

DST SYSTEMS INC
Form 10-Q
November 03, 2017
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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 September 30, 2017

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	43-1581814
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

333 West 11 th Street, Kansas City, Missouri	64105
(Address of principal executive offices)	(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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares outstanding of the Company's common stock as of October 31, 2017:
Common Stock \$0.01 par value — 60,220,181

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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 consolidated subsidiaries.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DST Systems, Inc.

Condensed Consolidated Balance Sheet

(in millions, except share and per share amounts)

(unaudited)

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 140.7	\$ 195.5
Funds held on behalf of clients	542.9	500.5
Client funding receivable	47.9	64.1
Accounts receivable	352.4	215.5
Other assets	79.7	70.0
Assets held for sale	—	72.6
	1,163.6	1,118.2
Investments	199.6	377.4
Unconsolidated affiliates	80.7	331.2
Properties, net	340.5	235.7
Intangible assets, net	290.3	142.6
Goodwill	796.5	516.4
Other assets	131.0	50.3
Total assets	\$ 3,002.2	\$ 2,771.8
Liabilities		
Current liabilities		
Current portion of debt	\$ 133.6	\$ 208.5
Client funds obligations	590.8	564.6
Accounts payable	84.9	62.9
Accrued compensation and benefits	136.6	101.7
Deferred revenues and gains	24.4	23.5
Income taxes payable	6.2	22.0
Other liabilities	95.1	78.1
Liabilities held for sale	—	30.1
	1,071.6	1,091.4
Long-term debt	511.2	299.7
Income taxes payable	64.1	69.8
Deferred income taxes	79.5	151.5
Other liabilities	51.7	22.9
Total liabilities	1,778.1	1,635.3
Commitments and contingencies (Note 11)		
Redeemable Non-controlling Interest	—	21.3

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Stockholders' Equity		
Preferred stock, \$0.01 par; 10 million shares authorized and unissued	—	—
Common stock, \$0.01 par; 400 million shares authorized, 64.4 million and 82.0 million shares issued, respectively	0.6	0.8
Additional paid-in capital	101.5	129.2
Retained earnings	1,418.8	2,379.2
Treasury stock (3.9 million and 18.0 million shares, respectively), at cost	(289.1) (1,410.6
Accumulated other comprehensive income (loss)	(7.7) 16.6
Total stockholders' equity	1,224.1	1,115.2
Total liabilities, redeemable non-controlling interest and stockholders' equity	\$ 3,002.2	\$ 2,771.8

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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Operating revenues	\$524.8	\$365.5	\$1,534.0	\$1,100.7
Out-of-pocket reimbursements	37.8	21.2	90.3	57.2
Total revenues	562.6	386.7	1,624.3	1,157.9
Costs and expenses	472.1	289.6	1,323.7	916.9
Depreciation and amortization	34.7	22.8	92.7	69.1
Operating income	55.8	74.3	207.9	171.9
Interest expense	(6.9)	(5.4)	(19.7)	(18.0)
Other income, net	8.7	6.7	217.2	20.0
Equity in earnings of unconsolidated affiliates	4.2	7.0	27.3	23.9
Income from continuing operations before income taxes and non-controlling interest	61.8	82.6	432.7	197.8
Income taxes	13.0	31.6	66.3	73.8
Income from continuing operations before non-controlling interest	48.8	51.0	366.4	124.0
Income (loss) from discontinued operations, net of tax	(0.3)	222.8	4.5	260.0
Net income	48.5	273.8	370.9	384.0
Net (income) loss attributable to non-controlling interest	—	(0.5)	(0.6)	0.4
Net income attributable to DST Systems, Inc.	\$48.5	\$273.3	\$370.3	\$384.4
Weighted average common shares outstanding	60.7	65.4	61.9	66.5
Weighted average diluted shares outstanding	61.6	66.1	62.7	67.3
Basic earnings per share:				
Continuing operations attributable to DST Systems, Inc.	\$0.81	\$0.77	\$5.91	\$1.88
Discontinued operations	(0.01)	3.41	0.07	3.90
Basic earnings per share	\$0.80	\$4.18	\$5.98	\$5.78
Diluted earnings per share:				
Continuing operations attributable to DST Systems, Inc.	\$0.79	\$0.76	\$5.84	\$1.85
Discontinued operations	—	3.37	0.07	3.87
Diluted earnings per share	\$0.79	\$4.13	\$5.91	\$5.72
Cash dividends per share of common stock	\$0.18	\$0.17	\$0.54	\$0.50

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 September 30, 2017		Nine Months Ended September 30, 2016	
Net income attributable to DST Systems, Inc.	\$48.5	\$273.3	\$370.3	\$384.4
Other comprehensive income (loss), net of tax and reclassifications to earnings, derived from:				
Available-for-sale securities	0.3	21.7	(93.6)	(0.7)
Cash flow hedges	—	—	0.2	0.2
Foreign currency translation adjustments	16.0	(1.1)	69.1	(24.3)
Other comprehensive income (loss)	16.3	20.6	(24.3)	(24.8)
Comprehensive income	\$64.8	\$293.9	\$346.0	\$359.6

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

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DST Systems, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(in millions)
(unaudited)

	Common Stock		Additional	Retained	Treasury	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares Outstanding	Par Value	Paid-in Capital	Earnings	Stock		
December 31, 2015	68.6	\$ 0.8	\$ 136.4	\$ 1,996.6	\$(1,129.7)	\$ 41.9	\$ 1,046.0
Comprehensive income:							
Net income attributable to DST Systems, Inc.	—	—	—	384.4	—	—	384.4
Other comprehensive loss	—	—	—	—	—	(24.8)	(24.8)
Dividends	—	—	1.0	(33.8)	—	—	(32.8)
Amortization of share based compensation	—	—	16.7	—	—	—	16.7
Issuance of common stock	0.6	—	(25.2)	—	34.2	—	9.0
Repurchase of common stock	(3.9)	—	—	—	(240.7)	—	(240.7)
Other	—	—	(0.3)	—	—	—	(0.3)
September 30, 2016	65.3	\$ 0.8	\$ 128.6	\$ 2,347.2	\$(1,336.2)	\$ 17.1	\$ 1,157.5

	Common Stock		Additional	Retained	Treasury	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares Outstanding	Par Value	Paid-in Capital	Earnings	Stock		
December 31, 2016	64.0	\$ 0.8	\$ 129.2	\$ 2,379.2	\$(1,410.6)	\$ 16.6	\$ 1,115.2
Comprehensive income:							
Net income attributable to DST Systems, Inc.	—	—	—	370.3	—	—	370.3
Other comprehensive loss	—	—	—	—	—	(24.3)	(24.3)
Dividends	—	—	1.0	(34.0)	—	—	(33.0)
Amortization of share based compensation	—	—	31.8	—	—	—	31.8
Issuance of common stock	0.4	—	(20.0)	—	22.6	—	2.6
Repurchase of common stock	(3.9)	—	—	—	(239.0)	—	(239.0)
Distribution of treasury stock for stock split	—	(0.2)	(40.5)	(1,297.2)	1,337.9	—	—
Other	—	—	—	0.5	—	—	0.5
September 30, 2017	60.5	\$ 0.6	\$ 101.5	\$ 1,418.8	\$(289.1)	\$ (7.7)	\$ 1,224.1

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)

	Nine Months Ended September 30, 2017 2016	
Cash flows — operating activities:		
Net income	\$370.9	\$384.0
Less: income from discontinued operations	4.5	260.0
Income from continuing operations	366.4	124.0
Depreciation and amortization	92.7	69.1
Net gains on investments	(151.9)	(2.8)
Gain recognized on step-up of unconsolidated affiliates	(43.8)	—
Amortization of share-based compensation	31.2	11.0
Equity in earnings of unconsolidated affiliates	(27.3)	(23.9)
Cash dividends from unconsolidated affiliates	1.8	0.3
Deferred income taxes	(7.2)	(0.1)
Changes in accounts receivable	23.1	1.3
Changes in other assets	(61.8)	(0.9)
Changes in client funds obligations	(16.2)	7.5
Changes in client funding receivable	16.2	(7.5)
Changes in accounts payable and accrued liabilities	(81.5)	11.6
Changes in income taxes payable	3.9	8.2
Changes in deferred revenues and gains	(33.1)	(10.0)
Changes in accrued compensation and benefits	(16.0)	(32.4)
Other, net	1.7	(7.8)
Net cash provided from continuing operating activities	98.2	147.6
Net cash provided from (used in) discontinued operating activities	(12.1)	14.1
Net cash provided from operating activities	86.1	161.7
Cash flows — investing activities:		
Cash paid for capital expenditures	(61.7)	(42.7)
Investments in securities	(51.6)	(198.3)
Proceeds from (advances to) unconsolidated affiliates	31.7	(25.0)
Proceeds from sales/maturities of investments	87.3	257.5
Net change in funds held to satisfy client funds obligations	(42.4)	167.9
Proceeds from sale of properties	—	5.7
Acquisition of businesses, net of cash and cash equivalents acquired	(38.9)	(93.5)
Proceeds from sale of business, net of cash and cash equivalents sold	0.8	9.5
Other, net	0.5	1.0
Net cash provided from (used in) continuing investing activities	(74.3)	82.1
Net cash provided from discontinued investing activities	40.6	409.4
Net cash provided from (used in) investing activities	(33.7)	491.5
Cash flows — financing activities:		
Proceeds from issuance of common stock	2.4	4.6
Principal payments on debt	(106.8)	(4.9)

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Net borrowings (repayments) on revolving credit facilities	250.0	(216.1)
Net borrowings (repayments) on accounts receivable securitization program	(37.6)	88.6
Net change in client funds obligations	42.4	(167.9)

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

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DST Systems, Inc.

Condensed Consolidated Statement of Cash Flows (continued)

(in millions)

(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Common stock repurchased	(235.4)	(240.7)
Payment of cash dividends	(33.0)	(32.8)
Excess tax benefits from share-based compensation	—	3.7
Receipt of third party capital in investment fund	0.8	6.7
Net cash used in continuing financing activities	(117.2)	(558.8)
Net cash used in discontinued financing activities	(0.2)	—
Net cash used in financing activities	(117.4)	(558.8)
Effect of exchange rates on cash and cash equivalents	6.2	—
Net increase (decrease) in cash and cash equivalents, including cash within assets held for sale	(58.8)	94.4
Cash and cash equivalents, beginning of period	199.5	89.6
Cash and cash equivalents, end of period	140.7	184.0
Less: cash and cash equivalents held for sale	—	3.1
Cash and cash equivalents of continuing operations, end of period	\$140.7	\$180.9

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

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Summary of Accounting Policies

The Condensed Consolidated Financial Statements of DST Systems, Inc. and consolidated subsidiaries (“we,” “our,” “us,” the “Company” or “DST”) 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 (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although we believe 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 our audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

In March 2017, we acquired State Street Corporation’s (“State Street”) ownership in both Boston Financial Data Services, Inc. (“BFDS”) and International Financial Data Services Limited (“IFDS U.K.”), which resulted in control of the entities. As such, they were consolidated in our financial results from the date control was obtained.

In addition, beginning in 2017, DST established a new reportable segment structure that separates the previously reported Financial Services segment into two new segments, Domestic Financial Services and International Financial Services, based upon the geographical location of the revenue-generating business. The activity within the previously reported Investments and Other segment has now been included in either the Domestic or International Financial Services segments based on the business supported. The Healthcare Services segment remains unchanged. The new segment presentation is reflective of how management is now operating the business and making resource allocations following the acquisitions of the remaining interests in IFDS U.K. and BFDS in the first quarter 2017, as well as the recent reductions in non-core investment assets resulting from monetizations and the use of State Street stock in the BFDS exchange transaction. The Company’s operating business units are now reported as three operating segments (Domestic Financial Services, International Financial Services and Healthcare Services). Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation and prior periods have been revised to reflect the new reportable operating segments.

In May 2017, our Board of Directors declared a two-for-one stock split of DST’s outstanding common stock effected in the form of a stock dividend, which was paid on June 8, 2017 to shareholders of record at the close of business on May 26, 2017. In connection with the stock split, 16.5 million treasury shares were used to settle a portion of the distribution. All share and per share data, excluding treasury shares, have been retroactively adjusted for all periods presented to reflect the stock split as if the stock split had occurred at the beginning of the earliest period presented.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the consolidated financial position and the results of operations, comprehensive income, changes in stockholders’ equity and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year 2017.

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued guidance which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the

statement of cash flows. The guidance was adopted by us on January 1, 2017 and resulted in approximately \$0.6 million and \$2.6 million of excess tax benefits being recognized in Income taxes in the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2017, respectively. We also elected to account for forfeitures as they occur rather than using an estimated forfeiture rate. The impact to our consolidated financial statements was not material.

Accounting Pronouncements Pending Adoption

In November 2016, the FASB issued guidance which requires the statement of cash flows to explain changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective January 1, 2018 and requires retrospective application. Early adoption is permitted. We are currently evaluating the standard and the impact it will have on our consolidated financial statements, but have determined that our Funds

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

held on behalf of clients and Other assets that meet the definition of cash and cash equivalents but are restricted for use will be included when reconciling the beginning and end of period balances on the Condensed Consolidated Statement of Cash Flows.

In October 2016, the FASB issued guidance which requires the recognition of income tax consequences for intra-entity transfers of assets other than inventory. The guidance is effective January 1, 2018 and requires modified retrospective application. Early adoption is permitted. We are currently evaluating the standard and the impact it will have on our consolidated financial statements and related disclosures, however we do not expect it to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued guidance which requires lessees to reflect most leases on their balance sheet as assets and obligations. The guidance is effective January 1, 2019 with early adoption permitted. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented. We are currently evaluating the standard and the impact it will have on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued guidance which updates the reporting model for certain financial instruments, including the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective January 1, 2018 and requires a cumulative-effective adjustment as of the beginning of the fiscal year of adoption. Early adoption is permitted as of the beginning of the fiscal year of adoption. We are currently evaluating the standard and the impact it will have on our consolidated financial statements and related disclosures, but generally believe our private equity funds accounted for under the cost method will be measured at fair value, resulting in increased volatility in our Condensed Consolidated Statement of Income.

In May 2014, the FASB issued guidance which requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange for those goods or services. The new standard and subsequently issued amendments will become effective January 1, 2018. We plan to adopt the guidance using the modified retrospective transition approach. We are currently evaluating the impacts of the application of the new standard to our existing portfolio of customer contracts and will continue to review new contracts entered into prior to the adoption of the new standard. While we expect the adoption of the standard will change the timing of when revenue is recognized for certain revenue streams, we currently anticipate that the majority of our contracts with customers that include account- and/or transaction-based processing fees will be accounted for under the series deliverable guidance in the new standard which will likely result in minimal changes as compared to current revenue recognition. These revenues will continue to be recognized over time as a single stand-ready performance obligation. As such, we do not currently anticipate significant changes in current systems or processes. Although we currently do not believe there will be a material impact of adopting the new revenue standard on our consolidated financial statements, our assessment of the expected impact of adoption will continue throughout the remainder of 2017.

