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

x 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 11th 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 x 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 x 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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

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

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

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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

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,		Nine Months Ended September 30,	
	2017	2016	2017	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 Shares Outstanding	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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 Shares Outstanding	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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)

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 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.

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

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(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.

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.

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

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(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.

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 Ended September 30,		Nine Months Ended 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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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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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 September 30,		Nine Months Ended 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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Certain information related to our available-for-sale securities is as follows (in millions):

	September 30, 2017	December 31, 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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5. Unconsolidated Affiliates

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

	Ownership Percentage (1)	Carrying Value September 30, 2017	Carrying Value 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	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 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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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 Amount	Accumulated Amortization	Carrying Amount	Accumulated 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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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.

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/

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,		Nine Months Ended September 30,	
	2017	2016	2017	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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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		2016	
	Pretax	Net of Tax	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	
	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.

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.

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, 2017	December 31, 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.

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 Adjustments	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 Adjustments	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				
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustments	Consolidated Total
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				
	Domestic Financial Services	International Financial Services	Healthcare Services	Elimination Adjustments	Consolidated Total
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 Adjustments	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 Adjustments	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," c
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 September 30,		Change 2017 vs 2016	
	2017	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 September 30, 2017	Nine Months Ended September 30, 2016	Change 2017 vs 2016 $	Change 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	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