DST SYSTEMS INC
Form 10-K
February 26, 2016
Use these links to rapidly review the document
Table of Contents

United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
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
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock, $0.01 Per Share Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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

Aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant as of June 30, 2015:

Common Stock, $0.01 par value—$4,540,242,604

Number of shares outstanding of the Registrant’s common stock as of January 31, 2016:

Common Stock, $0.01 par value—33,689,760

Documents incorporated by reference: Portions of our Proxy Statement to be filed on or about on March 28, 2016 are incorporated into Part III

Table of Contents

DST Systems, Inc.
2015 Form 10-K Annual Report
Table of Contents

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

Table of Contents

PART I

Item 1. Business

DST Systems, Inc. is a global provider of technology-based information processing and servicing solutions. References below to "DST," "the Company," "we," "us" and "our" may refer to DST Systems, Inc. exclusively or to one or mo of our consolidated subsidiaries. We provide business solutions through a unique blend of industry knowledge and experience, technological expertise and service excellence to clients in the asset management, brokerage, retirement, healthcare and other markets. The Company was formed in 1969. Through a reorganization in August 1995, we are a corporation organized in the State of Delaware.

NARRATIVE DESCRIPTION OF BUSINESS

DST uses our proprietary software applications to provide sophisticated information processing and servicing solutions through strategically unified data management, business processing and customer communications 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 offerings. We manage our business through three operating segments, Financial Services, Healthcare Services and Customer Communications. Our investments in equity securities, private equity investments, real estate and certain financial interests have been aggregated into an Investments and Other segment.

During 2015, we acquired all of the membership interests of kasina LLC, a strategic advisory firm to the asset management industry, and Red Rocks Capital LLC, an asset manager which focuses on listed private equity and other private asset investments. In 2015 we also acquired all of the outstanding common stock of Wealth Management Systems Inc., a provider of technology-based rollover services in the retirement marketplace.

For the year ended December 31, 2015, DST's operating revenues were $2,013.0 million. The Financial Services segment contributed 51.4% of consolidated operating revenues (excluding intersegment revenues), followed by the Customer Communications segment with 29.8%, the Healthcare Services segment with 18.7% and the Investments and Other segment with 0.1%.

FINANCIAL SERVICES SEGMENT

Through the Financial Services segment, we provide investor, investment, advisor/intermediary and asset distribution services to companies within the 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 either directly by DST or through Boston Financial Data Services, Inc. ("BFDS"), our domestic joint venture with State Street Corporation ("State Street") 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.

In the United States ("U.S."), we provide services to mutual funds, brokerage firms, retirement plans and alternative investment funds (such as real estate investment trusts "REITs"). In Australia and the United Kingdom ("U.K."), we license our Bluedoor wealth management platform to provide solutions related to participant accounting and recordkeeping for wealth management, "wrap platforms" and retirement savings ("superannuation") industries/markets. Our primary customers are funds and fund managers. We also offer investor services on a Remote and BPO basis internationally (U.K., Canada, Ireland and Luxembourg) solely through International Financial Data Services, U.K. ("IFDS U.K.") and International Financial Data Services, L.P. ("IFDS L.P."), (collectively, "IFDS"), which are joint ventures with State Street.

Accounts serviced under shareowner recordkeeping arrangements with the mutual fund and alternative investment sponsors are referred to as "registered accounts." Registered accounts include both tax-advantaged and non tax-advantaged accounts on the books of the transfer agent. We also contract directly with broker/dealers to manage brokerage subaccounts.

Table of Contents

We deliver a comprehensive suite of asset servicing, distribution solutions and asset management for open-end mutual funds, closed-end funds, exchange-traded funds and alternative investment funds. Focusing on the needs of small- to medium- sized funds that require a broad set of customizable services, we provide compliance, creative services, medallion distribution, fund administration, fund accounting, legal, tax administration, transfer agency and asset management services.

Our distribution services range from consulting to active wholesaling and marketing, including closed-end funds IPO launch platform services. We also offer products designed to assist clients in meeting the expanding needs associated with distributing U.S. investment products through financial intermediaries.

We serve as the asset manager to proprietary open-end mutual funds, closed-end funds and exchange-traded funds through active management and through the utilization of sub-advisors and index providers. Additionally, we offer data analytics and consulting services in both the U.S. and U.K. to help our clients gain actionable insights into the needs and preferences of their customers.

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

The Financial Services segment's largest customer accounted for 10.6% of the segment's operating revenues in 2015 and the five largest Financial Services customers collectively accounted for 28.9% of the segment's operating revenues in 2015. Financial Services' customers include our joint ventures, BFDS (the segment's second largest customer) and IFDS (the segment's fourth largest customer). Collectively, these joint ventures accounted for approximately 12.3% of the segment's operating revenues in 2015.

Sources of new business for the Financial Services segment include: (i) existing clients, particularly with respect to complementary and new products and services, (ii) companies relying on their own in-house capabilities and not using outside vendors, (iii) companies using competitors' systems, and (iv) new entrants into the markets served by Financial Services. We consider our existing client base to be one of our best sources of new business. We believe that competition in the markets in which the Financial Services segment operates is based largely on price, quality of service, features offered, the ability to handle rapidly changing volumes, response to compliance needs, product innovation, and responsiveness. Our competitors are primarily financial institutions and in-house systems. Our financial institution competitors may have an advantage because they can take into consideration the value of their clients' funds on deposit or under management when pricing their services. We believe there is significant competition in our markets and our ability to compete effectively is dependent in part on access to capital.