2. Significant Business Transactions

Acquisition of the remaining interests in BFDS

On March 27, 2017, we entered into a series of definitive agreements to acquire State Street's equity interest in our BFDS joint venture, which provides shareholder recordkeeping, intermediary and investor services, and regulatory

compliance solutions to financial services clients in the United States. We also acquired an investment in a privately-held company and the equity interest in IFDS Realty, LLC, which holds the real estate assets used in BFDS' operations, through a distribution from International Financial Data Services L.P. ("IFDS L.P."), our 50/50 joint venture with State Street. The BFDS transaction, which closed on March 30, 2017, was structured as a non-taxable exchange under Section 355 of the Internal Revenue Code. At closing, DST delivered to State Street approximately 2.0 million shares of State Street common stock with a closing date fair value of \$163.4 million (with a cost basis for tax purposes of approximately \$1.1 million) in exchange for State Street's equity interest in BFDS. The number of shares delivered at closing was calculated using the negotiated fair value of \$157.6 million and the closing price of State Street's stock at signing. BFDS is included within the Domestic Financial Services segment.

The acquisition of State Street's 50% equity interest in BFDS was accounted for as a step-acquisition. Accordingly, we remeasured our previously held non-controlling equity interest in BFDS to the estimated fair value of \$151.1 million, resulting in a gain of \$56.0 million recorded at the acquisition date, within Other income, net in the Condensed Consolidated Statement of Income.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

The factors described above, combined with the synergies expected from combining our operations with the acquired entity and the resulting enhanced clarity in the service offerings available to our clients, are the basis for the acquisition price paid resulting in \$68.7 million of goodwill recorded, none of which is expected to be deductible for tax purposes.

The transaction was accounted for using the acquisition method of accounting, and as such, assets acquired, liabilities assumed, and consideration transferred were recorded at their estimated fair values on the acquisition date. Subsequent to the acquisition date, our initial purchase price allocation and estimate of fair value for certain intangible assets and related income tax effects have been adjusted based on facts and circumstances existing at the acquisition date. Future adjustments to the purchase price allocation could be significant as valuations for certain tangible assets, intangible assets and contingent liabilities are finalized and the associated income tax impacts are determined.

The following table summarizes the aggregate acquisition-date fair value of the consideration transferred for the acquisition of BFDS and the amounts recognized as of the acquisition date for the assets acquired and liabilities assumed (in millions):

Consideration

Fair value of common stock used to acquire the remaining equity interests in BFDS, certain investments and real estate	\$163.4
Estimated fair value of DST's previously-held equity interests (1)	151.1
Effective settlement of pre-existing relationships	(5.9)
Total consideration transferred	\$308.6

Recognized amounts of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	\$96.8
Accounts receivable	81.6
Other current assets	3.6
Investments (2)	35.8
Properties (3)	22.6
Intangible assets	57.2
Goodwill	68.7
Deferred income taxes	2.4
Other assets	3.2
Total assets	371.9
Accounts payable	5.2
Accrued compensation and benefits	15.4
Deferred revenue	2.1
Other current liabilities	7.6
Other liabilities	33.0
Total liabilities	63.3
Net assets acquired	\$308.6

(1) Equals the estimated fair value of DST's previously-held equity interest in BFDS valued at \$151.1 million, which represents an approximate 7.5% discount to the acquisition price for State Street's equity interests in BFDS prior to the acquisition date. The difference between the fair value of State Street common stock transferred of \$163.4 million and

the \$151.1 million represents an estimate of a control premium, which has not been included in the valuation of DST's previous non-controlling interest.

(2) As a result of the acquisition of the remaining interests in BFDS, we acquired certain investments associated with active deferred compensation plans for senior management and certain highly compensated employees.

Approximately \$3.7 million of the underlying investments were in DST common stock. As a result, the common stock was considered effectively repurchased at the acquisition date and reclassified to Treasury stock in the Condensed Consolidated Balance Sheet.

(3) Includes \$2.0 million of acquired software with a weighted-average useful life of 5 years.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

The following table summarizes the intangible assets acquired and estimated weighted-average useful lives as of the acquisition date (in millions):

	Fair Value	Weighted-Average Useful Life
Customer relationships	\$ 57.2	13 years

The operating results of BFDS were combined with our operating results subsequent to the acquisition date. Approximately \$67.5 million and \$132.9 million of total revenues, net of intercompany eliminations, and \$12.3 million and \$14.2 million of pretax income of the acquired business is included in the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2017, respectively.

Acquisition of the remaining interests in IFDS U.K.

On March 27, 2017, we acquired State Street's ownership of our IFDS U.K. joint venture, an investor and policy holder administrative services and technology provider to the collective funds, insurance, and retirement industries, for \$141.0 million. Additionally, we acquired from our IFDS L.P. joint venture both the equity interest in IFDS Realty U.K. LLC ("IFDS Realty U.K."), which holds certain real estate utilized by the U.K. business, and the equity interest in IFDS Percana Group Ltd. ("IFDS Percana") for total cash consideration of \$68.0 million. As a result of DST's 50% ownership in IFDS L.P., approximately half of the cash consideration DST paid to IFDS L.P. was distributed to DST in the form of a distribution, resulting in net cash paid for the acquisition, after cash distributions of approximately \$175.0 million. The acquisition was funded through cash on hand and our existing debt facilities. In addition, concurrent with the acquisition of the remaining interests in IFDS U.K., we also purchased State Street's notes receivable from IFDS U.K. for cash consideration of \$25.9 million, which approximated the fair value of the note at the acquisition date. We will continue to service offshore and cross-border markets in Canada, Ireland and Luxembourg through IFDS L.P., our 50/50 joint venture with State Street. IFDS U.K., IFDS Realty U.K. and IFDS Percana are included within the International Financial Services segment.

The acquisition of State Street's 50% equity interest in IFDS U.K. was accounted for as a step-acquisition. Accordingly, we remeasured our previously held non-controlling equity interest in IFDS U.K. to the estimated fair value of \$136.8 million, resulting in a loss of \$12.2 million at the acquisition date, which is included in Other income, net in the Condensed Consolidated Statement of Income.

The factors described above, combined with the benefits expected from the opportunities for enhanced efficiencies in our delivery model, are the basis for the acquisition price paid resulting in \$195.9 million of goodwill recorded, of which \$18.9 million is expected to be deductible for tax purposes.

The transaction was accounted for using the acquisition method of accounting, and as such, assets acquired, liabilities assumed, and consideration transferred were recorded at their estimated fair values on the acquisition date. Subsequent to the acquisition date, our initial purchase price allocation and estimate of fair value for certain intangible assets and related income tax effects were adjusted based on facts and circumstances existing at the acquisition date. Future adjustments to the purchase price allocation could be significant as valuations for certain tangible assets, intangible assets and contingent liabilities are finalized and the associated income tax impacts are determined.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

The following table summarizes the aggregate acquisition-date fair value of the consideration transferred for the acquisition of the remaining interests in IFDS U.K. and the amounts recognized as of the acquisition date for the assets acquired and liabilities assumed (in millions):

Consideration	
Cash paid to acquire the remaining equity interests in IFDS U.K. and other related interests (1)	\$234.9
Estimated fair value of previously-held equity interests (2)	136.8
Effective net settlement of pre-existing relationships	54.5
Total consideration transferred	\$426.2
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	\$99.2
Accounts receivable	101.7
Other current assets	14.4
Properties (3)	95.6
Intangible assets	104.0
Goodwill	195.9
Deferred income taxes	11.5
Other assets	2.1
Total assets	624.4
Current portion of long-term debt	2.8
Accounts payable	29.1
Accrued compensation and benefits	23.6
Deferred revenue	31.1
Other current liabilities	61.7
Long-term debt	26.3
Other liabilities	23.6
Total liabilities	198.2
Net assets acquired	\$426.2

(1) Cash paid is comprised of cash payments to acquire State Street's equity interest in IFDS U.K. and a note receivable from IFDS U.K., as well as IFDS L.P.'s equity interests in IFDS Percana and IFDS Realty U.K.

(2) Equals the estimated fair value of DST's previously-held equity interest in IFDS U.K. valued at \$136.8 million, which represents an approximate 3.0% discount to the acquisition price for State Street's equity interests in IFDS U.K. prior to the acquisition date. The difference between the \$141.0 million of cash paid to acquire State Street's equity interests in IFDS U.K. and the \$136.8 million represents an estimate of a control premium, which has not been included in the valuation of DST's previous non-controlling interest.

(3) Includes \$21.9 million of acquired software with a weighted-average useful life of 6 years.

The following table summarizes the intangible assets acquired and estimated weighted-average useful lives as of the acquisition date (in millions):

	Fair Value	Weighted-Average Useful Life
Customer relationships	\$104.0	10 years

The operating results of IFDS U.K. were combined with our operating results subsequent to the acquisition date. Approximately \$112.7 million and \$313.8 million of total revenues, net of intercompany eliminations, and \$4.9 million and \$65.6 million of pretax income of the acquired business is included in the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2017, respectively.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

The following table summarizes the unaudited pro forma results of operations for the three and nine months ended September 30, 2017 and 2016 as if the BFDS and IFDS U.K. acquisitions had occurred on January 1, 2016 (in millions, except per share amounts):

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Total revenues	\$562.6	\$564.6	\$1,772.4	\$1,707.8
Net income attributable to DST Systems, Inc.	48.5	263.2	191.8	350.8
Diluted earnings per share	0.79	3.98	3.06	5.21

The pro forma financial information adjusts the actual combined results for items that are recurring in nature and directly attributable to the acquisitions of the remaining interests in BFDS and IFDS U.K., including intangible asset amortization and fair value adjustments for property, plant and equipment, deferred revenue and other transaction related items. The nine months ended September 30, 2017 pro forma information was reduced by the net gains resulting from the transaction of \$188.6 million. The unaudited pro forma amounts have been prepared based on estimates and assumptions, which we believe are reasonable, and are not indicative of what actual consolidated results of operations might have been if the acquisitions had been effective at the beginning of 2016, nor is it reflective of our expected actual results of operations for any future period.

We incurred approximately \$5.1 million of pretax costs from 2015 through the third quarter 2017 in connection with our acquisitions of the remaining interests in BFDS and IFDS U.K., which are included in Costs and expenses in our Condensed Consolidated Statement of Income.

Significant contractual matters

In April 2017, we signed an amendment to an existing servicing agreement, which extends in excess of ten years, with a wealth management platform client. As part of this amendment, we made an up-front payment of £30.0 million to the client during the second quarter 2017. We also agreed to pay them an additional £30.0 million during the fourth quarter of 2017. These payments are expected to be recovered over the term of the revised contractual arrangement.

Additionally, on June 30, 2017, a formal termination agreement was reached with a wealth management platform client for whom we were completing multi-year development and implementation efforts. As a result of this agreement, during the nine months ended September 30, 2017, DST recognized previously deferred revenue and termination payments received totaling \$93.2 million as incremental operating revenue. DST also incurred bad debt expense of \$34.5 million for previously invoiced services for which payment will now not be collected and \$5.2 million of other termination-related charges.

3. Discontinued Operations

On July 1, 2016, pursuant to the Purchase Agreement dated June 14, 2016, we completed the sale of our North American Customer Communications business for cash consideration of \$410.7 million after giving effect to a \$0.7 million adjustment

agreed upon in December 2016 to settle working capital and other matters under the terms of the agreement. We recorded a pretax gain of \$341.5 million on the sale during 2016. Additionally, on May 4, 2017, we completed the sale of our United Kingdom Customer Communications business for cash consideration of approximately \$43.6 million, after giving effect to a \$0.3 million adjustment agreed upon in October 2017 to settle working capital and other matters under the terms of the agreement. We recorded a pretax gain of \$2.6 million on the sale. We have classified the results of the two businesses sold as well as the gain realized upon sale as discontinued operations in our Condensed Consolidated Statement of Income and Statement of Cash Flows for all periods presented. Additionally, the related assets and liabilities associated with our United Kingdom Customer Communications discontinued operations were classified as held for sale in our Condensed Consolidated Balance Sheet at December 31, 2016.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Pursuant to the terms of the North American transaction, we will continue to provide certain information technology and operations processing activities to the North American Customer Communications business for an estimated period of up to 18 months from the transaction date. Additionally, we will continue to incur costs for certain print-related services provided by the disposed business for an estimated period of 3 to 5 years following the transaction. The information technology and operations processing activities we performed after the sale of the business resulted in approximately \$10.7 million and \$23.2 million of continuing cash inflows from the business sold and the costs incurred for certain print-related services provided by the business sold resulted in continuing cash outflows of approximately \$15.1 million and \$38.8 million for the three and nine months ended September 30, 2017.

The revenues previously eliminated in consolidation that have continued post-transaction were approximately \$6.5 million and \$21.0 million for the three and nine months ended September 30, 2017, respectively, as compared to \$5.7 million and \$13.8 million for the three and nine months ended September 30, 2016, respectively. The expenses previously eliminated in consolidation that have continued post-transaction were approximately \$10.6 million and \$39.3 million for the three and nine months ended September 30, 2017, respectively, as compared to \$12.9 million and \$21.4 million for the three and nine months ended September 30, 2016, respectively. The revenues and expenses associated with these continued activities have been classified within continuing operations for all periods presented. The offsetting costs and revenues previously recorded within Customer Communications and eliminated in consolidation have been reclassified to discontinued operations for all periods presented.

As of September 30, 2017, all assets and liabilities previously classified as held for sale in our Condensed Consolidated Balance Sheet had been sold. The following table summarizes the assets and liabilities classified as held for sale in our Condensed Consolidated Balance Sheet (in millions):

	December 31, 2016
Assets	
Cash and cash equivalents	\$ 4.0
Accounts receivable	38.9
Unconsolidated affiliates	0.2
Properties, net	9.9
Intangible assets, net	11.2
Other assets	8.4
Total assets held for sale	\$ 72.6
Liabilities	
Current portion of debt	\$ 0.4
Accounts payable	13.2
Accrued compensation and benefits	3.8
Deferred revenues and gains	0.8
Long-term debt	1.7
Income taxes payable	1.0
Other liabilities	9.2
Total liabilities held for sale	\$ 30.1

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

The following table summarizes the comparative financial results of discontinued operations which are presented as Income from discontinued operations, net of tax on our Condensed Consolidated Statement of Income (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Operating revenues	\$—	\$38.2	\$53.4	\$349.7
Out-of-pocket reimbursements	—	9.9	12.8	399.3
Total revenues	—	48.1	66.2	749.0
Costs and expenses	—	53.7	63.8	703.5
Depreciation and amortization	—	—	—	11.9
Operating income (loss)	—	(5.6)	2.4	33.6
Equity in earnings of unconsolidated affiliates	—	0.1	0.2	0.3
Net gain (loss) on business disposition	(0.3)	340.1	2.6	340.1
Income (loss) before income taxes	(0.3)	334.6	5.2	374.0
Income taxes	—	111.8	0.7	114.0
Income (loss) from discontinued operations, net of tax	\$(0.3)	\$222.8	\$4.5	\$260.0

In April 2016, we completed the sale of our United Kingdom Customer Communications' Bristol production facilities for pretax proceeds totaling approximately \$16.0 million. Concurrent with this sale, we leased back approximately two-thirds of the facilities under a 12-year lease. The rent payments and associated rent expense of the Bristol production facilities were approximately \$0.7 million per year over the 12-year lease term. This lease obligation was included in the sale of the United Kingdom Customer Communications business on May 4, 2017.

