall exercise any of the Director's options the Full Rate and the Reduced Rate shall be adjusted thereafter by deducting from the amount of the same from time to time (and as so adjusted from time to time) the result of the calculation

$$\frac{A \times B}{C}$$

where:

- A represents the Full Rate or the Reduced Rate at its original numerical value of (respectively) 10 and 3.75.
- B represents the number of Option Shares in respect of which the Director shall exercise the Director's Option on such occasion and
- C represents 162,000 and so that in this paragraph "The Director's Option" means the Option granted to the Director by the Company by a Deed of even date herewith to subscribe for up to an aggregate of 162,000 Ordinary Shares of 25p each of the Company (the "Option Shares") and if there shall be a sub-division or consolidation of the Ordinary Shares of the Company the numerical value of "C" shall be adjusted as the Auditors shall certify as in their opinion appropriate to take due account of such adjustment;
- (2) Accordingly the Director's entitlement to commission shall be treated as accruing from day to day during the relevant financial year at the Full Rate or the Reduced Rate (as applicable) but as adjusted from time to time during such financial year;
  - (3) If in respect of any financial year commission on the Distributable Profits (calculated as referred to in this Schedule and subject to the deductions from the amount of commission referred to herein) calculated at ten per cent (10%) (if commission shall be due at the Full Rate) or at three and three quarters per cent (3.75%) (if

commission shall be due at the Reduced Rate) (as applicable) shall exceed the aggregate of:

- (a) the net amount of dividends paid on the Option Shares; and
- (b) the tax credit on such dividends; and
- (c) the amount of all payments on account

any balance in respect of such financial year shall be due  
(and shall be paid) to the Director by the Company.

(J) The Company shall make payments on account to the Director within one month of the end of each financial quarter as follows:

- (1) within one month of 31st March of such amount as shall represent A as determined by the calculation:  $0.0375(P-0.04T) = A$ ;
- (2) within one month of 30th June of such amount as shall represent B as determined by the calculation:  $0.0375(P-0.04T) - A = B$ ; and
- (3) within one month of 30th September of such amount as shall represent C as determined by the calculation:  $0.0375(P-0.04T) - A - B = C$ ;

Where:

P represents the Profits for the relevant financial quarter half year or three quarters respectively (calculated as referred to in paragraph (B) of this schedule but for the purpose of this paragraph (K) only as shown by the management accounts for the relevant financial period) and

T represents the turnover of the Company for the relevant financial quarter half year or three quarters respectively (as shown by the management accounts for the relevant financial period).

(K) In the event of any dispute or disagreement between the Director and the Company as to any of the calculations referred to in this schedule the same shall be determined by the Auditors of the Company for the time being (or, if they shall be unable or unwilling to act, by an independent Chartered Accountant to be appointed at the instance of either Company or the Director by the President for the time being of the Institute of Chartered Accountants in England and Wales and so that references herein to "the Auditors" shall include also reference to such independent Chartered Accountant) who shall act as experts and not as arbitrators (and so that the Arbitration Acts 1950 to 1979 shall not apply thereto) and their decision shall in the absence of manifest error be final and binding on the Company and the Director.

## THE SECOND SCHEDULE

### 1. Amplification of terms of employment:

- (a) Name of Company : Clarke & Tilley Limited
- Address of Company : Hanover House  
Station Approach  
Cheam  
Surrey SM2 7AU
- (b) Name of Director : Michael Winn
- Address of Director : Rosemary Cottage  
Northchurch  
Berkhamsted  
Hertfordshire HP4  
3QS
- (c) Date of Commencement  
of Employment with the  
Company hereunder : 1st February 1992

Any period of employment with a previous employer does not count as part of the Director's continuous period of employment with the Company.