HEALTHCARE SERVICES SEGMENT

The Healthcare Services segment uses our proprietary software applications to provide healthcare organizations with 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. The Healthcare Services segment's five largest customers accounted for 48.7% of segment operating revenues in 2015, including 18.4% from its largest customer. Effective January 2015, a significant client deconverted approximately 40% of its business with us. Subsequently, during mid-2015, we entered into a new multi-year contract with this existing client to provide administrative management of pharmacy claims for the client's commercial plan members. As a result of this agreement, the previously announced deconversion of this client's remaining members which was scheduled for 2015 and 2016 will not take place, and the client will remain on our pharmacy claims processing platform.

Our healthcare services are marketed to health insurance companies, health plans, benefits administrators, private physician practices and hospital-based physician groups. Customers primarily consist of managed care organizations, preferred provider organizations, third-party administrators, dental, vision, and behavioral health organizations operating commercial and government sponsored programs such as the Health Insurance Exchanges that operate under the Patient Protection and Affordable Care Act (“ACA”), Medicare Advantage, Medicare Part D and Medicaid.

We compete with other third-party providers and companies that perform their services in-house with licensed or internally developed systems and processes. We believe that we compete effectively in the market due to our ongoing investment in our products and the development of new products to meet the evolving business requirements of our customers.

Table of Contents

Our competitors' healthcare administration and health outcomes optimization solutions are primarily based on complete replacement of a payer's core system. We believe that a component application approach shifts the focus away from core application replacement to one in which clients have more alternatives for modernization of the business operation. With a component approach, health payer clients can still choose core application replacement if warranted, or adopt component applications that address only those areas of the business that offer the most opportunity of improvement for the customer, resulting in protection of the client's current IT investment and reduced disruption to its business operation.

Pharmacy Solutions

Through Argus Health Systems, Inc. ("Argus"), a wholly-owned subsidiary, we use our proprietary software applications, supporting technology and enhanced clinical expertise to provide pharmacy health management solutions supporting commercial, Medicaid and Medicare Part D plans. These services include pharmacy claims administration, pharmacy network solutions, government programs administration, formulary and rebate management, trend control and quality compliance programs, member services, and discount drug card programs. RxNova, our proprietary claims processing system, is a highly scalable and comprehensive system for the administration of pharmacy benefits, prescription claims adjudication, eligibility, pharmacy management, and related activities. This benefit management solution provides substantial flexibility to accommodate varying provider requirements, allows point-of-sale monitoring, and provides control of pharmacy plan benefits with on-line benefit authorization.

We generally derive revenue 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, formulary and rebate administration, administration or management of clinical programs, pharmacy network management, member and plan web services and management information and reporting.

Healthcare Administration

Our wholly-owned subsidiary DST Health Solutions, LLC ("DSTHS") uses our proprietary software applications to provide medical claim administration services and health plan compliance and revenue integrity services for payers and providers in the domestic healthcare industry. Healthcare administration services are offered on a software license, Remote and BPO basis. Our solutions, combined with our health outcomes optimization solutions described below, are offered as stand-alone component solutions to complement health plans, existing operations or systems, or as an integrated core administration package of solutions.

Claims administration services include claims processing, benefit plan management, eligibility and enrollment management, provider contract administration, mail receipt and processing, imaging/data capture and retention, fulfillment, utilization management, and customer service. Health plan compliance and revenue integrity services include a retrospective review of medical records to accurately capture members' health status through proper hierarchical condition categories.

Healthcare administration revenues are generally derived from fees charged based on a per member/per month basis and transactional basis. We also realize revenue 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.

Health Outcomes Optimization

We also provide health outcomes optimization solutions through the use of our integrated care management and population health analytics applications and professional services for health plans and providers in the domestic healthcare industry. Our Integrated Care Management solution is a real-time, intuitive, workflow-driven solution suite that assists customers to improve member outcomes and manage costs. Our population health technology provides organizations with the ability to measure and manage federal and state required quality management initiatives, provider network quality and efficiency, member health programs, and risk adjustment on an integrated system. In addition to our proprietary systems, we are the exclusive distributor of Johns Hopkins' Adjusted Clinical Groups ("ACG"), a patient classification system developed by Johns Hopkins University. The ACG System is a software tool that provides health plans the ability to easily identify their at-risk population and stratify them into the optimal care management program for both the member's needs and the health plan's goals for that member.

Professional services include business and industry consulting, risk adjustment, compliance and regulatory consulting, behaviorally based interventions, healthcare quality incentive management, medical management (disease, care, and utilization), HEDIS, managed information technology, software engineering, operations process engineering and management consulting.

Health outcomes optimization revenues are generally derived from fees charged based on a per member/per month basis. We also realize revenue 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.

Table of Contents

CUSTOMER COMMUNICATIONS SEGMENT

Within our Customer Communications segment, we offer a full range of integrated print, mail, and electronic solutions to companies in the U.S., Canada and the U.K. We use proprietary and third-party software applications to provide the formatting, printing, mailing, electronic presentment and archiving for a company's individualized communications.

In North America we provide digital print, electronic solutions, direct marketing, and fulfillment services directly to clients and through relationships in which our services are combined with, or offered concurrently through, providers of data processing services. We produce customized communications for our client's customers such as investment fund statements, explanation of health benefit statements, and monthly utility bills. We also provide participant enrollment communications; compliance solutions, including compliance document delivery; and archival and retrieval solutions. Our electronic and mobile communications offerings also enable clients to connect with customers digitally using the same data stream as used for print.

As one of the largest First-Class mailers in the U.S., we also provide a range of postal services to help clients optimize mail efficiencies and control postage expenses. Our North America business has three primary operating facilities in the U.S. and one in Canada, and is among the largest users of continuous, high-speed, full-color inkjet printing.

