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DST SYSTEMS INC
Form 11-K
June 28, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

Commission File Number 1-14036

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

lock\line, LLC 401(k) Retirement Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

DST Systems, Inc.
333 West 11th Street
Kansas City, Missouri 64105

REQUIRED INFORMATION

1. Report of PricewaterhouseCoopers LLP
2. Audited Statements of Net Assets Available for Benefits as of December 31, 2003 and 2002
3. Audited Statements of Changes in Net Assets Available for Benefits for the Years Ended December 31, 2003 and 2002
4. Notes to Financial Statements

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- 5. Schedule of Assets Held at End of Year
- 6. Signature Page
- 7. Consent of PricewaterhouseCoopers LLP (Exhibit 23.1)

lock\line, LLC 401(k) Retirement Plan
Financial Statements and Additional Information
December 31, 2003 and 2002

lock\line, LLC 401(k) Retirement Plan
Index to Financial Statements and Additional Information

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| Additional information* | Schedule |
| Schedule H, line 4i - Schedule of Assets (Held At End of Year) | I |

* Other schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Advisory Committee of the
lock\line, LLC 401(k) Retirement Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the lock\line, LLC 401(k) Retirement Plan (the "Plan") at December 31, 2003 and 2002, and the changes in net assets available for benefits for the year ended December 31, 2003, and six-months ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan'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 the

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standards of the Public Company Accounting Oversight Board (United States). Those standards 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 our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held At End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

Kansas City, Missouri
June 24, 2004

lock\line, LLC 401(k) Retirement Plan
Statements of Net Assets Available for Benefits

| | December 31, | |
|-----------------------------------|--------------|-------|
| | 2003 | |
| | ----- | ----- |
| Investments: | | |
| Mutual funds | \$ 1,340,146 | \$ |
| Loans to participants | 41,609 | |
| | ----- | ----- |
| Total investments | 1,381,755 | |
| Contributions receivable: | | |
| Employer | | |
| Participants | | |
| | ----- | ----- |
| Net assets available for benefits | \$ 1,381,755 | \$ |
| | ===== | ===== |

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

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lock\line, LLC 401(k) Retirement Plan
Statements of Changes in Net Assets Available for Benefits

| | Year Ended December 31, 2003 | Six Mo Dece |
|--|------------------------------------|----------------|
| Investments income: | | |
| Dividends, interest and other distributions | \$ 1,569 | \$ |
| Net appreciation (depreciation) in fair value of investments | 293,084 | |
| | 294,653 | |
| Contributions: | | |
| Employer | | |
| Participants | | |
| Transfer from previous existing plan | | |
| Benefits paid to participants | (134,028) | |
| Administrative expenses | (5,770) | |
| | (139,798) | |
| Net change in net assets available for benefits | 154,855 | |
| Net assets available for benefits: | | |
| Beginning of year | 1,226,900 | |
| End of year | \$ 1,381,755 | \$ |

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

lock\line, LLC 401(k) Retirement Plan
Notes to Financial Statements

1. Description of the Plan

The lock\line, LLC 401(k) Retirement Plan (the "Plan") is a contributory, defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

Sponsor

The Plan Sponsor is lock\line, LLC, a wholly-owned subsidiary of DST Systems, Inc. ("DST"). Certain of its subsidiaries and affiliates (the "Sponsor") participate in the plan.

Trustee

As of December 31, 2003, the trustee of the Plan was UMB Bank, n.a. (the "Trustee"). Subsequently, the assets have been transferred to Marshall & Ilsley Trust Company N.A., the current trustee of the plan. The Trustee holds and administers all assets of the Plan in accordance with the provisions of the Plan agreement.

Administration of the Plan

An advisory committee (the "Advisory Committee"), which consists of members who are selected by the Board of Directors of the Sponsor, has full power, authority and responsibility to control and manage the operations and administration of the Plan. All expenses of operating the Plan may be paid out of Plan assets, except to the extent the Sponsor decides to pay these expenses. For the year ended December 31, 2003, the Sponsor paid Plan expenses of \$11,930.

Eligibility

All employees of the Sponsor who were employed prior to July 1, 2002, and who were not members of a collective bargaining unit or reclassified employees were eligible to participate in the Plan on the Plan entry date. The Plan entry date is the later of the first day of the month following the date the employee commences service or the date the employee attains age 20. After December 31, 2002, no new participants were allowed into the Plan. Beginning January 1, 2004, new participants are enrolled in the DST Systems, Inc. 401(k) Profit Sharing Plan.

Contributions and Vesting

Effective January 1, 2003, all invested balances in the Plan were fully vested and no further contributions are planned. Participant and Sponsor contributions under the Plan after December 31, 2002, are made to the DST Systems, Inc. 401(k) Profit Sharing Plan and are subject to its terms and conditions.

Participant accounts

Each participant's account was credited with the participant's contributions, matching contributions, profit sharing contributions and rollover contributions. Each participant's account is credited with an allocation of Plan earnings or losses. Allocations of earnings or losses are based on account balances. Discretionary contributions were allocated to participant accounts based on the proportion which the participant's eligible compensation bore to the aggregate

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eligible compensation of all participants for the year. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

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Investment options

Participants may direct their contributions into DST Common Stock (\$0.01 par value) or any number of the investment options as selected by the Advisory Committee. The investment options contain different degrees of risks. Participants should refer to the respective fund prospectus for a more complete description of the investment objectives of each fund. The Advisory Committee reserves the right to change the available investment options from time to time.

Participants may change their investment options daily.