4. Investments

Investments are as follows (in millions):

	Carrying Value	
	September 30, 2017	December 31, 2016
Available-for-sale securities:		
State Street Corporation	\$—	\$ 169.6
Other available-for-sale securities	11.9	10.9
	11.9	180.5
Other:		
Trading securities	34.1	7.9
Seed capital investments, at fair value	11.7	61.0
Cost method, private equity and other investments	141.9	128.0
	187.7	196.9
Total investments	\$199.6	\$ 377.4

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Certain information related to our available-for-sale securities is as follows (in millions):

	September 30, December 31,	
	2017	2016
Book cost basis	\$ 9.2	\$ 28.4
Gross unrealized gains	2.7	152.1
Market value	\$ 11.9	\$ 180.5

At September 30, 2017 and December 31, 2016, the carrying value of our available-for-sale investments was \$11.9 million and \$180.5 million, respectively. The majority of the \$62.2 million of deferred tax liabilities associated with the available-for-sale investments at December 31, 2016 were reversed during the nine months ended September 30, 2017 as a result of the non-taxable exchange of the State Street shares for State Street's ownership interest in BFDS. During the nine months ended September 30, 2017 and 2016, we received \$0.9 million and \$61.2 million, respectively, from the sale of available-for-sale securities. Gross realized gains of \$0.1 million were recorded during the three months ended September 30, 2017 as compared to \$0.2 million of gross realized gains and \$0.1 million of losses recorded during the three months ended September 30, 2016, from the sale or exchange of available-for-sale securities. Gross realized gains of \$170.1 million and \$6.0 million and gross realized losses of \$14.3 million and \$3.8 million were recorded during the nine months ended September 30, 2017 and 2016, respectively, from the sale or exchange of available-for-sale securities. The gross realized gains and losses are included within Other income, net in the Condensed Consolidated Statement of Income.

We consolidate the investments of open-end funds in which we own a controlling interest as a result of our seed capital investments. At December 31, 2016, we had a controlling interest in seed capital investments of \$53.6 million which was comprised primarily of equity securities as well as \$8.4 million of cash collateral deposited with a broker for securities sold short. In March 2017, we reduced our ownership interest in a substantial portion of our seed capital investments, resulting in the deconsolidation of the respective fund. We held non-controlling interests in certain seed capital investments of \$11.7 million and \$7.4 million at September 30, 2017 and December 31, 2016, respectively.

We are a limited partner in various private equity funds which are primarily accounted for using the cost method. Our involvement in financing the operations of the private equity fund investments is generally limited to our investments in the entities. At September 30, 2017 and December 31, 2016, our carrying value of these private equity fund investments was approximately \$93.5 million and \$111.2 million, respectively. At September 30, 2017, we had future capital commitments related to these private equity fund investments of approximately \$3.2 million. Additionally, we have other investments with a carrying value of \$48.4 million and \$16.8 million at September 30, 2017 and December 31, 2016, respectively.

We record lower of cost or market valuation adjustments on cost method and other investments when impairment conditions, such as adverse market conditions or poor performance of the underlying investment, are present. We had no impairments on cost method and other investments during the three months ended September 30, 2017 and \$4.5 million of impairments on cost method and other investments during the nine months ended September 30, 2017. We had no impairments on cost method and other investments during the three and nine months ended September 30, 2016.

Our investments in private equity funds meet the definition of a variable interest entity ("VIE"); however, the private equity fund investments were not consolidated as we do not have the power to direct the entities' most significant economic activities. The maximum risk of loss related to our private equity fund investments is limited to the carrying

value of our investments in the entities plus any future capital commitments. At September 30, 2017 and December 31, 2016, our maximum risk of loss associated with these VIE's, which is comprised of our investment and required future capital commitments, was \$96.7 million and \$115.0 million, respectively.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

5. Unconsolidated Affiliates

Investments in unconsolidated affiliates are as follows (in millions):

	Ownership Percentage (1)	Carrying Value	
		September 30, 2017	December 31, 2016
International Financial Data Services U.K.	—	\$—	\$ 133.3
International Financial Data Services L.P.	50%	43.1	73.2
Boston Financial Data Services, Inc.	—	—	91.2
Unconsolidated real estate and other affiliates		37.6	33.5
Total		\$ 80.7	\$ 331.2

(1) DST's ownership percentage in IFDS U.K. and BFDS was 50% prior to the respective acquisitions in March 2017, at which time the businesses became wholly-owned subsidiaries.

Equity in earnings of unconsolidated affiliates are as follows (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
International Financial Data Services U.K.	\$—	\$3.4	\$0.9	\$8.2
International Financial Data Services L.P.	2.4	0.9	15.8	3.9
Boston Financial Data Services, Inc.	—	1.2	3.6	5.5
Unconsolidated real estate and other affiliates	1.8	1.5	7.0	6.3
Total	\$4.2	\$7.0	\$27.3	\$23.9

In connection with the acquisitions of the remaining interests in BFDS and IFDS U.K., as well as the receipt of IFDS L.P.'s distributions of real estate and its investment in IFDS Percana during March 2017, the corresponding investments in unconsolidated affiliates balances were reduced. Additionally, in connection with the acquisitions, DST also effectively settled IFDS U.K.'s note payables to State Street by acquiring State Street's outstanding note receivables due from IFDS U.K., which is considered part of the total cash paid to acquire State Street's equity interests in IFDS U.K. See Note 2, Significant Business Transactions, for further details.

6. Fair Value Measurements

Authoritative accounting guidance on fair value measurements establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of September 30, 2017 and December 31, 2016, we held certain investment assets and certain liabilities that are required to be measured at fair value on a recurring basis. These investments include our money market funds,

available-for-sale equity securities, trading securities, seed capital investments and securities sold short whereby fair value is determined using quoted prices in active markets. Accordingly, the fair value measurements of these investments have been classified as Level 1 in the tables below. Fair value for deferred compensation liabilities that are credited with deemed gains or losses of the underlying hypothetical investments, primarily equity securities, have been classified as Level 1 in the tables below. In addition, we may have interest rate and foreign currency derivative instruments that are required to be reported at fair value. Fair value for the derivative instruments was determined using inputs from quoted prices for similar assets and liabilities in active markets that are directly or indirectly observable. Accordingly, our derivative instruments have been classified as Level 2 in the tables below.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

The following tables present assets and liabilities measured at fair value on a recurring basis (in millions):

	Fair Value Measurements at Reporting Date Using			
	September 30, 2017	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds (1)	\$ 260.2	\$ 260.2	\$ —	\$ —
Equity securities (2)	46.0	46.0	—	—
Seed capital investments (2)	11.7	11.7	—	—
Deferred compensation liabilities (3)	(34.1)	(34.1)	—	—
Derivative instruments (3)	(0.4)	—	(0.4)	—
Total	\$ 283.4	\$ 283.8	\$ (0.4)	\$ —

	Fair Value Measurements at Reporting Date Using			
	December 31, 2016	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds (1)	\$ 437.0	\$ 437.0	\$ —	\$ —
Equity securities (2)	188.4	188.4	—	—
Seed capital investments (2)	61.0	61.0	—	—
Deferred compensation liabilities (3)	(7.9)	(7.9)	—	—
Securities sold short (3)	(8.2)	(8.2)	—	—
Derivative instruments (3)	(0.4)	—	(0.4)	—
Total	\$ 669.9	\$ 670.3	\$ (0.4)	\$ —

(1) Included in Cash and cash equivalents, Funds held on behalf of clients, and Other current assets on the Condensed Consolidated

Balance Sheet.

(2) Included in Investments on the Condensed Consolidated Balance Sheet.

(3) Included in Other liabilities on the Condensed Consolidated Balance Sheet.

At September 30, 2017 and December 31, 2016, we held approximately \$7.6 million and \$11.5 million, respectively, of investments in pooled funds, which are measured using net asset value as a practical expedient for fair value and therefore excluded from the tables above. The investments in pooled funds are included within the \$141.9 million and \$128.0 million of cost method and other investments at September 30, 2017 and December 31, 2016, respectively, disclosed within Note 4, Investments.

7. Intangible Assets and Goodwill

Intangible assets

The following table summarizes intangible assets (in millions):

	September 30, 2017		December 31, 2016	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
Amortizable intangible assets				
Customer relationships	\$372.4	\$ 89.9	\$203.6	\$ 71.0
Other	28.3	20.5	28.5	18.5
Total	\$400.7	\$ 110.4	\$232.1	\$ 89.5

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Amortization expense of intangible assets for the three and nine months ended September 30, 2017 was approximately \$8.1 million and \$20.2 million, respectively, as compared to \$4.3 million and \$12.3 million for the three and nine months ended September 30, 2016, respectively. The following table summarizes the estimated annual amortization for intangible assets recorded as of September 30, 2017 (in millions):

Remainder of 2017	\$8.1
2018	32.2
2019	31.1
2020	28.7
2021	28.3
Thereafter	161.9
Total	\$290.3

Goodwill

The following table summarizes the changes in the carrying amount of goodwill for the nine months ended September 30, 2017, by segment (in millions):

	December 31, 2016	Acquisitions	Disposals	Other	September 30, 2017
Domestic Financial Services	\$ 345.8	\$ 68.7	\$ —	—\$1.0	\$ 415.5
International Financial Services	15.6	195.9	—	14.5	226.0
Healthcare Services	155.0	—	—	—	155.0
Total	\$ 516.4	\$ 264.6	\$ —	—\$15.5	\$ 796.5

8. Debt

We are obligated under notes and other indebtedness as follows (in millions):

	September 30, 2017	December 31, 2016
Accounts receivable securitization program	\$ 65.6	\$ 103.2
Revolving credit facilities	325.0	75.0
Senior notes	225.0	330.0
Other indebtedness	29.2	—
	644.8	508.2
Less current portion of debt	133.6	208.5
Long-term debt	\$ 511.2	\$ 299.7

Accounts receivable securitization program

We securitize certain of our domestic accounts receivable through an accounts receivable securitization program with a third-party bank. The maximum amount that can be outstanding under this program is \$150.0 million. The facility will expire by its terms in May 2018, unless renewed.

The outstanding amount under the program was \$65.6 million and \$103.2 million at September 30, 2017 and December 31, 2016, respectively. During the nine months ended September 30, 2017 and 2016, total proceeds from

the accounts receivable securitization program were approximately \$443.1 million and \$746.8 million, respectively, and total repayments were approximately \$480.7 million and \$658.2 million, respectively, which comprise the net cash flows presented within the financing section of the Condensed Consolidated Statement of Cash Flows.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Revolving credit facilities

Our syndicated credit facility provides for revolving unsecured credit in an aggregate principal amount of up to \$850.0 million. The outstanding amount under this syndicated credit facility was \$325.0 million and \$75.0 million at September 30, 2017 and December 31, 2016, respectively. We also have another unsecured revolving line of credit to support our operations that provides total borrowings of up to \$10.0 million. There were no borrowings outstanding under this line of credit at September 30, 2017 or December 31, 2016.

During the nine months ended September 30, 2017 and 2016, total proceeds from our revolving credit facilities were approximately \$1,117.3 million and \$768.7 million, respectively, and total repayments were approximately \$867.3 million and \$984.8 million, respectively, which comprise the net cash flows presented within the financing section of the Condensed Consolidated Statement of Cash Flows.

Other indebtedness

In connection with the acquisition of the remaining interests in IFDS U.K. during 2017, we assumed a mortgage with a principal amount of £23.0 million which matures in October 2020 (“U.K. mortgage”). The outstanding amount under the mortgage was \$29.5 million at September 30, 2017 with a fixed rate of 3.9%. Principal payments of £1.0 million and accrued interest are payable semi-annually in April and October of each year, with the outstanding balance due at maturity.

Fair value

Based upon the borrowing rates currently available to us for indebtedness with similar terms and average maturities, the carrying value of long-term debt, with the exception of the privately placed senior notes (collectively, the “Senior Notes”), and the U.K mortgage, is considered to approximate fair value. The estimated fair values of the Senior Notes and U.K. mortgage were derived principally from quoted prices for similar financial instruments (Level 2 in the fair value hierarchy).

As of September 30, 2017 and December 31, 2016, the carrying values and estimated fair values of the fixed rate debt were as follows (in millions):

	September 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Senior notes - Series B	\$—	\$ —	\$105.0	\$ 106.7
Senior notes - Series C	65.0	66.0	65.0	67.5
Senior notes - Series D	160.0	169.0	160.0	172.1
U.K. mortgage	29.5	29.8	—	—
Total	\$254.5	\$ 264.8	\$330.0	\$ 346.3

9. Income Taxes

We record income tax expense during interim periods based on our best estimate of the full year’s tax rate as adjusted for discrete items, if any, that are taken into account in the relevant interim period. Each quarter, we update our

estimate of the annual effective tax rate and any change in the estimated rate is recorded on a cumulative basis. Our tax rate on income from continuing operations was 21.0% and 15.3% for the three and nine months ended September 30, 2017, respectively, compared to 38.3% and 37.3% for the three and nine months ended September 30, 2016, respectively. The Company's tax rate for the three and nine months ended September 30, 2017 was lower than the statutory federal income tax rate of 35% primarily due to the non-taxable nature of the BFDS exchange transaction, the adoption of new tax guidance issued for tax benefits on employee share-based transactions, benefits realized from the settlement of uncertain tax positions, and a change in the proportional mix of domestic and international income. The Company's tax rate for the three and nine months ended September 30, 2016 was higher than the statutory federal income tax rate of 35% primarily due to state income taxes and transaction related taxes, partially offset by dividends received deductions and a change in the proportional mix of domestic and international income.

Our estimated annual effective full year 2017 tax rate will vary from the statutory federal rate primarily as a result of variances among the estimates and actual amounts of full year sources of taxable income (e.g., domestic consolidated, joint venture and/

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

or international), the realization of tax credits (e.g., research and experimentation, foreign tax and state incentive), adjustments which may arise from the resolution of tax matters under review and our assessment of our liability for uncertain tax positions.