Our U.K. business is oriented to data driven marketing communication. The services and products offer integrated communications through print and e-solutions. In the U.K., we have five production facilities to deliver a range of output types, including offset litho printing, high-quality digital laser printing, and inkjet printing.

Revenues in this segment are derived from presentation and delivery (either print or digital), mailing fees and archiving of customer documents. Results generally are based on the number of images processed or packages processed and the range of customization and personalization options chosen by the client.

Approximately half of the services provided by this segment are for customers in the financial services and healthcare industries, including clients within our Financial Services and Healthcare Services segments. Additionally, services are provided to the retail banking, insurance, consumer finance, video/broadband, telecommunications, utilities, retail and other service industries. The Customer Communications segment's five largest clients accounted for 25.4% of segment operating revenues in 2015, including 9.6% from its largest client. In North America, the service arrangements we negotiate with Customer Communications segment clients are typically multi-year agreements. In the U.K., contracts are generally short-term in nature.

In North America, the most significant competitors for print, mail and electronic delivery of transactional, marketing and compliance documents are (i) those companies that provide these services on an in-house basis, (ii) local companies in the cities where the segment's printing operations are located and (iii) national competitors. The key competitive factors for the Customer Communications segment in North America are the ability to offer (i) single-source print and electronic transactional, marketing and compliance customer communication solutions, (ii) postage capabilities allowing more efficient delivery and potential cost savings, (iii) the range of customization options available for personalizing communications and their ease of application, (iv) the quality and speed of services provided, (v) the multi-channel delivery capability based on customer preference, (vi) the quality of customer support and (vii) the ability to handle large volumes efficiently and cost effectively. In the U.K., the market remains competitive with a mature print management model, with a smaller number of multi-site print providers and smaller competitors operating in niches.

INVESTMENTS AND OTHER SEGMENT

The Investments and Other segment is comprised of our investments in equity securities, private equity investments, real estate and other financial interests. The assets held are primarily passive in nature.

The Investments and Other segment holds investments in available-for-sale equity securities with a market value of approximately $219.0 million, including approximately 2.2 million shares of State Street with a market value of $144.8 million based on closing exchange values at December 31, 2015.

We also own partnership interests in certain real estate joint ventures that lease office space to us, certain of our unconsolidated affiliates and unrelated third parties. We also own various office and retail properties, undeveloped land and an underground storage facility.

6

Table of Contents

SOFTWARE DEVELOPMENT AND MAINTENANCE

DST's software development and maintenance efforts are focused on introducing new products and services, as well as enhancing our existing products and services. The software development, maintenance and enhancements costs, including capitalized software development costs, were $166.4 million, $150.4 million and $152.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

INTELLECTUAL PROPERTY

We hold U.S. patents, U.S. copyrights and trademarks covering various aspects of the information processing and computer software services and products provided by the Financial Services and Healthcare Services segments and the statement and mail processing services and technology provided by the Customer Communications segment. The duration of the patent term is generally 20 years from its earliest application filing date. The patent term is not renewable. The durations of the copyrights depend on a number of factors, such as who created the work and whether he or she was employed by us at the time. The trademark rights generally will continue for as long as we maintain usage of the trademarks. We believe our copyrights are adequate to protect our original works of authorship. We believe that although the patents, trademarks and copyrights related to the segments are valuable, our success primarily depends upon our product and service quality, marketing and service skills. Despite patent, trademark and copyright protection, we may be vulnerable to competitors who attempt to imitate our systems or processes. In addition, other companies and inventors may receive patents that contain claims applicable to our systems and processes.

EMPLOYEES

The following table summarizes the number of our employees as of December 31, 2015 (in millions):

	U.S.	International	Total
Financial Services segment	4,000	3,000	7,000
Healthcare Services segment	2,300	—	2,300
Customer Communications segment	2,500	1,600	4,100
Investments and Other segment	20	—	20
Total employees	8,820	4,600	13,420

Additionally, our significant unconsolidated affiliates have 2,300 employees in the U.S. and 6,100 employees internationally as of December 31, 2015. Except for certain employees of DST Output (Nottingham) Limited, a U.K. subsidiary included in the Customer Communications segment, none of our employees are represented by a labor union or covered by a collective bargaining agreement. We consider our employee relations to be good.

SEGMENT, GEOGRAPHIC AREA AND OTHER FINANCIAL INFORMATION

This discussion of the business of DST Systems, Inc. should be read in conjunction with, and is qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") under Item 7 herein. In addition, the information set forth in the first paragraph and under the headings "Introduction" and "Seasonality" in the MD&A and the segment and geographic information included in Item 8, Note 16 are incorporated herein by reference in partial response to this Item 1.

Table of Contents

AVAILABLE INFORMATION

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports will be made available free of charge on or through our Internet website (www.dstsystems.com) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. In addition, our corporate governance guidelines and the charters of the Audit Committee, the Corporate Governance/Nominating Committee, and Compensation Committee of the DST Board of Directors are available at investors.dstsystems.com. These guidelines and charters are available in print to any stockholder who requests them. Written requests may be made to the DST Corporate Secretary, 333 West 11th Street, Kansas City, Missouri 64105, and oral requests may be made by calling the DST Corporate Secretary’s Office at (816) 435-8655. An individual may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E. Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations in future periods. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties not currently known to us or that we currently deem to be immaterial that may adversely affect our business, financial condition, operating results or share price in the future.

Risks Related to Our Business

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

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

On a consolidated basis, for the year ended December 31, 2015, our five largest customers (excluding BFDS and IFDS, our 50%-owned joint ventures with State Street) accounted for approximately 18% of our consolidated operating revenues. For the same period, the Healthcare Services segment’s five largest customers accounted for approximately 48.7% of our revenue in that segment, including 18.4% from its largest customer. Because of our significant customer concentration, particularly in the Healthcare Services segment, our revenue could fluctuate significantly due to changes in economic conditions, the use of competitive products, or the loss of, reduction of business with, or less favorable terms with any of our significant customers, and a delay or default in payment by any significant customer could materially harm our business and results of operations.