Plan participants

The following summarizes the number of participants by investment option as of December 31, 2003:

| | |
|------------------------------|-----|
| American Century Adv Ultra | 42 |
| Dodge & Cox | 102 |
| Dreyfus Appreciation | 29 |
| Fidelity Contra | 50 |
| Fidelity Equity Income | 42 |
| Gabelli Asset | 26 |
| Janus Overseas | 47 |
| Janus Twenty | 37 |
| Managers Fund Special Equity | 11 |
| Pimco Total Return | 25 |
| Strong Opportunity | 28 |
| T. Rowe Small Cap | 6 |
| UMB Scout Prime | 27 |
| Vanguard Horizon | 23 |
| Vanguard Index 500 | 38 |

Distribution of benefits

Benefit distributions generally will be made in the event of retirement, death, disability, resignation or dismissal. A participant's normal retirement age is 59 1/2.

Balances not exceeding \$5,000 will be automatically distributed upon termination as a cash lump sum as soon as administratively practicable following termination of employment. Balances exceeding \$5,000 (excluding rollover contributions and related earnings or losses) will be distributed upon participant election as soon as administratively practicable but no later than April 1 of the Plan year following the Plan year in which age 70 1/2 is attained. Such distributions may be elected as a lump sum or paid in monthly, quarterly or annual installments. Distributions shall be made in cash or, at the option of the Participant, in cash plus the number of whole shares of DST Common Stock allocated to the Participant's account.

Unless the participant otherwise elects, distributions begin no later than the 60th day after the close of the Plan year in which a participant reaches normal retirement age or celebrates their 10th anniversary as a Plan member (whichever is later). Participants under the age of 62 with balances exceeding \$5,000 (excluding rollover contributions and related earnings or losses) must consent to any distribution.

Upon death, all sums credited to the participant's account will be paid to the beneficiary or beneficiaries designated by the participant.

Distributions may also be made in the event of financial hardship of the participant. Certain restrictions apply.

Participant loans

Participants may borrow the lesser of \$50,000 or 50% of their vested accounts (subject to certain Plan and Internal Revenue Service limitations). Generally, loans must be repaid within five years. Loans bear a fixed rate of interest, which is set at loan origination using the Prime rate as publicly announced by the Trustee plus 1%.

Plan termination

The Sponsor believes the Plan will continue without interruption; however, it reserves the right to terminate the Plan at any time subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in any unvested balances from Sponsor contributions and their respective account balances will be distributed in accordance with the Plan.

Subsequent Event

Ownership of all Plan assets was transferred to the DST Systems, Inc. 401(k) Profit Sharing Plan (the "DST Plan") in June 2004.

2. Significant Accounting Policies

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes in net assets available for plan benefits. Actual results could differ from those estimates.

Cash and 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.

Investment valuation and security transactions

Investments are recorded at fair value. Investments in mutual funds and DST Common Stock are valued at net asset value representing the value at which shares of the fund may be purchased or redeemed. Unrealized gains and losses are recognized in the year in which they occur. Loans are valued at the current amount due from participants.

Contributions

Contributions are recognized in the year to which they relate.

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Accounting for obligations for benefit payments

The Plan does not record a liability relating to the obligations for benefit payments. Amounts allocated to participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 2003, but not yet paid as of that date.

Income tax status of the Plan

The Internal Revenue Service has determined and informed the Sponsor by a letter dated August 30, 2001, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (the "IRC"). The Plan has been amended since receiving the determination letter. However, the Advisory Committee and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

3. Plan Investments

The following investments represent 5% or more of net assets available for benefits at year-end:

| | | December |
|----------------------------|----|------------------------|
| | | ----- 2003 ----- |
| Mutual funds: | | |
| American Century Adv Ultra | \$ | 129,815 |
| Dodge & Cox | | 223,169 |
| Dreyfus Appreciation | | 95,686 |
| Fidelity Contra | | 188,872 |
| Fidelity Equity Income | | 119,301 |
| Gabelli Asset | | |
| Janus Overseas | | 101,084 |
| Janus Twenty | | |
| Vanguard Index 500 | | 112,444 |

During 2003 and 2002, the Plan's participant-directed investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

| | | ----- Year Ended ----- December 31, ----- 2003 ----- |
|--------------|----|--|
| Mutual funds | \$ | 293,084 |

Schedule I

* Indicates a party-in-interest
 (1) In accordance with instructions to the Form 5500, the Plan is not required to disclose the cost component of participant-directed investments

lock\line, LLC 401(k) Retirement Plan
 EIN 48-1248614 / PIN 001

Schedule H, line 4i -- Schedule of Assets (Held At End of Year)

December 31, 2003

| (a) | (b) Identity | (c) Description | (d) Cost |
|-----|----------------------|----------------------------|----------|
| | American Century | Adv Ultra | (1) |
| | Dodge & Cox | Balanced | (1) |
| | Dreyfus | Appreciation | (1) |
| | Fidelity | Contra | (1) |
| | Fidelity | Equity Income | (1) |
| | Gabelli | Asset | (1) |
| | Janus Investment | Overseas | (1) |
| | Janus Investment | Twenty | (1) |
| | Managers Fund | Special Equity | (1) |
| | Pimco | Total Return | (1) |
| | Strong | Opportunity | (1) |
| | T. Rowe Price | Small Cap | (1) |
| | UMB Scout | Prime Value | (1) |
| | Vanguard Horizon | Capital Opportunity | (1) |
| | Vanguard Index Trust | 500 Portfolio | (1) |
| * | Participant Loans | Interest rate - Prime + 1% | 0 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

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lock\line, LLC 401(k) Retirement Plan

Date: June 28, 2004

By: /s/ Kenneth V. Hager

Kenneth V. Hager
Treasurer of lock\line, LLC,
Plan Administrator