10. Equity

Earnings per share

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Income from continuing operations attributable to DST Systems, Inc.	\$48.8	\$50.5	\$365.8	\$124.4
Income (loss) from discontinued operations	(0.3)	222.8	4.5	260.0
Net income attributable to DST Systems, Inc.	\$48.5	\$273.3	\$370.3	\$384.4
Weighted average common shares outstanding	60.7	65.4	61.9	66.5
Incremental shares from restricted stock units and stock options	0.9	0.7	0.8	0.8
Weighted average diluted shares outstanding	61.6	66.1	62.7	67.3
Basic earnings per share				
Continuing operations attributable to DST Systems, Inc.	\$0.81	\$0.77	\$5.91	\$1.88
Discontinued operations	(0.01)	3.41	0.07	3.90
Basic earnings per share	\$0.80	\$4.18	\$5.98	\$5.78
Diluted earnings per share				
Continuing operations attributable to DST Systems, Inc.	\$0.79	\$0.76	\$5.84	\$1.85
Discontinued operations	—	3.37	0.07	3.87
Diluted earnings per share	\$0.79	\$4.13	\$5.91	\$5.72

We had approximately 60.5 million and 65.3 million common shares outstanding at September 30, 2017 and 2016, respectively. No shares from options to purchase common stock were excluded from the diluted earnings per share calculation because they were anti-dilutive for the three and nine months ended September 30, 2017 and 2016.

Share-based compensation

We have share-based compensation plans covering our employees and non-employee directors. During the nine months ended September 30, 2017, we granted approximately 0.6 million restricted stock units (“RSU’s”), of which approximately 0.3 million are performance stock units. Additionally, during the nine months ended September 30, 2017, we had 0.4 million RSU’s vest as the result of the completion of the service requirements or achievement of the service and performance features of the awards, as applicable. At September 30, 2017, we had 1.3 million unvested RSU’s and 0.6 million stock options outstanding.

We recognized share based compensation expense of \$18.0 million and \$31.8 million during the three and nine months ended September 30, 2017, respectively, as compared to \$1.4 million and \$16.7 million during the three and nine months ended September 30, 2016. These amounts are inclusive of discontinued operations. At September 30, 2017, we had \$64.6 million of unrecognized compensation expense related to our share based compensation arrangements. We estimate that compensation expense recognition attributable to currently outstanding stock option and RSU grants will be approximately \$8.7 million for the remainder of 2017, \$13.9 million for 2018, \$5.0 million for 2019 and \$0.8 million for 2020. Future expense recognition is not projected on approximately \$36.2 million of unrecognized compensation expense as the related awards are not currently expected to achieve their required performance features and therefore not expected to vest.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Other comprehensive income (loss)

Accumulated other comprehensive income (loss) balances consist of the following (in millions), net of tax:

	Unrealized Gain on Available-for-Sale Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income
Balance, December 31, 2016	\$ 94.1	\$ (0.1)	\$ (77.4)	\$ 16.6
Net current period other comprehensive income (loss)	(93.6)	0.2	69.1	(24.3)
Balance, September 30, 2017	\$ 0.5	\$ 0.1	\$ (8.3)	\$ (7.7)

Additions to and reclassifications out of accumulated other comprehensive income attributable to the Company are as follows (in millions):

	Three Months Ended September 30,			
	2017 Pretax	Net of Tax	2016 Pretax	Net of Tax
Available-for-sale securities				
Unrealized gains (losses) on available-for-sale securities	\$0.7	\$0.3	\$35.0	\$21.7
Reclassification of (gains) losses into net earnings on available-for-sale securities (1)	(0.1)	—	(0.1)	—
Net change in available-for-sale securities	0.6	0.3	34.9	21.7
Cash flow hedges				
Unrealized gains (losses) on cash flow hedges	(0.2)	(0.1)	(0.1)	(0.1)
Reclassification of (gains) losses into net earnings on foreign currency cash flow hedges (2)	0.2	0.1	0.2	0.1
Net change in cash flow hedges	—	—	0.1	—
Cumulative translation adjustments (3)				
Current period translation adjustments	16.1	16.0	(1.1)	(1.1)
Net cumulative translation adjustments	16.1	16.0	(1.1)	(1.1)
Total other comprehensive income (loss)	\$16.7	\$16.3	\$33.9	\$20.6

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

	Nine Months Ended September 30,			
	2017	2016	2017	2016
	Pretax	Net of Tax	Pretax	Net of Tax
Available-for-sale securities				
Unrealized gains (losses) on available-for-sale securities	\$6.4	\$4.0	\$0.8	\$0.5
Reclassification of (gains) losses into net earnings on available-for-sale securities (1)	(155.8)	(97.6)	(2.0)	(1.2)
Net change in available-for-sale securities	(149.4)	(93.6)	(1.2)	(0.7)
Cash flow hedges				
Unrealized gains (losses) on cash flow hedges	—	—	0.4	0.2
Reclassification of (gains) losses into net earnings on foreign currency cash flow hedges (2)	0.3	0.2	—	—
Net change in cash flow hedges	0.3	0.2	0.4	0.2
Cumulative translation adjustments (3)				
Current period translation adjustments	31.5	31.4	(24.3)	(24.3)
Reclassification into net earnings upon disposition of a foreign business (4)	(3.3)	(3.3)	—	—
Reclassification into net earnings upon step-acquisition of foreign entities (5)	41.0	41.0	—	—
Net cumulative translation adjustments	69.2	69.1	(24.3)	(24.3)
Total other comprehensive income (loss)	\$(79.9)	\$(24.3)	\$(25.1)	\$(24.8)

(1) Realized gains and losses on available-for-sale securities are recognized in Other income, net on the Condensed Consolidated Statement of Income.

(2) Reclassification to net earnings of foreign currency cash flow hedges are recognized in Costs and expenses on the Condensed Consolidated Statement of Income.

(3) Cumulative translation adjustments are inclusive of amounts derived from assets and liabilities held for sale.

(4) Reclassification to net earnings upon disposition of net assets classified as held for sale are recognized in Income from discontinued operations, net of tax on the Condensed Consolidated Statement of Income.

(5) Reclassification to net earnings upon step-acquisition of previously-held equity interests in foreign entities are recognized in Other income, net on the Condensed Consolidated Statement of Income.

One of our unconsolidated affiliates had an interest rate swap liability with a fair market value of \$30.1 million and \$33.1 million at September 30, 2017 and December 31, 2016, respectively. The unconsolidated affiliate used inputs from quoted prices for similar assets and liabilities in active markets that are directly or indirectly observable relating to the measurement of the interest rate swap. Our 50% proportionate share of this interest rate swap liability was \$15.1 million and \$16.5 million at September 30, 2017 and December 31, 2016, respectively. We record our proportionate share of this liability in an amount not to exceed the carrying value of our investment in this unconsolidated affiliate. Because the carrying value of this unconsolidated affiliate investment balance was zero at both September 30, 2017 and December 31, 2016, no change in the interest rate swap liability was recorded in the Condensed Consolidated Financial Statements.

Stock repurchases

During the nine months ended September 30, 2017, we repurchased approximately 3.8 million shares of DST common stock, on a post-split basis, for \$225.0 million. On May 9, 2017, our Board of Directors authorized a new \$300.0 million share repurchase plan. During October 2017, we spent \$17.7 million to repurchase approximately 0.3 million shares, resulting in approximately \$207.3 million remaining under the new share repurchase plan.

Shares received in exchange for satisfaction of the option exercise price and for tax withholding obligations arising from the exercise of options to purchase the Company's stock or from the vesting of restricted stock under our share-based compensation plans are included in common stock repurchased in the Condensed Consolidated Statement of Cash Flows. The amount of such share receipts and withholdings for option exercises and restricted stock vesting was \$10.4 million and \$15.7 million during the nine months ended September 30, 2017 and 2016, respectively. In addition, in connection with the non-cash acquisition of the remaining interest in BFDS, DST acquired \$3.7 million of DST common stock that was held by BFDS.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Dividends

Total dividends for the nine months ended September 30, 2017 and 2016 were \$34.0 million and \$33.8 million, respectively. Cash dividends of \$33.0 million and \$32.8 million were paid during the nine months ended September 30, 2017 and 2016. The remaining amount of dividends represents dividend equivalent shares of RSU's in lieu of cash dividends.

On May 9, 2017, our Board of Directors approved a two-for-one split of DST's common stock. The stock split was effected in the form of a stock dividend paid on June 8, 2017 to shareholders of record at the close of business on May 26, 2017. In connection with the stock split, 16.5 million treasury shares were used to settle a portion of the distribution. The distribution of treasury shares during the nine months ended September 30, 2017 reduced Additional paid-in capital by \$40.5 million, Retained earnings by \$1,297.2 million and Treasury stock by \$1,337.9 million.

On October 27, 2017, our Board of Directors declared a quarterly cash dividend of \$0.18 per share on our common stock, payable on December 8, 2017 to shareholders of record at the close of business on November 22, 2017.

11. Commitments and Contingencies

Agreements

We have letters of credit and bank guarantees of \$6.0 million and \$5.9 million outstanding at September 30, 2017 and December 31, 2016, respectively. Letters of credit are secured by our debt facilities.

We have 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. Additionally, we have adopted the DST Systems, Inc. Executive Severance Plan, which provides certain benefits to participants in the event of a qualifying termination under the plan.

In the normal course of business, to facilitate transactions of services and products and other business assets, and in certain strategic transactions, we have agreed to indemnify certain parties with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, data and confidentiality obligations, intellectual property infringement or other claims made by third parties. These agreements may limit the time period in which an indemnification claim can be made and the amount of the claim. At September 30, 2017 and December 31, 2016, except for certain immaterial items, there were no liabilities for guarantees or indemnifications as it is not reasonably possible to estimate either the maximum potential payments or range of payments under these indemnification agreements or to determine the timing of any such payments due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made under these agreements have not had a material impact on our financial statements.

Legal Proceedings

A putative class action suit was filed against the Company, the Compensation Committee of our Board of Directors, the Advisory Committee of our 401(k) Profit Sharing Plan (the "Plan") and certain of our present and/or former officers

and directors, alleging breach of fiduciary duties and other violations of the Employee Retirement Income Security Act. The suit, *DuCharme v. DST Systems, et al.* was filed in U.S. District Court for the Western District of Missouri on January 13, 2017 and dismissed on June 23, 2017. On September 7, 2017, a different plaintiff filed a new complaint in the same court, captioned *Ostrander v. DST Systems, Inc., et al.* making substantially similar allegations as those asserted in the *DuCharme* complaint. A related suit, *Cooper v. Ruane Cunniff & Goldfarb Inc., et. al.*, was filed in federal court in the Southern District of New York on March 14, 2016, and the DST-related parties were dismissed without prejudice. On September 1, 2017, a new complaint was filed purportedly on behalf of the Plan in the Southern District of New York, captioned *Ferguson, et al. v. Ruane, Cunniff & Goldfarb Inc., et al.*, naming as defendants the Company, the Compensation Committee of our Board of Directors, the Advisory Committee of the Plan and certain of our present and/or former officers and directors. The complaint's allegations are substantially similar to the allegations asserted in the *Cooper* case. We intend to defend these cases vigorously, and, because the suits are still in their preliminary stages, have not yet determined what effect these lawsuits will have, if any, on our financial position or results of operations.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

We are involved in various other legal proceedings arising in the normal course of our businesses. At this time, we do not believe any material losses under these claims to be probable or estimable. While the ultimate outcome of these other 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 our financial statements.

12. Segment Information

Our operating business units offer sophisticated information processing and software services and products. As discussed in Note 1, Summary of Accounting Policies, we established a new reportable segment structure during first quarter 2017. We now present our businesses as three reportable operating segments, Domestic Financial Services, International Financial Services and Healthcare Services. Prior periods have been revised to reflect the new reportable operating segments.

Information concerning total assets by reporting segment is as follows (in millions):

	September 30, December 31,	
	2017	2016
Domestic Financial Services	\$ 2,332.4	\$ 2,234.9
International Financial Services	749.5	430.0
Healthcare Services	500.2	552.2
Assets held for sale	—	72.6
Elimination Adjustments	(579.9)	(517.9)
	\$ 3,002.2	\$ 2,771.8

We evaluate the performance of our operating segments based on income before interest expense, income taxes and non-controlling interest. Intersegment revenues are reflected at rates determined by us and may not be reflective of market rates.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Summarized financial information concerning our segments is shown in the following tables (in millions):

	Three Months Ended September 30, 2017				
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustment	Consolidated Total
Operating revenues	\$291.4	\$ 129.2	\$ 104.2	\$ —	\$ 524.8
Intersegment operating revenues	13.9	0.2	—	(14.1)	—
Out-of-pocket reimbursements	28.8	7.1	1.9	—	37.8
Total revenues	334.1	136.5	106.1	(14.1)	562.6
Costs and expenses	275.9	125.0	85.3	(14.1)	472.1
Depreciation and amortization	22.6	9.7	2.4	—	34.7
Operating income	35.6	1.8	18.4	—	55.8
Other income (loss), net	8.8	(0.3)	0.2	—	8.7
Equity in earnings of unconsolidated affiliates	1.7	2.4	0.1	—	4.2
Earnings from continuing operations before interest, income taxes and non-controlling interest	\$46.1	\$ 3.9	\$ 18.7	\$ —	\$ 68.7

	Three Months Ended September 30, 2016				
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustment	Consolidated Total
Operating revenues	\$232.6	\$ 26.8	\$ 106.1	\$ —	\$ 365.5
Intersegment operating revenues	14.8	0.1	—	(14.9)	—
Out-of-pocket reimbursements	19.2	0.2	1.8	—	21.2
Total revenues	266.6	27.1	107.9	(14.9)	386.7
Costs and expenses	194.9	23.6	86.0	(14.9)	289.6
Depreciation and amortization	18.0	1.0	3.8	—	22.8
Operating income	53.7	2.5	18.1	—	74.3
Other income, net	4.1	2.5	0.1	—	6.7
Equity in earnings of unconsolidated affiliates	2.5	4.4	0.1	—	7.0
Earnings from continuing operations before interest, income taxes and non-controlling interest	\$60.3	\$ 9.4	\$ 18.3	\$ —	\$ 88.0

Earnings from continuing operations before interest, income taxes and non-controlling interest in the segment reporting information above less interest expense of \$6.9 million and \$5.4 million for the three months ended September 30, 2017 and 2016, respectively, is equal to our income from continuing operations before income taxes and non-controlling interest on a consolidated basis for the corresponding periods.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

	Nine Months Ended September 30, 2017				Consolidated Total
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustment	
Operating revenues	\$827.9	\$ 392.9	\$ 313.2	\$ —	\$ 1,534.0
Intersegment operating revenues	43.4	0.4	—	(43.8)	—
Out-of-pocket reimbursements	77.6	7.4	5.5	(0.2)	90.3
Total revenues	948.9	400.7	318.7	(44.0)	1,624.3
Costs and expenses	783.6	328.1	256.0	(44.0)	1,323.7
Depreciation and amortization	63.3	21.3	8.1	—	92.7
Operating income	102.0	51.3	54.6	—	207.9
Other income (loss), net	229.2	(12.2)	0.2	—	217.2
Equity in earnings of unconsolidated affiliates	10.1	16.8	0.4	—	27.3
Earnings from continuing operations before interest, income taxes and non-controlling interest	\$341.3	\$ 55.9	\$ 55.2	\$ —	\$ 452.4

	Nine Months Ended September 30, 2016				Consolidated Total
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustment	
Operating revenues	\$704.3	\$ 82.1	\$ 314.3	\$ —	\$ 1,100.7
Intersegment operating revenues	43.3	0.3	—	(43.6)	—
Out-of-pocket reimbursements	50.5	0.8	6.3	(0.4)	57.2
Total revenues	798.1	83.2	320.6	(44.0)	1,157.9
Costs and expenses	629.9	72.9	258.1	(44.0)	916.9
Depreciation and amortization	54.9	2.2	12.0	—	69.1
Operating income	113.3	8.1	50.5	—	171.9
Other income, net	11.9	8.0	0.1	—	20.0
Equity in earnings of unconsolidated affiliates	11.4	12.3	0.2	—	23.9
Earnings from continuing operations before interest, income taxes and non-controlling interest	\$136.6	\$ 28.4	\$ 50.8	\$ —	\$ 215.8

Earnings from continuing operations before interest, income taxes and non-controlling interest in the segment reporting information above less interest expense of \$19.7 million and \$18.0 million for the nine months ended September 30, 2017 and 2016, respectively, is equal to our income from continuing operations before income taxes and non-controlling interest on a consolidated basis for the corresponding periods.