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

Table of Contents

We depend on information technology, and any failures of or damage to, attack on or unauthorized access to our information technology systems could result in significant costs and reputational damage.

We have developed and maintained, and our businesses depend on, information technology infrastructure, including elements both internal and external, to record and process a large volume of complex transactions and other data, including personally identifiable information regarding financial and health matters. In certain circumstances, vendors have access to such data in order to assist us with responsibilities, such as producing benefit plan identification cards, maintaining software we license on our own behalf or resell to others, or helping clients comply with anti-money laundering regulations. A breach of our security systems and procedures or those of our vendors could result in significant data losses or theft of our customers' intellectual property, proprietary business information or personally identifiable information. In recent years, several financial services firms were victims of computer systems hacking attacks, resulting in the disruption of services to clients, loss or misappropriation of sensitive or private data, and reputational harm. Rapid advances in technology, and the limits and costs of technology, skills and manpower, may prevent us from anticipating, identifying, preventing or addressing all potential security threats and breaches. Any interruptions, delays, breakdowns or breach, including as a result of cybersecurity breaches, of our, or of our vendors', information technology infrastructure, including improper employee actions, could result in the loss of confidential, personal or proprietary information. A cybersecurity breach could negatively affect our reputation as a trusted product and service provider by adversely affecting the market's perception of the security or reliability of our products or services. In addition, a system breach could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs, lost revenues, regulatory penalties, and litigation.

We may be unable to attract and retain capable technical personnel for our processing businesses or quality executives to manage the complex structure of our business.

Our success depends on recruiting and retaining adept management and personnel with expertise in software and systems development and the types of computer hardware and software we utilize. If we are unable to hire or retain qualified personnel, our operations could be materially adversely affected. Companies in our industry compete fiercely for qualified management and technical personnel. We cannot guarantee that we will be able to adequately compete for or keep qualified personnel. If we lack qualified management, there is an increased risk that we will adopt unfavorable business strategies, especially in a complex business like ours with multiple segments and operating entities. If we lack qualified technical personnel, our ability to develop the systems and services our clients demand may also be negatively affected.

The demand for our products and services could decrease if we do not continually address our clients' technology and capacity requirements.

Our clients use technology-based products and services in the complex and rapidly changing markets in which they operate. We must substantially invest in technology and systems to meet customer requirements for technology and capacity. If we do not meet clients' technology and capacity requirements in advance of our competitors or if the investments we make are not cost-effective or do not result in successful products or services, our business could be adversely affected.

If we cannot successfully complete acquisitions or integrate acquired businesses, our growth may be limited and our financial condition adversely affected.

Our business strategy anticipates that we will supplement internal growth by pursuing acquisitions of complementary businesses. We may be unable to identify suitable businesses to acquire. We compete with other potential buyers for the acquisition of other complementary businesses. Information we obtain about an acquisition target may be limited and there can be no assurance that an acquisition will perform as expected or positively impact our financial performance. Potential acquisitions involve risk, including the risk we would be unable to effectively integrate the acquired technologies, operations and personnel into our business, and the risk that management's attention and our capital would be diverted from other areas of our business. The anticipated benefits of our acquisitions may not materialize. Future acquisitions or dispositions could result in the issuance of capital stock, incurrence of debt, contingent liabilities or expenses, or write-offs of goodwill and other intangible assets, any of which could harm our financial condition. If we cannot complete acquisitions, our growth may be limited and our financial condition may be adversely affected.

If our new investments and business initiatives are not successful, our financial condition and prospects could be adversely affected.

We are investing heavily in our technology to improve existing products and services and add new products and services to address the needs of existing or new clients. Our investments may not lead to successful deployment or increases in the number of accounts or transactions. If we are not successful in creating value from our investments by increasing sales or reducing expenses, our financial condition and prospects could be harmed.

Table of Contents

An increase in subaccounting services performed by brokerage firms has and will continue to adversely impact our revenues.

We service mutual fund and other accounts under shareowner recordkeeping arrangements which we refer to as registered accounts. These arrangements are distinguished from broker subaccounts, which are serviced under contract with a broker/dealer. Our clients may adopt the broker subaccount structure. We offer subaccounting services to brokerage firms that perform shareowner subaccounting. As the recordkeeping functions in connection with subaccounting are more limited than traditional shareowner accounting, the fees charged are generally lower on a per unit basis. Brokerage firms that obtain agreements from our clients to use a broker subaccount structure cause accounts currently on our traditional recordkeeping system to convert to our subaccounting system, or to the subaccounting systems of other service providers, which generally results in lower revenues. While subaccounting conversions have generally been limited to our non tax-advantaged mutual fund accounts, such conversions have begun to extend to the tax-advantaged accounts (such as retirement and Section 529 accounts) we service, which could adversely affect our business and operating results.

Consolidation in or among our customers and potential customers could result in a reduction of customers or reduction in use of our services.

Mergers or acquisitions of or consolidations among our customers or between our customers and other entities could reduce the number of our customers and potential customers and result in the discontinuation or reduction in use of our services. This could adversely affect our revenues even if these events do not reduce the aggregate number of customers or the activities of the consolidated entities. The adverse effects of consolidation could be greater in the financial services or healthcare services sectors. Any of these developments could materially and adversely affect our business, financial condition, operating results and cash flows.

Our businesses are subject to substantial competition.

