

DST SYSTEMS INC  
Form 10-Q  
November 03, 2016  
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-14036

DST Systems, Inc.

(Exact name of registrant as specified in its charter)

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

333 West 11 <sup>th</sup> Street, Kansas City, Missouri	64105
(Address of principal executive offices)	(Zip Code)

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

No Changes  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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Large accelerated filer  x

Accelerated filer  o

Non-accelerated filer  o

Smaller reporting company  o

(do not check if a smaller reporting company)

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, 2016:  
Common Stock \$0.01 par value — 31,986,430

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Table of Contents

DST Systems, Inc.  
 Form 10-Q  
 September 30, 2016  
 Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheet —</u> <u>September 30, 2016 and December 31, 2015</u>	3
<u>Condensed Consolidated Statement of Income —</u> <u>Three and nine months ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statement of Comprehensive Income —</u> <u>Three and nine months ended September 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statement of Cash Flows —</u> <u>Nine months ended September 30, 2016 and 2015</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	37
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3. Defaults Upon Senior Securities</u>	39
<u>Item 4. Mine Safety Disclosures</u>	40
<u>Item 5. Other Information</u>	40
<u>Item 6. Exhibits</u>	41

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



Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

DST Systems, Inc.

Condensed Consolidated Balance Sheet

(in millions, except per share amounts)

(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 180.9	\$ 79.5
Funds held on behalf of clients	312.3	480.2
Client funding receivable	60.7	53.2
Accounts receivable	204.0	214.8
Other assets	48.1	49.8
Current assets held for sale	95.2	178.0
	901.2	1,055.5
Investments	372.1	418.2
Unconsolidated affiliates	338.2	312.2
Properties, net	236.7	256.7
Intangible assets, net	146.9	135.8
Goodwill	518.0	458.3
Other assets	52.2	57.0
Noncurrent assets held for sale	—	119.5
Total assets	\$ 2,565.3	\$ 2,813.2
Liabilities		
Current liabilities		
Current portion of debt	\$ 194.1	\$ 5.6
Client funds obligations	373.0	533.4
Accounts payable	60.6	51.2
Accrued compensation and benefits	95.4	126.5
Deferred revenues and gains	25.9	50.4
Income taxes payable	77.0	—
Other liabilities	74.6	66.2
Current liabilities held for sale	27.9	115.4
	928.5	948.7
Long-term debt	234.6	556.5
Income taxes payable	70.9	73.8
Deferred income taxes	129.8	104.7
Other liabilities	22.6	23.9
Noncurrent liabilities held for sale	—	44.5
Total liabilities	1,386.4	1,752.1

Commitments and contingencies (Note 11)

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Redeemable Non-controlling Interest	21.4	15.1
Stockholders' Equity		
Preferred stock, \$0.01 par; 10 million shares authorized and unissued	—	—
Common stock, \$0.01 par; 400 million shares authorized, 50.0 million shares issued	0.5	0.5
Additional paid-in capital	128.9	136.7
Retained earnings	2,347.2	1,996.6
Treasury stock (17.3 million and 15.7 million shares, respectively), at cost	(1,336.2	) (1,129.7 )
Accumulated other comprehensive income	17.1	41.9
Total stockholders' equity	1,157.5	1,046.0
Total liabilities, redeemable non-controlling interest and stockholders' equity	\$ 2,565.3	\$ 2,813.2