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DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

	For the Year Ended December 31, 2016				
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustment	Consolidated Total
Operating revenues	\$937.7	\$ 110.5	\$ 426.2	\$ —	\$ 1,474.4
Intersegment operating revenues	58.1	0.4	—	(58.5)	—
Out-of-pocket reimbursements	73.0	1.2	8.5	(0.4)	82.3
Total revenues	1,068.8	112.1	434.7	(58.9)	1,556.7
Costs and expenses	829.0	98.2	345.1	(58.9)	1,213.4
Depreciation and amortization	77.3	3.1	15.6	—	96.0
Operating income	162.5	10.8	74.0	—	247.3
Other income, net	13.9	8.7	0.1	—	22.7
Gain on sale of business	—	5.5	—	—	5.5
Equity in earnings of unconsolidated affiliates	14.3	12.4	0.5	—	27.2
Earnings from continuing operations before interest, income taxes and non-controlling interest	\$ 190.7	\$ 37.4	\$ 74.6	\$ —	\$ 302.7
	For the Year Ended December 31, 2015				
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustment	Consolidated Total
Operating revenues	\$936.8	\$ 91.8	\$ 376.4	\$ —	\$ 1,405.0
Intersegment operating revenues	46.3	1.6	—	(47.9)	—
Out-of-pocket reimbursements	60.7	1.7	8.2	(1.6)	69.0
Total revenues	1,043.8	95.1	384.6	(49.5)	1,474.0
Costs and expenses	792.3	86.1	321.3	(49.5)	1,150.2
Depreciation and amortization	67.7	4.8	18.6	—	91.1
Operating income	183.8	4.2	44.7	—	232.7
Other income (loss), net	207.2	(2.6)	(0.1)	—	204.5
Equity in earnings of unconsolidated affiliates	23.8	21.3	0.3	—	45.4
Earnings from continuing operations before interest, income taxes and non-controlling interest	\$ 414.8	\$ 22.9	\$ 44.9	\$ —	\$ 482.6

Earnings from continuing operations before interest, income taxes and non-controlling interest in the segment reporting information above less interest expense of \$23.5 million and \$23.8 million for the years ended December 31, 2016 and 2015, respectively, is equal to our income from continuing operations before income taxes and non-controlling interest on a consolidated basis for the corresponding periods.

13. Restructuring Charges

As a result of integration activities following the acquisition of the remaining interests in BFDS, we initiated a plan to reduce our workforce to enhance operational efficiency within the Domestic Financial Services segment. During the nine months ended September 30, 2017, we incurred pretax restructuring charges related to employee termination and other costs of \$9.2 million primarily related to this restructuring event. As of September 30, 2017, we had a liability of \$2.3 million associated with these restructuring activities.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

This report contains “forward-looking statements” - that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “see,” “will,” “would,” “could,” or “may.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain.

For us, particular risks and uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- the effects of competition in the businesses in which we operate;
- changes in customer demand and our ability to provide products and services on terms that are favorable to us;
- changes in law, economic and financial conditions;
- the impacts of breaches or potential breaches of network, information technology or data security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance;
- the effectiveness of our risk management framework;
- the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation and SEC or DOL regulations impacting third-party distributors of mutual funds;
- our investments in funds and other companies may decline;
- our ability to successfully complete acquisitions or integrate acquired businesses; and
- the other factors that are described in Part II, Item 1A, “Risk Factors” within this Quarterly Report on Form 10-Q and within “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

Future economic and industry trends that could potentially impact our financial statements or results of operations are difficult to predict. These forward-looking statements are based on information as of the date of this report, and except as may be required by law, we assume no obligation to publicly update or revise our forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

INTRODUCTION

DST Systems, Inc. and our consolidated subsidiaries (“we,” “our,” “us,” the “Company” or “DST”) use proprietary software applications to provide sophisticated information processing and servicing solutions through strategically unified data management and business processing solutions to clients globally within the asset management, brokerage, retirement, healthcare and other markets. Our wholly-owned data centers provide the secure technology infrastructure necessary to support our solutions. In order to position the Company to take advantage of new and emerging technologies, we are embarking on an information technology transformation effort which will increase our operating expenses for the next three to four years. We expect these investments will result in lower centralized infrastructure costs and a more agile platform on which to deliver future capabilities.

In March 2017, we acquired State Street’s ownership interests in our joint ventures BFDS and IFDS U.K., as well as other investments and real estate held by IFDS L.P. The BFDS acquisition was effectuated through a non-taxable exchange of our State Street common stock with a fair value of \$163.4 million for State Street’s ownership interest in BFDS. We also acquired State Street’s ownership interest in IFDS U.K., and IFDS L.P.’s ownership interests in IFDS Percana and IFDS Realty U.K. for total cash consideration of \$234.9 million.

Beginning in first quarter 2017, DST established a new reportable segment structure which separates the previously reported Financial Services segment into two new segments, Domestic Financial Services and International Financial Services based upon the geographical location of the revenue-generating business. The activity within the previously reported Investments and Other segment has now been included in either the Domestic or International Financial Services segments based on the business supported. The Healthcare Services segment remains unchanged. The new segment presentation is reflective of how management is now operating the business and making resource allocations following the acquisitions of IFDS U.K. and BFDS in the first quarter 2017, as well as the recent reductions in non-core investment assets resulting from monetizations and the use of State Street stock during 2017. Prior periods have been revised to reflect the new reportable operating segments.

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Domestic Financial Services Segment

Through the Domestic Financial Services segment, we provide investor, investment, advisor/intermediary and asset distribution services to companies within the U.S. Financial Services industry. Utilizing our proprietary software applications, we offer our clients information processing solutions to support direct and intermediary sales of mutual funds, alternative investments, securities brokerage accounts and retirement plans. This includes transaction processing; account opening and maintenance; reconciliation of trades, positions and cash; corporate actions; regulatory reporting and compliance functions; and tax reporting. We also support full reporting to investors for confirmations, statements and tax forms, web access, and electronic delivery of documents.

Services are provided either under a remote processing (“Remote”) model or on a business process outsourcing (“BPO”) basis utilizing our proprietary software applications, including our TA 2000® and TRAC® systems. Our BPO service offerings are enhanced by AWD®, our proprietary workflow software, which is also licensed separately to third parties.

Domestic Financial Services fees are primarily charged to the client based on the number of accounts, participants or transactions processed. For subaccounts, a portion of the services we provide for registered accounts are provided directly by the broker/dealer. As a result, our revenue per account is generally higher for registered accounts than for subaccounts. On a more limited basis, we also generate revenues through asset-based fee arrangements and from investment earnings related to cash balances maintained in our full service transfer agency bank accounts. We typically have multi-year agreements with our clients.

International Financial Services Segment

We offer investor and policyholder administration and technology services on a Remote and BPO basis in the U.K. and, through our joint venture IFDS L.P., in Canada, Ireland and Luxembourg. Additionally, in Australia and the U.K., we provide solutions related to participant accounting and recordkeeping for wealth management, “wrap platforms” and retirement savings (“superannuation”) industries/markets through use of our wealth management platform and our life and pension administration system.

Our primary customers are mutual fund managers, insurers, and platform providers. International Financial Services fees are primarily charged to the client based on the number of accounts or transactions processed. We also realize revenues from fixed-fee license agreements that include provisions for ongoing support and maintenance and for additional license payments in the event that usage or members increase. Additionally, we derive professional service revenues from fees for implementation services, custom programming and data center operations. We typically have multi-year agreements with our clients.

Healthcare Services Segment

The Healthcare Services segment uses our proprietary software applications to provide healthcare organizations a variety of pharmacy, healthcare administration, and health outcomes optimization solutions to satisfy their information processing, quality of care, cost management and payment integrity needs. Our healthcare solutions include claims adjudication, benefit management, care management, business intelligence and other ancillary services.

We generally derive revenues from our pharmacy-solutions business on a transactional fee basis. Fees are earned on pharmacy claims processing and payments services, pharmacy and member call center services, pharmaceutical rebate administration, administration or management of clinical programs, pharmacy network management, member and plan web services and management information and reporting. Further, revenues include investment earnings related

to client cash balances maintained in our bank accounts. Healthcare administration and health outcomes optimization revenues are generally derived from fees charged based on a per member/per month basis and transactional basis. We also realize revenues from fixed-fee license agreements that include provisions for ongoing support and maintenance and for additional license payments in the event that usage or members increase. Additionally, we derive professional service revenues from fees for implementation services, custom programming and data center operations.

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Seasonality

Generally, we do not have significant seasonal fluctuations in our business operations. Processing volumes for mutual fund customers within our Domestic and International Financial Services segments are usually highest during the three months ended March 31 due primarily to processing year-end transactions during January. Revenues and operating results from individual license sales vary depending on the timing and size of the contract.

RESULTS OF OPERATIONS

The following tables summarize our operating results (in millions). Additional information regarding each of our segments' operating results is included below under the caption, "Business Segment Comparisons."

	Three Months Ended		Change		
	September 30, 2017	September 30, 2016	\$	%	
Operating revenues	\$524.8	\$365.5	\$159.3	43.6	%
Out-of-pocket reimbursements	37.8	21.2	16.6	78.3	%
Total revenues	562.6	386.7	175.9	45.5	%
Costs and expenses	472.1	289.6	182.5	63.0	%
Depreciation and amortization	34.7	22.8	11.9	52.2	%
Operating income	55.8	74.3	(18.5)	(24.9)	%
Interest expense	(6.9)	(5.4)	(1.5)	(27.8)	%
Other income, net	8.7	6.7	2.0	29.9	%
Equity in earnings of unconsolidated affiliates	4.2	7.0	(2.8)	(40.0)	%
Income from continuing operations before income taxes and non-controlling interest	61.8	82.6	(20.8)	(25.2)	%
Income taxes	13.0	31.6	(18.6)	(58.9)	%
Income from continuing operations before non-controlling interest	48.8	51.0	(2.2)	(4.3)	%
Income (loss) from discontinued operations, net of tax	(0.3)	222.8	(223.1)	(100.1)	%
Net income	48.5	273.8	(225.3)	(82.3)	%
Net (income) loss attributable to non-controlling interest	—	(0.5)	0.5	(100.0)	%
Net income attributable to DST Systems, Inc.	\$48.5	\$273.3	\$(224.8)	(82.3)	%

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	Nine Months Ended		Change		
	September 30, 2017	2016	2017 vs 2016		
			\$	%	
Operating revenues	\$1,534.0	\$1,100.7	\$433.3	39.4	%
Out-of-pocket reimbursements	90.3	57.2	33.1	57.9	%
Total revenues	1,624.3	1,157.9	466.4	40.3	%
Costs and expenses	1,323.7	916.9	406.8	44.4	%
Depreciation and amortization	92.7	69.1	23.6	34.2	%
Operating income	207.9	171.9	36.0	20.9	%
Interest expense	(19.7)	(18.0)	(1.7)	(9.4)	%
Other income, net	217.2	20.0	197.2	986.0	%
Equity in earnings of unconsolidated affiliates	27.3	23.9	3.4	14.2	%
Income from continuing operations before income taxes and non-controlling interest	432.7	197.8	234.9	118.8	%
Income taxes	66.3	73.8	(7.5)	(10.2)	%
Income from continuing operations before non-controlling interest	366.4	124.0	242.4	195.5	%
Income from discontinued operations, net of tax	4.5	260.0	(255.5)	(98.3)	%
Net income	370.9	384.0	(13.1)	(3.4)	%
Net (income) loss attributable to non-controlling interest	(0.6)	0.4	(1.0)	(250.0)%	
Net income attributable to DST Systems, Inc.	\$370.3	\$384.4	\$(14.1)	(3.7)	%

Revenues

Consolidated total revenues (including out-of-pocket (“OOP”) reimbursements) for the three and nine months ended September 30, 2017 were \$562.6 million and \$1,624.3 million, respectively, an increase of \$175.9 million or 45.5% and \$466.4 million or 40.3% compared to the three and nine months ended September 30, 2016, respectively.

Consolidated operating revenues for the three and nine months ended September 30, 2017 increased \$159.3 million or 43.6% and \$433.3 million or 39.4%, respectively, as compared to the same periods in 2016.

The increase in consolidated operating revenues during the three and nine months ended September 30, 2017 was primarily attributable to increased operating revenues within the Domestic Financial Services and International Financial Services segments resulting from the acquisitions of the remaining interests in BFDS and IFDS U.K.

Consolidated OOP reimbursements for the three and nine months ended September 30, 2017 increased \$16.6 million or 78.3% and \$33.1 million or 57.9%, respectively, as compared to the same periods in 2016. The increase in OOP reimbursements was primarily attributable to the acquisition of the remaining interests in BFDS and IFDS U.K. as well as increased client volumes in the Domestic Financial Services segment.

Operating income

Consolidated operating income for the three and nine months ended September 30, 2017 was \$55.8 million and \$207.9 million, respectively, a decrease of \$18.5 million or 24.9% and an increase of \$36.0 million or 20.9% as compared to the same periods in 2016. The decrease in operating income during the three months ended September 30, 2017 was primarily due to increased performance-based stock compensation expense, higher

information technology spend and increased intangible amortization expense resulting from the acquisitions of BFDS and IFDS U.K. The increase in operating income during the nine months ended September 30, 2017 was primarily attributable to the termination of a wealth management client agreement within the International Financial Services segment.