We are subject to intense competition from other established service providers in all industries we serve. Some of our competitors are able to bundle service offerings and offer more appealing pricing structures. Some of our clients, or the clients they serve, may develop, have developed or are developing the in-house capacity to perform the transaction processing, recordkeeping and output services they have paid us to perform. Additionally, some of our competitors and clients have greater financial and human resources and access to capital than we do.

In the financial and healthcare markets we serve, we compete based on a variety of factors, including investment performance, the range of products offered, brand recognition, business reputation, financial strength, stability and continuity of client and other intermediary relationships, quality of service, and level of fees charged for services. We continue to face market pressures regarding fee levels in certain products and services offered.

Our failure to successfully compete in any of our material operating businesses could have a material adverse effect on our operating results. Competition could also affect the revenue mix of services we provide, resulting in decreased revenues in lines of business with higher profit margins.

The quality or availability of postal system services could decrease, reducing the volume of printed customer communications and negatively impacting our business.

We are dependent on postal delivery systems for final delivery of printed customer communications. Postal delivery systems are facing economic pressures from the reduction in First-Class mail and certain postal delivery systems have experienced work stoppages and other interruptions. Accuracy and speed of delivery are important factors for clients using printed communications in their businesses. Changes in the timeliness and quality of postal delivery could negatively impact the level of printed communications delivered by our customers to their clients. A decrease in such communications could adversely affect our business and our operating results.

Decreasing demand for traditional printed and mailed communications may continue to adversely affect our business, depending on the extent to which our customers' and their clients' acceptance of electronic alternatives continues to grow.

To the extent our clients' customers select electronic presentment and delivery of communications, the demand for our services for production and distribution of printed documents has decreased and could continue to decrease. We provide electronic presentment and delivery solutions, but they are priced differently and require different capabilities than print-mail solutions. Clients may choose to perform electronic hosting and distribution of communications to customers internally or select electronic solution providers other than us. In particular, clients have terminated their services or moved production in-house. This has and could continue to adversely affect our business and our operating results.

Table of Contents

Damage to our facilities could impact our operations or financial condition.
The performance of our services also depends upon facilities that house central computer operations or operating centers or in which we process information, images, bills or statements. Significant damage to any of our operating facilities could interrupt the operations at those facilities and interfere with our ability to serve customers.
We operate internationally and are thus exposed to currency fluctuations and foreign political, economic and other conditions that could adversely affect our revenues from or support by foreign operations.
Inherent risks in our international business activities could decrease our international sales and also could adversely affect our ability to receive important support from our international operations, which could have a material adverse effect on our overall financial condition, operating results, and cash flow. These risks include potentially unfavorable foreign economic conditions, political conditions or national priorities, foreign government regulation, potential expropriation of assets by foreign governments, changes in intellectual property legal protections and remedies, the failure to bridge cultural differences, and limited or prohibited access to our foreign operations and the support they provide. We may also have difficulty repatriating any profits or be adversely affected by currency fluctuations in our international business.
Various events may cause our financial results to fluctuate from quarter-to-quarter or year-to-year. The nature of these events might inhibit our ability to anticipate and act in advance to counter them.
We may be unsuccessful in determining or controlling when and whether events occur that could cause varying financial results. Unfavorable results may occur that we did not anticipate or take advance action to address. We incur significant costs to develop products used to service our existing and potential client operations. The timing of these expenses may fluctuate as new client contracts are signed or existing client contracts are renewed, causing our results to vary accordingly. Factors contributing to the variability of our results include increased costs of supplies, increased costs relating to existing and potential client operations, and hiring staff to develop new and existing products. The timing of our fees associated with new and existing client contracts, including changes in recognition as a result of changes in accounting principles, may also cause results to vary from period to period.
Our revenues may decrease due to declines in the levels of participation and activity in the securities markets.

We generate significant revenues from the transaction processing fees we earn from our services. These revenue sources are substantially dependent on the levels of participation and activity in the securities markets. The number of unique securities positions held by investors through our clients and our clients' customer trading volumes reflect the levels of participation and activity in the markets, which are impacted by market prices and the liquidity of the securities markets, among other factors. Over the past several years, the U.S. and foreign securities markets have experienced significant volatility. We could continue to be negatively impacted by the volatile markets as certain of our fees are tied to the asset bases of our clients. The continuation or occurrence of significant market volatility or decreased levels of participation would likely result in reduced revenues and decreased profitability from our business operations.

We also derive significant revenues from asset management and administration contracts with clients. Under these contracts, the fees paid to us are based on a variety of factors, including the market value of assets under management (AUM), assets under administration (AUA) and number of transactions processed. AUM and AUA may decline for various reasons, causing results to vary. Factors that could decrease AUM and AUA (and therefore revenues) include declines in the market value of the assets in the funds and accounts managed and administered as well as redemptions and other withdrawals from, or shifts among, the funds and accounts managed and administered.
Investment decisions with respect to cash balances, market returns or losses on investments, and limits on insurance applicable to cash balances held in bank and brokerage accounts, including those held by us and as agent on behalf of our clients, could expose us to losses of such cash balances and adversely affect revenues attributable to cash balance deposit investments.
As part of our transaction processing and other services, we maintain and manage large bank and investment accounts containing client funds, which we hold as agent, as well as operational funds. Our revenues include investment earnings related to client fund cash balances. Our choices in selecting investments, or market conditions that affect the

rate of return on or the availability of investments, could have an adverse effect on the level of such revenues. The amounts held in our operational and client deposit accounts could exceed the limits of government insurance programs of organizations such as the Federal Deposit Insurance Corporation and the Securities Investors Protection Corporation, exposing us to the risk of loss. Any such loss would have an adverse impact on our business and our financial condition.

Table of Contents

Operational errors in the performance of our services or contractual obligations could lead to liability for claims, client loss and result in reputational damage.