### 2. In accordance with section 1(3) of the Act the following terms of the Director's employment apply on the date of the Agreement to which this is a Schedule:

- (a) Remuneration - see clause 4: L100,000 per annum and the first monthly instalment will be payable on 28th February 1992
- (b) Hours of Work: There are no fixed hours of work, see clause 3.
- (c) Holidays: The Director is entitled to twenty five weekdays holiday with pay - see clause 9 of the Agreement. The entitlement to holiday (and on termination of employment to holiday pay in lieu of holiday) accrues pro rata throughout each year of employment hereunder, during the first year (from the Effective Date) at the rate of two days per calendar month.
- (d) Sickness or injury: The Director is entitled to be paid during any period of absence from work during sickness or injury subject however to and in accordance with the provisions of clause 8 of the Agreement.
- (e) Notice - see Clauses 2, 8 and 13 of the Agreement.
- (f) The date when the Agreement expires: indefinite period.
- (g) Job title: Deputy Managing Director. The Company reserves the right to alter the Director's job function and/or title in accordance with the provisions of the Agreement.
- (h) Pension: The Company is contracted out of the State Pension Scheme. There is a Company pension scheme and the Director will join this Scheme, see clause 5.

### 3. The following information is supplied pursuant to this Act and reflects the Company's current practice.

- (a) Disciplinary Rules. A copy of the Company's Disciplinary Rules and Regulations when formulated will be supplied to the Director. These rules may be altered or added to from time to time by the Company and details of such changes will be publicised on notice boards and/or supplied to the Director.

- (b) Grievance procedure. Any grievances of the Director are to be referred in writing to the Board, which will propose a solution within 21 days of the application by the Director.
- (c) Appeals procedure. None: the decision of the Board shall be final.

THE COMMON SEAL OF CLARKE & TILLEY LIMITED was affixed to this Deed in the presence of: ) ) ) /s/ Thomas A. McDonnell

Director

Director/Secretary

SIGNED and DELIVERED AS A DEED by the said MICHAEL WINN in the presence of: ) ) ) /s/ J. Michael Winn

**EXHIBIT 21.1**

**SUBSIDIARIES**

Name of Entity	State of Incorporation / Jurisdiction & Date	Doing Business As
DST International Limited	United Kingdom - 8/21/92	
Output Technology Solutions, Inc.	Missouri - 12/28/90	
USCS International, Inc.	Delaware - 4/10/95	
West Side Investments, Inc.	Nevada - 2/11/98	

Note: Significant subsidiaries as calculated under Rule 1-02(w) of Regulation S-X, listed in alphabetical order. DST International Limited and Output Technology Solutions, Inc. are not significant subsidiaries under Rule 1-02(w) of Regulation S-X as of December 31, 1999.

DST International Limited represents the consolidation of nine international subsidiaries, each of which is engaged in the Company's Financial Services Segment.

Output Technology Solutions, Inc. represents the consolidation of eight U.S. and four international subsidiaries, each of which is engaged in the Company's Output Solutions Segment.

USCS International, Inc. represents the consolidation of six U.S. and two international subsidiaries, primarily engaged in the Company's Output Solutions and Customer Management Segments.

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-04197, 333-69377, 333-69393, 333-69611, 333-73241, 333-89699 and 333-89703) of DST Systems, Inc. of our report dated February 29, 2000 relating to the financial statements, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Kansas City, Missouri  
March 15, 2000

## EXHIBIT 27.1

### LEGEND

THIS SCHEDULE, SUBMITTED AS EXHIBIT 27.1 TO FORM 10-K, CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEET AND STATEMENT OF INCOME OF DST SYSTEMS, INC., COMMISSION FILE NO. 1-14036, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK	0000714603
NAME	DST SYSTEMS, INC.
MULTIPLIER	1,000,000
PERIOD-TYPE	12-MOS
FISCAL-YEAR-END	DEC-31-1999
PERIOD-START	JAN-01-1999
PERIOD-END	DEC-31-1999
CASH	89
SECURITIES	0
RECEIVABLES	321
ALLOWANCES	0
INVENTORY	16
CURRENT-ASSETS	465
PP&E	873
DEPRECIATION	534
TOTAL-ASSETS	2,326
CURRENT-LIABILITIES	286
BONDS	44
PREFERRED-MANDATORY	0
PREFERRED	0
COMMON	1
OTHER-SE	1,463
TOTAL-LIABILITY-AND-EQUITY	2,326
SALES	0
TOTAL-REVENUES	1,203
CGS	0
TOTAL-COSTS	1,004
OTHER-EXPENSES	0
LOSS-PROVISION	0
INTEREST-EXPENSE	8
INCOME-PRETAX	214
INCOME-TAX	77
INCOME-CONTINUING	138
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET-INCOME	138
EPS-BASIC	2.19
EPS-DILUTED	2.13