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As a result of changes in our business environment, including the client migrations in the Healthcare Services segment, the termination of a wealth management client in the International Financial Services segment, and the acquisitions of the remaining interests in BFDS and IFDS U.K., we have implemented restructuring initiatives to right-size our organization and enhance operational efficiencies, as well as achieve synergies from our recent acquisitions. During the three and nine months ended September 30, 2017, we incurred restructuring costs of \$2.5 million and \$11.9 million, respectively, primarily within the Domestic Financial Services segment. Additionally, in October 2017 we announced a restructuring action which is expected to result in additional expense of approximately \$10.0 million in the fourth quarter of 2017 primarily in our Domestic Financial Services and Healthcare Services segments. The majority of these expenses are related to employee termination costs. Annualized savings achieved from the actions taken from March 2017 through October 2017 are currently expected to be approximately \$22.0 million within the Domestic Financial Services segment, approximately \$7.0 million within the International Financial Services segment and approximately \$13.0 million within the Healthcare Services segment.

Interest expense

Interest expense for the three and nine months ended September 30, 2017 was \$6.9 million and \$19.7 million, respectively, an increase of \$1.5 million and \$1.7 million as compared to the three and nine months ended September 30, 2016, respectively. The increase in interest expense during the three and nine months ended September 30, 2017 was primarily due to higher average outstanding borrowings.

Other income, net

The components of other income, net are as follows (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net realized gains from available-for-sale securities	\$0.1	\$0.1	\$155.8	\$2.2
Net gain on previously held equity interests	—	—	43.8	—
Net gain on other investments	6.7	4.7	13.3	19.0
Dividend income	0.5	1.4	1.6	3.9
Miscellaneous items	1.4	0.5	2.7	(5.1)
Other income, net	\$8.7	\$6.7	\$217.2	\$20.0

We recognized a realized gain of \$145.1 million from the exchange of State Street common stock for the remaining interests in BFDS during the nine months ended September 30, 2017. We also recognized a realized gain of \$10.6 million from the charitable contribution of our remaining shares in State Street common stock during the nine months ended September 30, 2017, and as a result, we held no shares in State Street common stock as of September 30, 2017. Additionally, as a result of the 2017 acquisitions, we recorded a net pretax gain of \$43.8 million on the step-up of our previous 50% ownership interests in BFDS and IFDS U.K. during the nine months ended September 30, 2017.

Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates for the three and nine months ended September 30, 2017 was \$4.2 million and \$27.3 million, respectively, a decrease of \$2.8 million and an increase of \$3.4 million as compared to the same periods in 2016. The decrease in the three months ended September 30, 2017 was primarily the result of the discontinuation of equity method accounting subsequent to our acquisitions of the remaining interests in BFDS and

IFDS U.K. DST's equity in earnings of IFDS L.P. increased \$1.5 million and \$11.9 million during the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. The increase during the nine months ended September 30, 2017 was primarily the result of realized gains on the step-up of certain investments and real estate assets that were distributed from the joint venture to DST and State Street immediately prior to the acquisitions by DST of the remaining interests in IFDS U.K. and BFDS.

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Income taxes

We record income tax expense for interim periods based on our best estimate of the annual tax rate as adjusted for discrete items, if any, that are taken into account in the relevant period. Our tax rate was 21.0% and 15.3% for the three and nine months ended September 30, 2017, respectively, compared to 38.3% and 37.3% for the three and nine months ended September 30, 2016. The change in the Company's tax rate for the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016 was primarily attributable to the non-taxable nature of the BFDS exchange transaction, the adoption of new tax guidance issued for tax benefits on employee share-based transactions, benefits realized from the settlement of uncertain tax positions, and a change in the proportional mix of domestic and international income.

Excluding the effect of discrete period items, we expect our annual tax rate to be approximately 36.0% for full year 2017. The full year 2017 tax rate can be affected as a result of variances among the estimates and amounts of full year sources of taxable income (e.g., domestic consolidated, joint venture and/or international), the realization of tax credits (e.g., research and experimentation, foreign tax and state incentive), adjustments which may arise from the resolution of tax matters under review and our assessment of our liability for uncertain tax positions.

Income from discontinued operations, net of tax

Loss from discontinued operations, net of tax for the three months ended September 30, 2017 was \$0.3 million, a decrease of \$223.1 million compared to the three months ended September 30, 2016. Income from discontinued operations, net of tax for the nine months ended September 30, 2017 was \$4.5 million a decrease of \$255.5 million as compared to the nine months ended September 30, 2017. The decrease during the three and nine months ended September 30, 2017 was primarily due to the sale of our North American Customer Communications business in July 2016 and the sale of our United Kingdom Customer Communications business in May 2017.

Business Segment Comparisons

DOMESTIC FINANCIAL SERVICES SEGMENT

The following tables present the financial results of the Domestic Financial Services segment (in millions):

	Three Months		Change	
	Ended		2017 vs 2016	
	September 30,	September 30,	\$	%
	2017	2016		
Operating revenues	\$305.3	\$247.4	\$57.9	23.4 %
Out-of-pocket reimbursements	28.8	19.2	9.6	50.0 %
Total revenues	334.1	266.6	67.5	25.3 %
Costs and expenses	275.9	194.9	81.0	41.6 %
Depreciation and amortization	22.6	18.0	4.6	25.6 %
Operating income	\$35.6	\$53.7	\$(18.1)	(33.7)%
Operating margin	11.7 %	21.7 %		
	Nine Months		Change	
	Ended		2017 vs 2016	
	September 30,	September 30,	\$	%
	2017	2016		
Operating revenues	\$871.3	\$747.6	\$123.7	16.5 %
Out-of-pocket reimbursements	77.6	50.5	27.1	53.7 %
Total revenues	948.9	798.1	150.8	18.9 %

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Costs and expenses	783.6	629.9	153.7	24.4 %
Depreciation and amortization	63.3	54.9	8.4	15.3 %
Operating income	\$102.0	\$113.3	\$(11.3)	(10.0)%
Operating margin	11.7 %	15.2 %		

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The following tables summarize the Domestic Financial Services segment's statistical results (in millions, except as noted):

	September 30,			
	2017	2016		
Domestic mutual fund shareowner accounts processed:				
Registered accounts - non tax-advantaged	24.8	26.4		
IRA mutual fund accounts	20.8	21.3		
Other retirement accounts	7.8	8.1		
Section 529 and Educational IRAs	7.7	7.6		
Registered accounts - tax-advantaged	36.3	37.0		
Total registered accounts	61.1	63.4		
Subaccounts	44.5	41.3		
Total Domestic mutual fund shareowner accounts processed	105.6	104.7		
Defined contribution participant accounts	6.8	6.5		
ALPS (in billions of U.S. dollars):				
Assets Under Management	\$17.9	\$16.1		
Assets Under Administration	\$218.4	\$176.1		
Automatic Work Distributor workstations (in thousands):				
Domestic	167.8	171.7		
	Three	Nine		
	Months	Months		
	Ended	Ended		
	September	September		
	30,	30,		
	2017	2016	2017	2016
Changes in registered accounts:				
Beginning balance	59.7	64.2	61.9	65.4
New client conversions	2.6	—	2.9	—
Subaccounting conversions to DST platforms	(0.3)	—	(0.4)	(0.1)
Subaccounting conversions to non-DST platforms	(0.3)	—	(0.9)	(0.4)
Conversions to non-DST platforms	(0.2)	(0.4)	(0.2)	(0.6)
Organic decline	(0.4)	(0.4)	(2.2)	(0.9)
Ending balance	61.1	63.4	61.1	63.4
Changes in subaccounts:				
Beginning balance	44.0	30.4	42.1	31.3
New client conversions	—	10.5	—	10.7
Conversions from non-DST registered platforms	0.1	—	1.1	—
Conversions from DST's registered accounts	0.3	—	0.4	0.1
Conversions to non-DST platforms	—	—	(0.4)	—
Organic growth (decline)	0.1	0.4	1.3	(0.8)
Ending balance	44.5	41.3	44.5	41.3
Changes in defined contribution participant accounts:				

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Beginning balance	6.6	6.4	6.8	7.0
New client conversions	—	—	0.3	—
Organic growth (decline)	0.2	0.1	(0.3)	(0.5)
Ending balance	6.8	6.5	6.8	6.5

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Operating revenues

Domestic Financial Services segment operating revenues for the three and nine months ended September 30, 2017 were \$305.3 million and \$871.3 million, respectively, an increase of \$57.9 million or 23.4% and \$123.7 million or 16.5% as compared to the same periods in 2016. The increase in operating revenues for the three and nine months ended September 30, 2017 was primarily driven by revenues from the acquisition of the remaining interests in BFDS on March 30, 2017 which contributed approximately \$55.8 million and \$120.5 million of incremental operating revenues during the three and nine months ended September 30, 2017, respectively. Excluding the BFDS operating revenues in 2017, operating revenues for the Domestic Financial Services segment for the three and nine months ended September 30, 2017 increased \$2.1 million or 0.8% and \$3.2 million or 0.4%, respectively. This additional increase in operating revenues for the three and nine months ended September 30, 2017 was due to higher fund flows at ALPS as well as organic growth in ancillary products partially offset by lower subaccounting and mutual fund registered shareowner account processing revenue and the exit of certain product offerings. Software license revenues for the three and nine months ended September 30, 2017 were \$4.1 million and \$13.7 million, respectively, a decrease of \$1.9 million and \$2.2 million as compared to the same periods in 2016.

Costs and expenses

Domestic Financial Services segment costs and expenses were \$275.9 million and \$783.6 million for the three and nine months ended September 30, 2017, respectively, an increase of \$81.0 million or 41.6% and \$153.7 million or 24.4% as compared to the same periods in 2016. Costs and expenses in the Domestic Financial Services segment are primarily comprised of compensation and benefits costs as well as technology-related expenditures and reimbursable operating expenses. Reimbursable operating costs, included in costs and expenses, were \$28.8 million and \$77.6 million for the three and nine months ended September 30, 2017, respectively, an increase of \$9.6 million or 50.0% and \$27.1 million or 53.7% as compared to the same periods in 2016, primarily related to the acquisition of the remaining interests in BFDS.

Excluding reimbursable operating costs, costs and expenses for the three and nine months ended September 30, 2017 were \$247.1 million and \$706.0 million, respectively, an increase of \$71.4 million or 40.6% and \$126.6 million or 21.9% as compared to the same periods in 2016. The increase in costs and expenses during the three and nine months ended September 30, 2017 was primarily impacted by an increase in expenses resulting from the inclusion of BFDS in our consolidated financial statements as well as higher non-cash stock compensation expense as a result of increasing the expected vesting of certain performance stock units. In addition, costs and expenses increased from higher integration and restructuring costs related to our BFDS acquisition and higher information technology transformation spend. During the nine months ended September 30, 2017, costs and expenses also increased from an \$11.6 million charitable contribution of State Street stock.

Depreciation and amortization

Domestic Financial Services segment depreciation and amortization expense for the three and nine months ended September 30, 2017 was \$22.6 million and \$63.3 million, respectively, an increase of \$4.6 million or 25.6% and \$8.4 million or 15.3% as compared to the same periods in 2016. The increase during the three and nine months ended September 30, 2017 was primarily attributable to incremental amortization associated with acquired intangibles from the recent acquisitions as well as increased depreciation from capitalized costs incurred to enhance our network infrastructure, security and regulatory compliance.

Operating income

Domestic Financial Services segment operating income for the three and nine months ended September 30, 2017 was \$35.6 million and \$102.0 million, respectively, a decrease of \$18.1 million or 33.7% and \$11.3 million or 10.0% as compared to the same periods in 2016. Domestic Financial Services segment operating income decreased for the three and nine months ended September 30, 2017 primarily due to higher stock compensation expense as a result of increasing the expected vesting of certain performance stock units, higher advisory and restructuring costs due to the integration activities for the recently acquired business and increased depreciation and amortization expense. Operating income also decreased due to an increase in information technology transformation spend, partially offset by higher revenues.

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INTERNATIONAL FINANCIAL SERVICES SEGMENT

The following tables present the financial results of the International Financial Services segment (in millions):

	Three Months		Change		
	Ended		2017 vs 2016		
	September 30, 2017	2016	\$	%	
Operating revenues	\$129.4	\$26.9	\$102.5	381.0	%
Out-of-pocket reimbursements	7.1	0.2	6.9	3,450.0	%
Total revenues	136.5	27.1	109.4	403.7	%
Costs and expenses	125.0	23.6	101.4	429.7	%
Depreciation and amortization	9.7	1.0	8.7	870.0	%
Operating income	\$1.8	\$2.5	\$(0.7)	(28.0)	%

Operating margin 1.4 % 9.3 %

	Nine Months		Change		
	Ended		2017 vs 2016		
	September 30, 2017	2016	\$	%	
Operating revenues	\$393.3	\$82.4	\$310.9	377.3	%
Out-of-pocket reimbursements	7.4	0.8	6.6	825.0	%
Total revenues	400.7	83.2	317.5	381.6	%
Costs and expenses	328.1	72.9	255.2	350.1	%
Depreciation and amortization	21.3	2.2	19.1	868.2	%
Operating income	\$51.3	\$8.1	\$43.2	533.3	%

Operating margin 13.0 % 9.8 %

The following table summarizes the International Financial Services segment's statistical results (in millions, except as noted):

	September 30, 2017 2016	
International mutual fund shareowner accounts processed:		
IFDS U.K.	8.6	9.0
IFDS L.P. (Unconsolidated affiliate principally based in Canada)	14.0	13.4
Total international mutual fund shareowner accounts processed	22.6	22.4
Automatic Work Distributor workstations (in thousands):		
International	39.1	40.5

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Operating revenues

International Financial Services segment operating revenues for the three and nine months ended September 30, 2017 were \$129.4 million and \$393.3 million, respectively, an increase of \$102.5 million and \$310.9 million as compared to the same periods in 2016. The increase in operating revenues for the three and nine months ended September 30, 2017 was primarily driven by the acquisition of the remaining interests in IFDS U.K. on March 27, 2017, which contributed \$105.8 million and \$306.9 million of incremental operating revenues during the three and nine months ended September 30, 2017, respectively, including the financial statement impacts resulting from the termination of a wealth management client agreement. In June 2017, we reached a termination agreement with a wealth management platform client, who had engaged us for a multi-year development and implementation effort as well as post-implementation services. The termination agreement resulted in incremental operating revenues of \$93.2 million for the nine months ended September 30, 2017 as DST accelerated recognition of previously deferred revenue and recognized termination payments received. The increase in operating revenues during the three and nine months ended September 30, 2017 was partially offset by lower revenues as a result of the sale of DST Billing Solutions in the fourth quarter of 2016. Software license revenues for the three and nine months ended September 30, 2017 were \$3.0 million and \$7.8 million, respectively, an increase of \$1.0 million and \$0.7 million as compared to the same periods in 2016.