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

3

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Table of Contents

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,	
	2016	2015	2016	2015
Operating revenues	\$365.5	\$353.4	\$1,100.7	\$1,042.7
Out-of-pocket reimbursements	21.2	18.2	57.2	48.1
Total revenues	386.7	371.6	1,157.9	1,090.8
Costs and expenses	289.6	287.1	916.9	854.3
Depreciation and amortization	22.8	22.9	69.1	66.0
Operating income	74.3	61.6	171.9	170.5
Interest expense	(5.4 )	(5.8 )	(18.0 )	(17.7 )
Other income, net	6.7	14.4	20.0	189.9
Equity in earnings of unconsolidated affiliates	7.0	11.8	23.9	39.2
Income from continuing operations before income taxes and non-controlling interest	82.6	82.0	197.8	381.9
Income taxes	31.6	15.9	73.8	127.2
Income from continuing operations before non-controlling interest	51.0	66.1	124.0	254.7
Income from discontinued operations, net of tax	222.8	9.0	260.0	35.7
Net income	273.8	75.1	384.0	290.4
Net (income) loss attributable to non-controlling interest	(0.5 )	—	0.4	—
Net income attributable to DST Systems, Inc.	\$273.3	\$75.1	\$384.4	\$290.4
Weighted average common shares outstanding	32.7	35.7	33.3	36.5
Weighted average diluted shares outstanding	33.0	36.2	33.6	36.9
Basic earnings per share:				
Continuing operations attributable to DST Systems, Inc.	\$1.54	\$1.85	\$3.74	\$6.98
Discontinued operations	6.81	0.25	7.82	0.98
Basic earnings per share	\$8.35	\$2.10	\$11.56	\$7.96
Diluted earnings per share:				
Continuing operations attributable to DST Systems, Inc.	\$1.53	\$1.83	\$3.70	\$6.90
Discontinued operations	6.75	0.25	7.73	0.97
Diluted earnings per share	\$8.28	\$2.08	\$11.43	\$7.87
Cash dividends per share of common stock	\$0.33	\$0.30	\$0.99	\$0.90

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





Table of Contents

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income attributable to DST Systems, Inc.	\$273.3	\$75.1	\$384.4	\$290.4
Other comprehensive income (loss), net of tax and reclassifications to earnings, derived from:				
Available-for-sale securities	21.7	(20.3 )	(0.7 )	(123.8 )
Cash flow hedges	—	(0.3 )	0.2	(0.1 )
Foreign currency translation adjustments	(1.1 )	(6.4 )	(24.3 )	(10.8 )
Other comprehensive income (loss)	20.6	(27.0 )	(24.8 )	(134.7 )
Comprehensive income	\$293.9	\$48.1	\$359.6	\$155.7

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

Table of Contents

DST Systems, Inc.

Condensed Consolidated Statement of Cash Flows

(in millions)

(unaudited)

	Nine Months Ended September 30, 2016 2015	
Cash flows — operating activities:		
Net income	\$384.0	\$290.4
Less: income from discontinued operations	260.0	35.7
Income from continuing operations	124.0	254.7
Depreciation and amortization	69.1	66.0
Net gains on investments	(2.8 )	(161.1 )
Gain on sale of properties	—	(3.5 )
Amortization of share-based compensation	11.0	18.8
Equity in earnings of unconsolidated affiliates	(23.9 )	(39.2 )
Cash dividends from unconsolidated affiliates	0.3	3.4
Deferred income taxes	(0.1 )	(6.3 )
Changes in accounts receivable	1.3	(13.1 )
Changes in other assets	(0.9 )	5.5
Changes in accounts payable and accrued liabilities	11.6	(7.4 )
Changes in income taxes payable	8.2	(34.9 )
Changes in deferred revenues and gains	(10.0 )	(7.9 )
Changes in accrued compensation and benefits	(32.4 )	(25.8 )
Other, net	(7.8 )	18.5
Net cash provided from continuing operating activities	147.6	67.7
Net cash provided from discontinued operating activities	14.1	64.5
Net cash provided from operating activities	161.7	132.2
Cash flows — investing activities:		
Cash paid for capital expenditures	(42.7 )	(74.3 )
Investments in securities	(198.3 )	(67.4 )
Proceeds from (advances to) unconsolidated affiliates	(25.0 )	10.4
Proceeds from sales/maturities of investments	257.5	264.5
Net change in funds held to satisfy client funds obligations	167.9	157.2
Proceeds from sale of properties	5.7	4.9
Acquisition of businesses, net of cash and cash equivalents acquired	(93.5 )	(117.4 )
Proceeds from sale of business, net of cash and cash equivalents sold	9.5	7.9
Other, net	1.0	0.2
Net cash provided from continuing investing activities	82.1	186.0
Net cash provided from (used in) discontinued investing activities	409.4	(19.4 )
Net cash provided from investing activities	491.5	166.6
Cash flows — financing activities:		
Proceeds from issuance of common stock	4.6	8.1
Principal payments on debt	(4.9 )	(44.8 )
Net borrowings (repayments) on revolving credit facilities	(216.1 )	233.3
Net borrowings on accounts receivable securitization program	88.6	30.0