The failure to properly perform our services or contractual obligations could result in our clients and/or certain of our subsidiaries being subjected to losses including censures, fines, or other sanctions by applicable regulatory authorities, and we could be liable to parties who are financially harmed by those errors. In addition, such errors could cause us to lose revenues, lose clients or damage our reputation.

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

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

We are substantially dependent on our intellectual property rights, and a claim for infringement or a requirement to indemnify a client for infringement could adversely affect us.

We have made substantial investments in software and other intellectual property on which our business is highly dependent. Businesses we acquire also often involve intellectual property portfolios, which increase the challenges we face in protecting our strategic advantage. Any disclosure, loss, invalidity of, or failure to protect our intellectual property could negatively impact our competitive position, and ultimately, our business. Our protection of our intellectual property rights in the U.S. or abroad may not be adequate and others, including our competitors, may use our proprietary technology without our consent. Furthermore, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could harm our business, financial condition, results of operations and cash flows.

To the extent available, we rely on patent, trade secret and copyright laws; however, significant portions of our proprietary intellectual property is not protected by patents. We also utilize nondisclosure and other contractual agreements and security measures to protect our proprietary technology. We cannot guarantee these measures will be effective. Our products and services rely on technology developed by others, including open source software, and we have no control over possible infringement of someone else's intellectual property rights by the provider of this technology. The owner of the rights could seek damages from us rather than or in addition to the persons who provide the technology to us. We could be subject at any time to intellectual property infringement claims that are costly to evaluate and defend. Our clients may also face infringement claims, allege that such claims relate to our products and services, and seek indemnification from us. Any loss of our intellectual property rights, or any significant claim of infringement or indemnity for violation of the intellectual property rights, or any significant claim of infringement or indemnity for violation of the intellectual property rights of others, could have a material adverse effect on our financial condition, operating results, and cash flows.

Our investments in funds and in other companies could decline in value.

We hold significant investments in available-for-sale equity securities of other companies, primarily State Street Corporation, and other financial interests that are subject to fluctuations in market prices. A significant decline in the value of our equity investments could have a material adverse effect on our financial condition or operating results. We may not always be able to sell those investments at higher prices than we paid for them or than the value of the consideration used to acquire them.

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

We are a limited partner in various private equity funds and have future capital commitments related to certain private equity fund investments. These investments are illiquid. Generally, private equity fund securities are non-transferable or are subject to long holding periods, and withdrawals from the private equity firm partnerships are typically not permitted. Even when transfer restrictions do not apply, there is generally no public market for the securities. Therefore, we may not be able to sell the securities at a time when we desire to do so. We may not always be able to sell those investments at the same or higher prices than we paid for them. We also participate in joint ventures with other companies. These joint venture investments could require further capital contributions.

Table of Contents

We have restrictive covenants in our debt agreements, which may restrict our flexibility to operate our business. If we do not comply with these restrictive covenants, our failure could result in material and adverse effects on our operating results and our financial condition.

Our debt agreements contain customary restrictive covenants, including limitations on consolidated indebtedness, liens, investments, subsidiary investments, and asset dispositions, and require us to maintain certain leverage and interest coverage ratios. Failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in reduced liquidity for the Company and could have a material adverse effect on our operating results and financial condition. In addition, an event of default or declaration of acceleration under one of our debt agreements could result in a cross default under one or more of our other debt agreements, including our financing agreements. This would have a material adverse impact on our liquidity, financial position and results of operation.

Regulatory and Litigation Risks

We and our unconsolidated affiliates are subject to regulation. Any regulatory violations, changes or uncertainties could adversely affect our business.

A number of our businesses are subject to U.S. or foreign regulation, including privacy, licensing, processing, recordkeeping, investment adviser, broker/dealer, reporting and related regulations. Such regulations cover all aspects of our businesses including, but not limited to, sales and trading methods, trade practices among broker/dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, net capital, anti-money laundering efforts, record keeping and the conduct of directors, officers and employees. Any violation of applicable regulations could expose us or those businesses to civil or criminal liability, significant fines or sanctions, damage our reputation, the revocation of licenses, censures, or a temporary suspension or permanent bar from conducting business, which could adversely affect our business or our financial results. Governmental changes, changing interpretation of regulations, and uncertainties surrounding services we provide could increase our costs of business, result in penalties, or diminish business, which could materially and adversely affect our financial results.

The SEC, Department of Labor ("DOL"), or other regulatory agencies may issue regulations impacting third-party distributors of mutual funds, which could adversely affect our business.

The SEC, DOL, or other regulatory agencies may issue regulations impacting third-party distributors of mutual funds and other fund-types products (collectively referred to as "mutual funds"), which could adversely affect our business. The SEC may issue additional regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") or other legislative authority that would require brokers and financial intermediaries that distribute mutual funds to make more detailed fee disclosures at the point-of-sale. Additionally, brokers and financial intermediaries may become subject to new SEC and/or DOL-imposed fiduciary standards-of-care that could cause them to alter their methods of distribution and/or wholesaling activities. We cannot predict the requirements the SEC or DOL may propose and finally adopt. Regulations that would cause current distribution channels or interest in mutual fund investing to change could decrease the number of accounts on our systems as a result of changes in client offerings or the attractiveness of offerings to customers of our clients. This could adversely affect our business and operating results. Additionally, to the extent the Dodd-Frank Act and/or DOL regulations impacts the operations, financial condition, liquidity and capital requirements of unaffiliated financial institutions with whom we transact business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us.

Our clients are subject to regulation that could affect our business.