Costs and expenses

International Financial Services segment costs and expenses were \$125.0 million and \$328.1 million for the three and nine months ended September 30, 2017, respectively, an increase of \$101.4 million and \$255.2 million as compared to the same periods in 2016. Costs and expenses in the International Financial Services segment are primarily comprised of compensation and benefits costs as well as technology-related expenditures. The increase in costs and expenses during the three and nine months ended September 30, 2017 was primarily due to the acquisition of the remaining interests in IFDS U.K., combined with increased operating costs associated with on-going development and implementation efforts for wealth management platform clients in Australia and the U.K. Additionally, in connection with the termination agreement described above, DST incurred bad debt expense of \$34.5 million for previously invoiced services performed prior to the termination and \$5.2 million of other termination-related charges during the nine months ended September 30, 2017.

Depreciation and amortization

International Financial Services segment depreciation and amortization expense for the three and nine months ended September 30, 2017 was \$9.7 million and \$21.3 million, respectively, an increase of \$8.7 million and \$19.1 million as compared to the same periods in 2016. The increase during the three and nine months ended September 30, 2017 was primarily attributable to incremental amortization of intangible assets and depreciation of fixed assets from the businesses acquired.

Operating income

International Financial Services segment operating income for the three and nine months ended September 30, 2017 was \$1.8 million and \$51.3 million, respectively, a decrease of \$0.7 million and an increase \$43.2 million as compared to the same periods in 2016. The decrease in operating income for the three months ended September 30, 2017 was primarily due to the financial statement impacts resulting from the termination of the wealth management client agreement described above. The increase in operating income for the nine months ended September 30, 2017 was primarily due to the higher revenues resulting from the acquisition of the remaining interests in IFDS U.K. including the recognition of previously deferred revenue and termination payments received partially offset by higher costs and expenses due to on-going development and implementation efforts for wealth management platform clients.

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HEALTHCARE SERVICES SEGMENT

The following tables present the financial results of the Healthcare Services segment (in millions):

	Three Months Ended		Change	
	September 30, 2017	September 30, 2016	2017 vs 2016	
			\$	%
Operating revenues	\$104.2	\$106.1	\$(1.9)	(1.8)%
Out-of-pocket reimbursements	1.9	1.8	0.1	5.6%
Total revenues	106.1	107.9	(1.8)	(1.7)%
Costs and expenses	85.3	86.0	(0.7)	(0.8)%
Depreciation and amortization	2.4	3.8	(1.4)	(36.8)%
Operating income	\$18.4	\$18.1	\$0.3	1.7%

Operating margin 17.7% 17.1%

	Nine Months Ended		Change	
	September 30, 2017	September 30, 2016	2017 vs 2016	
			\$	%
Operating revenues	\$313.2	\$314.3	\$(1.1)	(0.3)%
Out-of-pocket reimbursements	5.5	6.3	(0.8)	(12.7)%
Total revenues	318.7	320.6	(1.9)	(0.6)%
Costs and expenses	256.0	258.1	(2.1)	(0.8)%
Depreciation and amortization	8.1	12.0	(3.9)	(32.5)%
Operating income	\$54.6	\$50.5	\$4.1	8.1%

Operating margin 17.4% 16.1%

The following tables summarize the Healthcare Services segment's statistical results (in millions):

	September 30,		Change	
	2017	2016	2017 vs 2016	
DST Health Solutions covered lives	21.6	23.9		
			Three Months Ended	Nine Months Ended
			September 30,	September 30,
			2017	2016
DST Pharmacy Solutions pharmacy paid claims	124.2	125.7	370.8	379.3

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Operating revenues

Healthcare Services segment operating revenues for the three and nine months ended September 30, 2017 were \$104.2 million and \$313.2 million, respectively, a decrease of \$1.9 million or 1.8% and \$1.1 million or 0.3% as compared to the same periods in 2016. Operating revenues were lower during 2017 as compared to the same periods in 2016 primarily due to the previously announced customer migrations, which resulted in approximately \$13.1 million and \$32.6 million of lower revenues for the three and nine months ended September 30, 2017, respectively. Excluding the customer migrations, Healthcare Services operating revenues for the three and nine months ended September 30, 2017 increased by \$11.2 million or 12.0% and \$31.5 million or 11.2%, respectively. These increases in operating revenues primarily resulted from organic growth and the expansion of the high-value services that we are offering to existing clients in both the medical and pharmacy businesses. These increases were partially offset by reductions in membership related to exchanges and lower consulting and development revenues which we believe is the result of a decline in healthcare technology spending due to ongoing uncertainty around government policy changes. Additionally, operating revenues include approximately \$2.0 million and \$7.0 million of software license fee revenues for the three and nine months ended September 30, 2017, respectively, an increase of \$0.3 million and \$1.5 million over the same periods in 2016.

Costs and expenses

Healthcare Services segment costs and expenses were \$85.3 million and \$256.0 million for the three and nine months ended September 30, 2017, respectively, a decrease of \$0.7 million or 0.8% and \$2.1 million or 0.8% as compared to the same periods in 2016. Healthcare Services costs and expenses are primarily comprised of compensation and benefits costs but also include technology-related expenditures.

The decrease in costs and expenses for the three and nine months ended September 30, 2017 was primarily attributable to lower compensation and benefits costs due to lower staffing needs resulting from the previously announced customer migrations, partially offset by higher staffing costs incurred to support the new and existing client growth.

Depreciation and amortization

Healthcare Services segment depreciation and amortization expense for the three and nine months ended September 30, 2017 was \$2.4 million and \$8.1 million, respectively, a decrease of \$1.4 million or 36.8% and \$3.9 million or 32.5% as compared to the same periods in 2016, attributable to lower capital expenditures and an intangible asset becoming fully amortized during 2017.

Operating income

Healthcare Services segment operating income for the three and nine months ended September 30, 2017 was \$18.4 million and \$54.6 million, respectively, an increase of \$0.3 million and \$4.1 million as compared to the same periods in 2016. The increase was primarily attributable to organic growth and the expansion of the high-value services we are offering to new and existing clients in both the medical and pharmacy businesses, substantially offset by lower income as a result of the customer migrations.

LIQUIDITY AND CAPITAL RESOURCES

Company's assessment of short-term and long-term liquidity

We believe that our existing cash balances and other current assets, together with cash provided by operating activities and, as necessary, our revolving credit facilities, will meet our operating and debt service requirements and other current liabilities for at least the next 12 months. Further, we believe that our longer term liquidity and capital requirements will be met through cash provided by operating activities and bank credit facilities. At September 30, 2017, we had approximately \$557.2 million of availability under our domestic revolving credit facilities based upon our borrowing base and financial covenants in our debt agreements.

We may need to access debt and equity markets in the future if unforeseen costs or opportunities arise, to fund acquisitions or investments or to repay indebtedness. If we need to obtain new debt or equity financing in the future, the terms and availability of such financing may be impacted by economic and financial market conditions as well as our financial condition and results of operations at the time we seek additional financing.

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Sources and uses of cash

We had \$140.7 million and \$195.5 million of cash and cash equivalents at September 30, 2017 and December 31, 2016, respectively. At September 30, 2017, \$110.6 million of cash and cash equivalents was held outside of the U.S. Subject to certain local regulatory capital requirements, most of the amounts held outside the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal and state income taxes, less foreign tax credits. We have accrued for U.S. federal and state tax liabilities on the earnings of our international subsidiaries except when the earnings are considered indefinitely reinvested outside of the U.S. The repatriation of these earnings could result in additional U.S. federal and state income tax payments in future years. We utilize a variety of funding strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

Our primary source of liquidity has historically been cash provided by operations. In addition, we have used proceeds from the sale of investments to fund other investing and financing activities. Principal uses of cash are operations, reinvestment in our proprietary technologies, capital expenditures, business acquisitions, payments on debt, stock repurchases and dividend payments. Additionally, in April 2017 we made an up-front payment of £30.0 million to one of IFDS U.K.'s clients in connection with the signing of an amendment to our existing servicing agreement. We also agreed to pay an additional £30.0 million during the fourth quarter of 2017. These payments are expected to be recovered over the term of the revised contractual arrangement. Information on our consolidated cash flows for the nine months ended September 30, 2017 and 2016 is presented in the Condensed Consolidated Statement of Cash Flows, categorized by operating activities, investing activities, and financing activities.

Operating activities

Cash flows provided from operating activities from continuing operations were \$98.2 million during the nine months ended September 30, 2017 compared to cash flows provided from operating activities of \$147.6 million for the nine months ended September 30, 2016, a change of \$49.4 million.

Operating cash flows provided from continuing operations during the nine months ended September 30, 2017 resulted principally from net income of \$366.4 million, adjusted for non-cash or non-operating items including net gains on investments and the step up of the carrying value of our previously held equity interests in unconsolidated affiliates as a result of the acquisitions of the remaining interests in BFDS and IFDS U.K. of \$195.7 million, equity in earnings of unconsolidated affiliates of \$27.3 million and depreciation and amortization expense of \$92.7 million, as well as a use of cash due to changes in operating assets and liabilities of \$163.7 million. Excluding the acquired assets and assumed liabilities in the acquisitions of the remaining interests in BFDS and IFDS U.K., significant changes in operating assets and liabilities during the period include an \$81.5 million decrease in accounts payable and accrued liabilities and a \$33.1 million decrease in deferred revenue and gains primarily as a result of the wealth management platform client termination during second quarter 2017, and a \$61.8 million increase in other assets primarily resulting from the previously discussed up-front payment to an International Financial Services segment client and higher prepaid software costs.

Operating cash flows from continuing operations during the nine months ended September 30, 2016 resulted principally from net income of \$124.0 million, adjusted for non-cash or non-operating items including net gains on investments of \$2.8 million, equity in earnings of unconsolidated affiliates of \$23.9 million, and depreciation and amortization expense of \$69.1 million, as well as a use of cash due to changes in operating assets and liabilities of \$30.0 million. Significant changes in operating assets and liabilities during the period include a \$32.4 million use of cash for accrued compensation and benefits primarily due to the annual payments for incentive compensation and other employee benefits and an \$8.2 million increase in income taxes payable primarily driven by the timing of tax payments on investment sales.

Investing activities

Cash flows used in investing activities from continuing operations were \$74.3 million during the nine months ended September 30, 2017, as compared to cash flows provided by investing activities from continuing operations of \$82.1 million for the nine months ended September 30, 2016, a change of \$156.4 million.

Investing cash flows used in continuing operations during the nine months ended September 30, 2017 resulted principally from cash used to invest in securities (principally seed capital investments), acquire certain businesses, net of cash, and purchase capital assets of \$51.6 million, \$38.9 million, and \$61.7 million, respectively. These uses of cash were partially offset by \$87.3 million of proceeds from sales/maturities of investments (principally seed capital investments) and \$31.7 million of distributions primarily received from IFDS L.P. related to the acquisition of the remaining interests in BFDS and IFDS from State Street during 2017.

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Investing cash flows from continuing operations during the nine months ended September 30, 2016 resulted principally from \$167.9 million of net changes in funds held to satisfy client fund obligations and \$257.5 million of proceeds from sales/maturities of investments. These sources of cash were partially offset by cash used to acquire Kaufman Rossin Fund Services LLC, invest in securities (principally seed capital investments), and purchase capital assets of \$93.5 million, \$198.3 million, and \$42.7 million, respectively. Additionally, we had a cash outflow during the period of approximately \$28.0 million for a loan to IFDS U.K.

Capital expenditures

The following table summarizes capital expenditures by segment (in millions):

	Nine Months Ended September 30, 2017 2016	
Domestic Financial Services	\$53.5	\$36.8
International Financial Services	2.9	2.4
Healthcare Services	5.3	3.5
	\$61.7	\$42.7

We expect capital expenditures for 2017, including capital expenditures to support our recent acquisitions, to be approximately \$80.0 million to \$85.0 million. Future capital expenditures are expected to be funded primarily by cash flows from operating activities or borrowings from our bank credit facilities.

Financing activities

Cash flows used in financing activities from continuing operations were \$117.2 million during the nine months ended September 30, 2017 as compared to \$558.8 million for the nine months ended September 30, 2016.

Financing cash flows used in continuing operations during the nine months ended September 30, 2017 resulted principally from \$235.4 million of share repurchases and payments of \$33.0 million in cash dividends, partially offset by an increase of \$105.6 million in net borrowings on our debt facilities during 2017.

Financing cash flows used in continuing operations during the nine months ended September 30, 2016 resulted principally from net changes in client fund obligations of \$167.9 million, \$240.7 million of share repurchases and \$132.4 million decrease in net borrowings on our debt facilities during 2016.

Common stock repurchases

During the nine months ended September 30, 2017, we repurchased approximately 3.8 million shares of DST common stock, on a post-split basis, for \$225.0 million under our share repurchase plans. After completion of our then-existing share repurchase plan during second quarter 2017, on May 9, 2017, our Board of Directors authorized a new \$300.0 million share repurchase plan. During October 2017, we spent \$17.7 million to repurchase approximately 0.3 million shares, resulting in approximately \$207.3 million remaining under the new share repurchase plan. During the nine months ended September 30, 2016, we repurchased approximately 4.0 million shares of DST common stock, on a post-split basis, for \$225.0 million under previous share repurchase plans.

Shares received in exchange for satisfaction of the option exercise price and for tax withholding obligations arising from the exercise of options to purchase the Company's stock or from the vesting of restricted stock under our share-based compensation plans are included in common stock repurchased in the Condensed Consolidated Statement of Cash Flows. The amount of such share receipts and withholdings for option exercises and restricted stock vesting

was \$10.4 million and \$15.7 million during the nine months ended September 30, 2017 and 2016, respectively. In addition, in connection with the non-cash acquisition of the remaining interests in BFDS, DST acquired \$3.7 million of DST common stock that was previously held by BFDS.

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Client funds obligations

Client funds obligations represent our contractual obligations to remit funds to satisfy client pharmacy claim obligations and are recorded on the balance sheet when incurred, generally after a claim has been processed by us. In addition, client funds obligations include transfer agency and other client balances invested overnight. We had \$590.8 million and \$564.6 million of client funds obligations at September 30, 2017 and December 31, 2016, respectively.

Debt activity

We have used the following primary sources of financing: our syndicated revolving credit facility; accounts receivable securitization program; privately placed senior notes; and secured borrowings. We had \$644.8 million and \$508.2 million of debt outstanding at September 30, 2017 and December 31, 2016, respectively, an increase of \$136.6 million during the nine months ended September 30, 2017, primarily resulting from the acquisition of the remaining interests in IFDS U.K., share repurchases and working capital uses.