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Net change in client funds obligations	(167.9 )	(157.2 )
Common stock repurchased	(240.7 )	(330.2 )
Payment of cash dividends	(32.8 )	(32.8 )

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

6

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Table of Contents

DST Systems, Inc.

Condensed Consolidated Statement of Cash Flows (continued)

(in millions)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Excess tax benefits from share-based compensation	3.7	3.9
Receipt of third party capital in investment fund	6.7	—
Other, net	—	(2.2 )
Net cash used for continuing financing activities	(558.8 )	(291.9 )
Net cash used for discontinued financing activities	—	(6.1 )
Net cash used for financing activities	(558.8 )	(298.0 )
Net increase in cash and cash equivalents, including cash within assets held for sale	94.4	0.8
Cash and cash equivalents, beginning of period	89.6	151.7
Cash and cash equivalents, end of period	184.0	152.5
Less: cash and cash equivalents held for sale	3.1	9.1
Cash and cash equivalents of continuing operations, end of period	\$180.9	\$143.4

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

7

Table of Contents

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, 2015.

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. On July 1, 2016, we completed the sale of our North American Customer Communications business. Additionally, during the second quarter 2016, our Board of Directors approved a plan for management to pursue the divestiture of our United Kingdom Customer Communications business. As a result, beginning in the second quarter 2016, the Customer Communications segment, as well as certain businesses previously reported within the Financial Services segment that were part of the July 1, 2016 sale, have been reported as discontinued operations. Prior period amounts have been adjusted to be consistent with the current discontinued operations presentation. See Note 3, Discontinued Operations, for additional information.

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 and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year 2016.

New authoritative accounting guidance

In October 2016, the Financial Accounting Standards Board (“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.

In August 2016, the FASB issued guidance which reduces diversity in practice in how certain transactions are presented and classified in the statement of cash flows. The guidance is effective January 1, 2018 with early adoption permitted. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In March 2016, the 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 is effective January 1, 2017, with early adoption permitted. We are currently evaluating the standard and the impact it will have on our consolidated financial statements; however, we do expect increased volatility in earnings as the excess tax benefits driven by changes in our stock price will be recorded to the Consolidated Statement of Income upon adoption.

In February 2016, the FASB issued its final lease accounting standard 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.

Table of Contents

DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

In September 2015, the FASB issued guidance which requires that an acquirer recognize adjustments to provisional amounts in a business combination that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Effects on earnings as a result of the change to the provisional amounts should be recorded in the same period's financial statements and calculated as if the accounting had been completed at the acquisition date. The guidance was adopted on January 1, 2016 and did not have a material impact on our consolidated financial statements.

In February 2015, the FASB issued guidance which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a Variable Interest Entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. In connection with the adoption of the guidance on January 1, 2016, the Company reevaluated all of its investment products for consolidation and determined that certain of its investments in private equity funds met the definition of a VIE as our equity interests lacked the characteristics of a controlling financial interest. The revised consolidation guidance did not result in consolidation of any of our investments. See Note 4, Investments, for additional details regarding our investments in variable interest entities.

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 for us beginning with the first quarter 2018 and may be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption of this standard is permitted as of January 2017. We are currently evaluating the standard, including which transition approach will be applied and the estimated impact it will have on our consolidated financial statements.