Our clients are subject to extensive regulation, including investment adviser, broker/dealer and privacy regulations applicable to services we provide to the financial services industry and insurance, privacy and other regulations applicable to services we provide to the healthcare industry. Changes in, and any violation by our clients of, applicable laws and regulations (whether related to the services we provide or otherwise) could diminish their business or financial condition and thus their demand for our products and services or could increase our cost of continuing to provide services to such industries. Demand could also decrease if we do not continue to offer products and services that help our clients comply with regulations. For example, our accounts in our Healthcare Services segment are impacted by the ACA, including the Health Insurance Marketplace. The implementation of the ACA is still in its early stages, and we cannot predict the impact it will have on our customers and their demand for our services.

13

Table of Contents

Our businesses expose us to risks of claims and losses that could be significant and damage our reputation and business prospects.

Our proprietary applications and related consulting and other services include the processing or clearing of financial and healthcare transactions for our clients and their customers and the design of benefit plans and compliance programs. The dollar amount of transactions processed or cleared is vastly higher than the revenues we derive from providing these services. In the event we make transaction processing or operational errors, or mismanage any process, we could be exposed to claims for any resulting processing delays, disclosure of protected information, miscalculations, mishandling of pass-through disbursements or other processes, and failure to follow a client's instructions or meet specifications. Additionally, we may be subject to claims or liability resulting from a failure of third parties (including regulatory authorities) to recognize the limitations of our role as our clients' agent or consultant, and we may be subject to claims or liability resulting from fraud committed by third parties. We may be exposed to the risk of counterparty breaches or failure to perform. We may be subject to claims, including class actions, for reimbursements, losses or damages arising from any transaction processing or operational error, or from process mismanagement. Because of the sensitive nature of the financial and healthcare transactions we process, our liability and any alleged damages may significantly exceed the fees we receive for performing the service at issue. Litigation could include class action claims based, among other theories, upon various regulatory requirements and consumer protection and privacy laws that class action plaintiffs may attempt to use to assert private rights of action. Any of these claims and related settlements or judgments could affect our operating results, damage our reputation, decrease demand for our services, or cause us to make costly operating changes.

Risks Related to Corporate Governance or our Equity Securities

We do not control certain businesses in which we have significant ownership.

We invest in joint ventures and other unconsolidated affiliates as part of our business strategy, and part of our net income is derived from our pro rata share of the earnings of those businesses. Despite owning significant equity interests in those companies and having directors on their boards, we do not control their operations, strategies or financial decisions. The other owners may have economic, business or legal interests or goals that are inconsistent with our goals or the goals of the businesses we co-own. Our pro rata share of any losses due to unfavorable performance of those companies could negatively impact our financial results.

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

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

Various plans, agreements, laws and organizational documents may have anti-takeover effects.

Provisions in our Certificate of Incorporation, Bylaws, certain plans and agreements, and applicable laws could make it more difficult for a party to make a tender offer for our shares or complete a takeover that is not approved by our Board of Directors. The provisions include:

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

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

A change in control of the Company could trigger various rights and obligations in service agreements with certain customers and in agreements governing our joint ventures. A change in control could also allow some clients to terminate their agreements with us or to obtain rights to use our processing software. We are parties to joint venture agreements that allow other co-owners to buy our equity interests if we undergo a change in control. Under certain executive equity-based and other incentive compensation awards, benefit programs and employment agreements with our management, a change in control by

Table of Contents

itself, or an individual's termination of employment without "cause" or resignation for "good reason" (each as defined in applicable agreements) after a change in control could accelerate funding, payment or vesting of equity grants, as applicable, under such agreements and programs. This accelerated funding, vesting or payment may decrease an employee's incentive to continue employment with us. We have adopted an executive severance plan which, among other things, provides benefits to participating senior officers and executives who are terminated in connection with a change of control. Certain other executive officers have agreements with us that require us to continue to employ them for three years after a change in control or to pay certain amounts if we terminate their employment without cause or they resign for good reason following a change in control. The executives might not be incented to achieve desired results for the new owners of our business, and the cost of keeping the executives on the payroll might deter potential new owners from acquiring us or hinder new owners from hiring replacement management.

We may not pay cash dividends on our common stock in the future.

Future cash dividends will depend upon our financial condition, earnings and other factors deemed relevant by our Board of Directors. Payment of dividends is subject to applicable laws and to restrictions in applicable debt agreements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our main operating facilities, including our corporate headquarters, are located in Kansas City, Missouri and consist of 1.2 million square feet of office space, of which 57% is owned and 43% is leased, 162,000 square feet of owned data center space, and 318,000 square feet of leased production space for our Customer Communications business. Additionally, we own an additional aggregate 358,000 square feet of space consisting primarily of a back-up data center in St. Louis, Missouri and an office building and production facility in the United Kingdom. We also lease an aggregate of 2.5 million square feet of other office space and production space in North America, the United Kingdom, India, Thailand, Australia and Canada. Of the 4.5 million square feet of space identified above, the Company leases and subleases approximately 355,000 square feet to third-parties. In addition, we own undeveloped land in Kansas City, Missouri and California and an underground facility with approximately 538,000 square feet in Kansas City, Missouri, of which 497,000 square feet is leased to third parties. Our real estate joint ventures own 2.8 million square feet of real estate, of which 2.2 million square feet is occupied by third parties or is vacant. We believe our facilities are currently adequate for their intended purposes and are adequately maintained.

The following table summarizes the square footage of U.S. real estate facilities wholly-owned by DST or owned through unconsolidated affiliates of DST as of December 31, 2015 (in millions):

	DST wholly-owned (1)	Joint venture-owned (1)
Occupied by DST and unconsolidated affiliates	0.6	0.6
Occupied by third parties and vacant	0.7	2.2
Total	1.3	2.8

(1) Amounts exclude square footage of wholly-owned data centers and related property and a joint venture-owned 1,000 room convention hotel.

