

DST SYSTEMS INC
Form 10-Q
August 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number 1-14036

DST Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

43-1581814

(I.R.S. Employer
Identification No.)

333 West 11th Street, Kansas City, Missouri

(Address of principal executive offices)

64105

(Zip Code)

(816) 435-1000

(Registrant's telephone number, including area code)

No Changes

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

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

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

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

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Large accelerated filer x

Accelerated filer o

Non-accelerated filer o
(do not check if a smaller reporting company)

Smaller reporting company o

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

Number of shares outstanding of the Company's common stock as of July 31, 2014:
Common Stock \$0.01 par value — 39,732,928

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

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Form 10-Q
June 30, 2014

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Introductory Comments

The Condensed Consolidated Financial Statements of DST Systems, Inc. (“DST” or the “Company”) included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to enable a reasonable understanding of the information presented. These Condensed Consolidated Financial Statements should be read in conjunction with the Company’s audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year 2014.

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$83.3	\$62.5
Funds held on behalf of clients	330.2	316.3
Client funding receivable	37.7	50.2
Accounts receivable	356.9	343.4
Other assets	57.1	70.0
	865.2	842.4
Investments	766.0	881.3
Unconsolidated affiliates	297.2	288.1
Properties, net	412.7	445.2
Intangible assets, net	129.8	137.4
Goodwill	423.3	423.7
Other assets	99.1	72.4
Total assets	\$2,993.3	\$3,090.5
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of debt	\$207.2	\$283.6
Client funds obligations	367.9	366.5
Accounts payable	94.8	86.7
Accrued compensation and benefits	128.0	154.3
Deferred revenues and gains	69.9	71.6
Income taxes payable	5.4	—
Other liabilities	112.1	110.1
	985.3	1,072.8
Long-term debt	464.5	399.4
Income taxes payable	133.1	124.2
Deferred income taxes	221.6	255.4
Other liabilities	36.9	54.9
Total liabilities	1,841.4	1,906.7
Commitments and contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, \$0.01 par; 10 million shares authorized and unissued	—	—
Common stock, \$0.01 par; 400 million shares authorized, 92.9 million and 95.3 million shares, respectively, issued	0.9	1.0
Additional paid-in capital	186.2	187.3
Retained earnings	3,777.6	3,777.7
Treasury stock (53.2 million and 53.5 million shares, respectively), at cost	(3,073.6) (3,090.4

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Accumulated other comprehensive income	260.8	308.2
Total stockholders' equity	1,151.9	1,183.8
Total liabilities and stockholders' equity	\$2,993.3	\$3,090.5

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Operating revenues	\$509.6	\$485.1	\$1,014.8	\$980.3
Out-of-pocket reimbursements	169.9	172.0	348.5	359.2
Total revenues	679.5	657.1	1,363.3	1,339.5
Costs and expenses	576.1	551.3	1,159.8	1,125.9
Depreciation and amortization	32.1	33.1	64.1	66.3
Income from operations	71.3	72.7	139.4	147.3
Interest expense	(7.0	) (9.3	) (13.6	) (18.9
Other income, net	131.2	28.4	224.8	101.6
Equity in earnings of unconsolidated affiliates	9.6	9.5	15.0	15.1
Income before income taxes	205.1	101.3	365.6	245.1
Income taxes	67.3	22.8	127.4	73.4
Net income	\$137.8	\$78.5	\$238.2	\$171.7
Weighted average common shares outstanding	40.9	43.7	41.4	44.0
Weighted average diluted shares outstanding	41.2	44.5	41.8	45.0
Basic earnings per share	\$3.37	\$1.80	\$5.75	\$3.90
Diluted earnings per share	\$3.34	\$1.77	\$5.70	\$3.81
Cash dividends per share of common stock	\$0.30	\$0.30	\$0.60	\$0.60

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

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DST Systems, Inc.
 Condensed Consolidated Statement of Comprehensive Income
 (in millions)
 (unaudited)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Net income	\$ 137.8	\$ 78.5	\$ 238.2	\$ 171.7	
Other comprehensive income (loss), net of tax and reclassifications to earnings:					
Unrealized holding gains (losses) on available-for-sale securities	(8.5	) 25.1	(49.9	) 63.0
Unrealized gains on cash flow hedges	0.2	0.3	0.4	0.7	
Foreign currency translation adjustments	1.7	(1.0) 2.1	(5.4)
Other comprehensive income (loss)	(6.6	) 24.4	(47.4	) 58.3
Comprehensive income	\$ 131.2	\$ 102.9	\$ 190.8	\$ 230.0	

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

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

	Six Months Ended	
	June 30,	
	2014	2013
Cash flows — operating activities:		
Net income	\$238.2	\$171.7
Depreciation and amortization	64.1	66.3
Net gains on investments	(149.7	) (85.7
Amortization of share based compensation	10.3	10.4
Equity in earnings of unconsolidated affiliates	(15.0	) (15.1
Dividends from unconsolidated affiliates	1.5	129.1
Gain on contract to repurchase common stock	(18.1) —
Deferred income taxes	(3.1	) (2.5
Changes in accounts receivable	(13.5	) 27.6
Changes in other assets	3.7	(12.7
Changes in accounts payable and accrued liabilities	0.5	(7.2
Changes in income taxes payable	24.5	(15.5
Changes in deferred revenues and gains	(1.7	) (0.9
Changes in accrued compensation and benefits	(23.1	) (22.4
Other, net	9.7	0.5
Net cash provided from operating activities	128.3	243.6
Cash flows — investing activities:		
Capital expenditures	(59.8	) (51.8
Investments in securities	(44.4	) (53.9
Proceeds from sales/maturities of investments	214.9	190.7
Net decrease (increase) in restricted cash and cash equivalents held to satisfy client funds obligations		