## 2. Significant Business Acquisitions

### Acquisition of Kaufman Rossin Fund Services LLC

On February 24, 2016, we acquired all of the membership interests of Kaufman Rossin Fund Services LLC ("KRFS") for \$94.7 million in cash, after giving effect to a \$0.3 million adjustment agreed upon in June 2016 to settle working capital under the provisions of the purchase agreement. DST financed the acquisition through cash-on-hand and available lines of credit. KRFS is a full-service provider of specialized hedge fund administration services to the global financial community. KRFS' hedge fund services include accounting and valuation, back-office outsourcing, investor services, treasury services and customized reporting. We expect the acquisition to provide us with additional opportunities within the alternative investment marketplace and to expand our asset administration service offerings. KRFS is included within the Financial Services segment.

The factors described above, combined with the synergies expected from combining our operations with the acquired entity and the resulting expansion of the service offerings available to our clients, are the basis for the acquisition price paid resulting in \$61.0 million of goodwill recorded, all 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.





Table of Contents

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 KRFS and the amounts recognized as of the acquisition date for the assets acquired and liabilities assumed (in millions):

Consideration	
Cash paid	\$94.7
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	\$1.0
Accounts receivable	2.9
Other current assets	0.1
Investments	0.5
Properties (1)	6.8
Intangible assets	23.4
Goodwill	61.0
Total assets	95.7
Deferred revenue	0.6
Other current liabilities	0.4
Total liabilities	1.0
Net assets acquired	\$94.7

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(1) Includes \$6.5 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	\$22.5	10 years
Other	0.9	3 years
	\$23.4	

The operating results of KRFS were combined with our operating results subsequent to the acquisition date. Approximately \$6.1 million and \$14.8 million of revenues and \$0.2 million net pretax loss and \$0.5 million net pretax income of the acquired business is included in the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2016, respectively. Pro-forma results of operations, assuming the acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition is not material to our results.

### 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 \$410.0 million, subject to customary working capital and other post-closing adjustments. We recorded an estimated pretax gain of \$340.1 million on the sale during the third quarter 2016, which has been presented as a component of discontinued operations. Additionally, during the

second quarter 2016, our Board of Directors approved a plan for management to pursue the divestiture of our United Kingdom Customer Communications business, which we anticipate will be completed within the required one year period. As a result of this significant shift in the strategic direction of our operations, we have classified the results of the businesses sold or being sold 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 the discontinued operations are classified as held for sale in our Condensed Consolidated Balance Sheet.

Table of Contents

DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Pursuant to the terms of the transaction, the Company will continue to provide certain information technology and operations processing activities to the North American Customer Communications business for an estimated period of 12 to 18 months from the transaction date. Additionally, we will continue to incur costs for certain print-related services received from the disposed business for an estimated period of 3 to 5 years from the transaction date. The revenues previously eliminated in consolidation that have continued post-transaction were approximately \$5.7 million and \$13.8 million for the three and nine months ended September 30, 2016, as compared to \$3.1 million and \$10.0 million for the three and nine months ended September 30, 2015. The expenses previously eliminated in consolidation that have continued post-transaction were approximately \$12.9 million and \$21.4 million for the three and nine months ended September 30, 2016, as compared to \$4.9 million and \$13.8 million for the three and nine months ended September 30, 2015. 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.

The following table summarizes the assets and liabilities classified as held for sale in our Condensed Consolidated Balance Sheet (in millions):

	September 30, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 3.1	\$ 10.1
Accounts receivable	43.6	140.1
Investments	—	0.3
Unconsolidated affiliates	0.3	0.4
Properties, net	14.9	64.5
Intangible assets, net	17.7	20.6
Goodwill	5.3	24.8
Other assets	10.3	36.7
Total assets held for sale	\$ 95.2	\$ 297.5
<b>Liabilities</b>		
Current portion of debt	\$ 0.5	\$ —
Accounts payable	11.9	33.7
Accrued compensation and benefits	3.2	26.7
Deferred revenues and gains	1.3	5.5
Long-term debt	1.9	—
Income taxes payable	0.4	—
Other liabilities	8.7	94.0
Total liabilities held for sale	\$ 27.9	\$ 159.9