Our debt agreements contain customary restrictive covenants, including limitations on consolidated indebtedness, liens, investments, subsidiary indebtedness, asset dispositions and restricted payments (including stock repurchases and cash dividends), and require certain consolidated leverage and interest coverage ratios to be maintained. We are currently in compliance with these covenants. An event of default under certain of our borrowings could trigger defaults under certain of our other debt obligations, which in turn could result in their maturities being accelerated. Our debt arrangements are described in Note 8, Debt, to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Guarantees and Indemnifications

In the normal course of business, to facilitate transactions of services and products and other business assets, and in certain strategic transactions, we have agreed to indemnify certain parties with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, data and confidentiality obligations, intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. At September 30, 2017 and December 31, 2016, except for certain immaterial items, there were no liabilities for guarantees or indemnifications as it is not possible to determine either the maximum potential amount under these indemnification agreements or the timing of any such payments due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made under these agreements have not had a material impact on our consolidated financial position, results of operations or cash flows.

Off balance sheet obligations

As of September 30, 2017, we had no material off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The operations of our businesses and our financial results can be affected by changes in interest rates and currency exchange rates.

Interest rate risk

We derive service revenues from investment earnings related to cash balances maintained in bank accounts on which we are the agent for our clients. The balances maintained in the bank accounts are subject to fluctuation. For the nine months ended September 30, 2017, DST had average daily cash balances of approximately \$2.0 billion maintained in such accounts. We estimate that a 100 basis point change in the interest earnings rate would equal approximately \$7.2 million of net income (loss) on an annual basis. The effect of changes in interest rates attributable to earnings derived from cash balances we hold for clients is partially offset by changes in interest rates on our variable rate debt.

At September 30, 2017, we had \$644.8 million of debt, of which \$390.6 million was subject to variable interest rates (Federal Funds rates, LIBOR rates, Prime rates). Included in this amount are program fees incurred on proceeds from the sale of receivables under our accounts receivable securitization program, which are determined based on variable interest rates

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associated with LIBOR. We estimate that a 10% increase in variable interest rates would not have a material effect on our consolidated results of operations or to the fair value of our debt.

Foreign currency exchange rate risk

The operation of our subsidiaries in international markets results in exposure to movements in currency exchange rates. The principal currencies involved are the British pound, Canadian dollar, Australian dollar, Thai baht and Indian rupee. Our international subsidiaries use the local currency as the functional currency. We translate our assets and liabilities at period-end exchange rates, and translate income and expense accounts at average rates during the year. Currency exchange rate fluctuations have not historically materially affected our consolidated financial results.

At September 30, 2017, our international subsidiaries had approximately \$735.4 million in total assets, and for the three and nine months ended September 30, 2017, these international subsidiaries recorded net income of approximately \$2.0 million and \$53.0 million, respectively. We estimate that a 10% change in exchange rates would have changed total consolidated assets by approximately \$73.5 million. Furthermore, a 10% change in exchange rates would have changed consolidated reported net income by approximately \$0.2 million and \$5.3 million for the three and nine months ended September 30, 2017, respectively.

We have entered into foreign currency cash flow and economic hedging programs to mitigate the impact of movements in foreign currency (principally British pound, Australian dollar and Thai baht) on our operations. The total notional value of our foreign currency derivatives was \$133.1 million at September 30, 2017. The fair value of the contracts that qualify for hedge accounting resulted in a net asset of \$0.2 million at September 30, 2017. We estimate that a 10% change in exchange rates would result in a \$0.1 million change in other comprehensive income. The fair value of the contracts that do not qualify for hedge accounting resulted in a net liability of \$0.2 million at September 30, 2017. We estimate a 10% change in exchange rates on these contracts would result in a \$7.8 million change to consolidated net income. Substantially all gains and losses on the derivative instruments are offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

Item 4. Controls and Procedures

Disclosure controls and procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including without limitation, controls and procedures designed to ensure that information required to be disclosed in reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report conducted by the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer concluded that these controls and procedures were effective as of September 30, 2017.

Internal control over financial reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13(a)-15 and 15(d)-15 under the Exchange Act) during the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this item is included in Note 11, "Commitments and Contingencies - Legal Proceedings" of the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report and is incorporated herein by reference.

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Item 1A. Risk Factors

Material changes to our risk factors as described in our Annual Report on Form 10-K for the year ended December 31, 2016 are as follows:

Risks Related to Our Business

Trends or events affecting our clients or their industries could decrease the demand for our products and services and the loss of, reduction of business with, or less favorable terms with any of our significant customers could materially harm our business and results of operations.

We derive our revenues from the delivery of products and services to clients primarily in the mutual fund, brokerage, investment management, healthcare, and other financial service (e.g., insurance, banking and financial planning) industries. Demand for our products and services among companies in those industries could decline for many reasons. If demand for our products decreases or any of the industries we serve decline or fail or consolidate, reducing the number of potential clients, our business and our operating results could be adversely affected.

On a consolidated basis, for the year ended December 31, 2016, our five largest customers (excluding BFDS and IFDS) accounted for approximately 22.0% of our consolidated operating revenues. For the same period, the Healthcare Services segment's five largest customers accounted for approximately 51.4% of our revenues in that segment, including 17.8% from its largest customer. Because of our significant customer concentration, particularly in the Healthcare Services segment, our revenues could fluctuate significantly due to changes in economic conditions, the use of competitive products, or the loss of, reduction of business with, or less favorable terms with any of our significant customers, and a delay or default in payment by any significant customer could materially harm our business and results of operations.

Events that adversely affect our clients' businesses, rates of growth or numbers of customers they serve could decrease demand for our products and services and the number of transactions we process. Events that could adversely affect our clients' businesses include decreased demand for our customers' products and services, adverse conditions in our customers' markets or adverse economic conditions generally. We may be unsuccessful in predicting the needs of changing industries and whether potential customers will accept our products or services. We also may invest in technology or infrastructure for specific customers and not realize additional revenue from such investments. If trends or events do not occur as we expect, our business could be negatively impacted.

Our revenues could decrease if client contracts are terminated or fail to renew or if clients renegotiate contracts or utilize our services at lower than anticipated levels.

We derive most of our revenue by selling products and services under long-term contracts, many of which contain terms and conditions based on anticipated levels of utilization of our services. We cannot unilaterally extend the terms of our client contracts when they expire. Contracts can terminate during the term of agreement for various reasons, including through "termination for convenience" clauses in some contracts that enable clients to cancel by written notice. Our revenues could decrease as a result of terminations or non-renewals of client contracts; extensions of client contracts under, or contract re-negotiations resulting in, less favorable terms; or utilization of services at less than anticipated levels.

Our investments in funds and our joint ventures could decline in value.

From time to time we add new investment strategies to our investment product offerings by providing the initial cash investments as "seed capital." The seed capital investments may decline in value. A significant decline in their value could have a material adverse effect on our financial condition or operating results.

We are a limited partner in various private equity funds and have future capital commitments related to certain private equity fund investments. These investments are illiquid. Generally, private equity fund securities are non-transferable or are subject to long holding periods, and withdrawals from the private equity firm partnerships are typically not permitted. Even when transfer restrictions do not apply, there is generally no public market for the securities.

Therefore, we may not be able to sell the securities at a time when we desire to do so. We may not always be able to sell those investments at the same or higher prices than we paid for them. We also participate in joint ventures with other companies. These joint venture investments could require further capital contributions.

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We operate internationally and are thus exposed to currency fluctuations and foreign political, economic and other conditions that could adversely affect our revenues from or support by foreign operations.

Inherent risks in our international business activities could decrease our international sales and also could adversely affect our ability to receive important support from our international operations, which could have a material adverse effect on our overall financial condition, operating results, and cash flow. These risks include potentially unfavorable foreign economic conditions, political conditions or national priorities, foreign government regulation, potential expropriation of assets by foreign governments, changes in intellectual property legal protections and remedies, the failure to bridge cultural differences, and limited or prohibited access to our foreign operations and the support they provide. We may also have difficulty repatriating any profits or be adversely affected by currency fluctuations in our international business.

As a result of the June 2016 referendum in the UK to exit the European Union (commonly referred to as "Brexit"), the value of the British pound has declined sharply as compared to the US dollar. The relative strengthening of the dollar relative to the British pound may adversely affect our revenues and operating results. Any withdrawal of the UK from the European Union could significantly disrupt the movement of goods, services and people between the UK and the European Union; the financial services industry could be particularly sensitive to Brexit and it could result in increased legal and regulatory complexities for our operations. There can be no assurance that these disruptions and regulatory changes would not have a material adverse effect on our business, financial condition, or operating results.

Risks Related to Corporate Governance or our Equity Securities

Some of our joint venture investments are subject to buy-sell agreements, which could, among other things, restrict us from selling our interests even if we were to determine it would be prudent to do so.

We own interests in unconsolidated entities, including International Financial Data Services L.P. and various real estate joint ventures. Our interests in such unconsolidated entities are subject to buy/sell arrangements, which could restrict our ability to sell our interests even if we were to determine it would be prudent to do so. These arrangements could also allow us to purchase the other owners' interests to prevent someone else from acquiring them and we cannot control the timing of occasions to do so. The businesses or other owners may encourage us to increase our investment in or make contributions to the businesses at an inopportune time.

Provisions in our Certificate of Incorporation, Bylaws, certain plans and agreements, and applicable laws could discourage, delay or prevent a change in control of us that a stockholder may consider favorable.

The provisions include:

- super-majority stockholder approval required for certain actions;
- specific procedures for stockholders to nominate new directors;
- the Board's authority to issue and set the terms of preferred stock;
- various rights of joint venture co-owners and contractual counterparties, including rights of lenders and certain customers and executives in the event of a change in control;
- public reporting of ownership and of changes in ownership by stockholders with at least a 5% interest in us; and
- legal restrictions on business combinations with certain stockholders.

Because of contractual commitments, a change in control could affect our operating results and weaken our management retention and incentive tools.

A change in control of the Company could trigger various rights and obligations in service agreements with certain customers and other agreements. A change in control could also allow some clients to terminate their agreements with us or to obtain rights to use our processing software. Under certain executive equity-based and other incentive compensation awards, benefit programs and employment agreements with our management, a change in control by itself, or an individual's termination of employment without "cause" or resignation for "good reason" (each as defined in applicable agreements) after a change in control could accelerate funding, payment or vesting of equity grants, as applicable, under such agreements and programs. This accelerated funding, vesting or payment may decrease an employee's incentive to continue employment with us. We have adopted an executive severance plan which, among other things, provides benefits to participating senior officers and executives who are terminated in connection with a

change of control. Certain other executive officers have agreements with us that require us to continue to employ them for three years after a change in control or to pay certain amounts if we terminate their employment without cause or they resign for good reason following a change in control. The executives might not be incented to achieve desired results for the new owners of our business, and the cost of keeping the executives on the payroll might deter potential new owners from acquiring us or hinder new owners from hiring replacement management.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Stock repurchases

The following table sets forth information with respect to shares of our common stock purchased by us during the three months ended September 30, 2017.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total \$ Amount of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs	
July 1 — July 31	1,226,732	(1) \$ 61.27	\$74,999,956	\$ 225,000,044	(2)
August 1 — August 31	—	(1) —	—	225,000,044	(2)
September 1 — September 30	—	(1) —	—	225,000,044	(2)
Total	1,226,732	\$ 61.27	\$74,999,956	\$ 225,000,044	(2)

During July 2017, we purchased, in accordance with the applicable equity compensation plan, 3,049 shares of our common stock for participant income tax withholding in conjunction with stock option exercises or from the (1) vesting of restricted shares, as requested by the participants, or from shares surrendered in satisfaction of option exercise price. These purchases were not made under the publicly announced repurchase plans or programs, but were allowed by the rules of the Compensation Committee of the DST Board of Directors.

On June 13, 2016, our Board of Directors authorized a \$300.0 million share repurchase plan, which we announced on June 14, 2016. This plan allowed, but did not require, the repurchase of common stock in open market transactions and private transactions. The plan did not have an expiration date. As a result of additional share repurchases in the second quarter 2017, this plan was exhausted. On May 9, 2017, the Board of Directors (2) authorized a new \$300.0 million share repurchase plan, which we announced the same day. This plan allows, but does not require, the repurchase of common stock in open market transactions and private transactions. This plan does not have an expiration date. We may enter into one or more plans with our brokers or banks for pre-authorized purchases within defined limits pursuant to Rule 10b5-1 to effect all or a portion of such share repurchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

(a) Disclosure of Unreported 8-K Information

None.

(b) Material Changes to Director Nominee Procedures

None.

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Item 6. Exhibits

Exhibit Index

Exhibit no.	Exhibit Description	Form	Incorporated by Reference SEC File No.	Reference Exhibit	Filing Date	Filed/Furnished Herewith
	(2) Plan of acquisition, reorganization, arrangement, liquidation or succession					
2.1	<u>Amendment to Agreement of Limited Partnership of International Financial Data Services LP, dated March 26, 2013 among International Data Services GP, Inc. and IFDS GP, Inc. and DST Systems, Inc. and State Street Corporation.</u>					*
2.2	<u>Amendment to Agreement of Limited Partnership of International Financial Data Services LP, dated September 30, 2017 among International Data Services GP, Inc. and IFDS GP, Inc. and DST Systems, Inc. and State Street Corporation.</u>					*
	(3) Articles of Incorporation and Bylaws					
3.1	<u>Restated Certificate of Incorporation, dated May 12, 2015</u>	8-K	001-14036	3.3	5/14/2015	
3.2	<u>Amended and Restated Bylaws, dated February 29, 2016</u>	8-K	001-14036	3.1	2/29/2016	
	(10) Material Contracts					
10.1	<u>Amendment Number 2 to Amended and Restated Receivables Purchase Agreement dated May 31, 2016</u>					*
10.2	<u>Amendment Number 3 to Amended and Restated Receivables Purchase Agreement dated October 28, 2016</u>					*
10.3	<u>Fourth Amendment and Joinder Agreement to Originator Purchase Agreement dated May 31, 2016</u>					*
10.4	<u>Amendment No. 1 to Purchase and Contribution Agreement dated May 31, 2016</u>					*
	(31) and (32) Officer Certifications					
31.1	<u>Certification of Chief Executive Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)</u>					*
31.2	<u>Certification of Chief Financial Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)</u>					*

32.0 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002 *

(101) Formatted in XBRL (Extensible Business Reporting Language)

The following financial information from DST's Quarterly Report on Form 10-Q for the period ended September 30, 2017, filed with the SEC on November 2, 2017, formatted in Extensible Business Reporting Language ("XBRL"):

(i) the Condensed Consolidated Balance Sheet at September 30, 2017 and December 31, 2016, (ii) the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2017 and 2016, (iii) the Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016, (iv) the Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2017 and 2016, (v) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017 and 2016, and (vi) Notes to Condensed Consolidated Financial Statements.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 2, 2017
DST Systems, Inc.

/s/ Gregg Wm. Givens

Gregg Wm. Givens
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)