Table of Contents

DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Operating revenues	\$38.2	\$149.3	\$349.7	\$456.0
Out-of-pocket reimbursements	9.9	184.1	399.3	555.0
Total revenues	48.1	333.4	749.0	1,011.0
Costs and expenses	53.7	311.1	703.5	933.3
Depreciation and amortization	—	8.1	11.9	24.2
Operating income (loss)	(5.6 )	14.2	33.6	53.5
Interest expense	—	—	—	(0.3 )
Other income, net	—	—	—	0.1
Equity in earnings of unconsolidated affiliates	0.1	—	0.3	0.3
Net gain on business disposition	340.1	—	340.1	—
Income before income taxes	334.6	14.2	374.0	53.6
Income taxes	111.8	5.2	114.0	17.9
Income from discontinued operations, net of tax	\$222.8	\$9.0	\$260.0	\$35.7

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 are approximately \$0.7 million per year over the 12-year lease term.

## 4. Investments

Investments are as follows (in millions):

	Carrying Value	
	September 30, 2016	December 31, 2015
Available-for-sale securities:		
State Street Corporation	\$151.9	\$144.8
Other available-for-sale securities	11.8	74.7
	163.7	219.5
Other:		
Trading securities	13.3	14.8
Seed capital investments, at fair value	66.2	50.7
Cost method, private equity and other investments	128.9	133.2
	208.4	198.7
Total investments	\$372.1	\$418.2



Table of Contents

DST Systems, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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

	September 30, December 31,	
	2016	2015
Book cost basis	\$ 28.9	\$ 83.4
Gross unrealized gains	134.8	136.2
Gross unrealized losses	—	(0.1 )
Market value	\$ 163.7	\$ 219.5

At September 30, 2016 and December 31, 2015, the carrying value of our available-for-sale investments was \$163.7 million and \$219.5 million, respectively. Deferred tax liabilities associated with the available-for-sale investments were approximately \$54.7 million and \$54.8 million at September 30, 2016 and December 31, 2015, respectively. During the nine months ended September 30, 2016 and 2015, we received \$61.2 million and \$249.3 million, respectively, from the sale of investments in available-for-sale securities. Gross realized gains of \$0.2 million and \$2.5 million and gross realized losses of \$0.1 million and \$1.5 million were recorded during the three months ended September 30, 2016 and 2015, respectively, from the sale of available-for-sale securities. Gross realized gains of \$6.0 million and \$165.8 million and gross realized losses of \$3.8 million and \$3.9 million were recorded during the nine months ended September 30, 2016 and 2015, respectively, from the sale of available-for-sale securities.

We consolidate the investments of open-end funds in which we own a controlling interest as a result of our seed capital investments. The seed capital investments of \$66.2 million and \$50.7 million at September 30, 2016 and December 31, 2015, respectively, are comprised primarily of equity securities as well as \$12.7 million and \$10.8 million of cash collateral deposited with a broker for securities sold short at September 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, our carrying value of these private equity fund investments was approximately \$112.2 million and \$117.2 million, respectively. At September 30, 2016, we had future capital commitments related to these private equity fund investments of approximately \$4.0 million. Additionally, we have other investments with a carrying value of \$16.7 million and \$16.0 million at September 30, 2016 and December 31, 2015, 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 and nine months ended September 30, 2016 and 2015.

As a result of the revised consolidation guidance, we determined that our investments in private equity funds meet the definition of a 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, 2016 and December 31, 2015, our maximum risk of loss associated with these VIE's, which is comprised of our investment and required future capital commitments, was \$116.2 million and \$120.9 million, respectively.

5. Unconsolidated Affiliates

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

	Ownership Percentage	Carrying Value	
		September 30, 2016	December 31, 2015
International Financial Data Services (U.K. and L.P.)	50%	\$216.7	\$ 199.5
Boston Financial Data Services, Inc.	50%	88.4	82.9
Unconsolidated real estate and other affiliates			