Item 3. Legal Proceedings

We are involved in various legal proceedings arising in the normal course of our businesses. While the ultimate outcome of such legal proceedings cannot be predicted with certainty, management believes, after consultation with legal counsel, that the final outcome in such proceedings, in the aggregate, would not have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

None.

Table of Contents

Executive Officers of the Registrant

The following list presents certain information with respect to each of our executive officers as of February 19, 2016.

Manoochehr "Mike" Abbaei, age 55, became in March 2014 our Executive Vice President and Head of Customer Communications leading our Customer Communications business in North America. He joined the Company in April 2011 as President of DST Brokerage Solutions, LLC, a Financial Services segment business serving broker dealers. He had been, since July 2009, managing partner at Finix Business Strategies and CEO of Finix Converge LLC, each of which we acquired in April 2011.

Jonathan J. Boehm, age 55, is our Executive Vice President and Head of our Healthcare businesses. He re joined the Company in 1997 after prior service in the early 1980s. Prior to becoming an Executive Vice President managing our healthcare businesses in 2009, he served as Group Vice President - Mutual Funds Full Service. He is responsible for our Healthcare Services segment, including DST HealthCare Holdings, Inc. and its subsidiaries DST Health Solutions and Argus Health Systems.

Edmund J. Burke, age 55, is our Executive Vice President and President of ALPS. ALPS includes the Corporation's investment management and asset servicing businesses. ALPS Holdings, Inc. became a wholly owned subsidiary of the Company during 2011. Mr. Burke joined ALPS in 1991 and has served as President since 2000. As part of his responsibilities for the ALPS group of companies, Mr. Burke is President and Trustee of Clough Global Long/Short Fund, Clough Global Allocation Fund, Clough Global Equity Fund and Clough Global Opportunities Fund; Trustee of Liberty All Star Equity Fund; Director of Liberty All Star Growth Fund, Inc., and Chairman of the Board and President of Financial Investors Trust. Each of these funds operates as a registered investment company pursuant to the Investment Company Act of 1940.

Gregg Wm. Givens, age 55, is our Senior Vice President, Chief Financial Officer and Treasurer. He assumed the role of Chief Financial Officer in January of 2014. He joined the Company in 1996 as an officer and served as Vice President and Chief Accounting Officer from 1999 through 2013.

Stephen C. Hooley, age 52, is our Chairman of the Board, Chief Executive Officer and President. He became Chief Executive Officer on September 12, 2012. He joined the Company in mid 2009 as President and Chief Operating Officer. He served from 2004 through mid 2009 as President and Chief Executive Officer of BFDS. He served from 2009 through April 2013 as non executive Chairman of BFDS. From 2007 through March 2013, he served as Chief Executive Officer of IFDS L.P.

Simon N. Hudson Lund, age 54, became in March 2014 our Executive Vice President and CEO of DSTi Holdings Limited. He joined the Company in February 2013 as Chief Executive Officer of DSTi Holdings Limited, which owns DST Bluedoor Holdings Pty Ltd, DST Process Solutions Limited and DST Output Limited, and as the Global Executive Chairman of IFDS U.K. and IFDS L.P. He has served in numerous positions with IFDS U.K., including as Chief Executive Officer (February 2008 through January 2013), Head of European Transfer Agent Operations (January 2011 through January 2013), Chief Operating Officer (July 2005 through January 2008), and Managing Director Administration Services Client Finance and Transfer Agent Operations (June 2003 through June 2005). In March 2013, he became Chief Executive Officer of IFDS L.P.

Vercie L. Lark, age 53, is Executive Vice President and Chief Information Officer. He joined the Company as Vice President and Chief Information Officer in June 2010 and assumed his current title in March 2014. He is responsible for our global information technology infrastructure and architecture functions, global information privacy and security, and global information technology sourcing. Mr. Lark previously served since July 2009 as Vice President and Chief Information Officer of CenturyLink, Inc., a provider of voice, broadband and video services. He had served since 2008 as the Chief Information Officer of Embarq Corporation, which was acquired in 2009 by CenturyLink.

Beth Sweetman, age 52, is Senior Vice President and Chief Human Resources Officer. She joined the Company in June 2013 as a vice president and assumed her current title in March 2014. Prior to joining the Company, she had served since 2007 as Senior Vice President Human Resources for Furniture Brands International, a home furnishings designer and manufacturer that, following her departure from that company, filed for bankruptcy in September 2013.

Steven J. Towle, age 58, became in March 2014 our Executive Vice President and Head of Financial Services. He had served since 2004 as President and Chief Executive Officer of our U.S. Customer Communications business. Prior to joining the Company, he was BFDS's President and Chief Operating Officer during 2000 through 2003 and its Senior

Vice President during 1997 through September 2000. Mr. Towle announced his intent to retire from his current position effective March 31, 2016.

Randall D. Young, age 59, became Senior Vice President, General Counsel and Secretary in mid 2013. Since 2002, he had served as Vice President, General Counsel and Secretary. He joined the Company as a Vice President in 1995.

Table of Contents

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock trades under the symbol "DST" on the New York Stock Exchange ("NYSE"). As of February 19, 2016, there were approximately 42,000 beneficial owners of our common stock.

The following table provides the quarterly prices of, and quarterly cash dividends paid on, the Company's common stock for the two-year period ended December 31, 2015. Future cash dividends will depend upon financial condition, earnings and other factors deemed relevant by DST's Board of Directors. Payment of dividends is subject to applicable laws and to restrictions in applicable debt agreements. On January 27, 2016, the DST Board of Directors declared a quarterly cash dividend of $0.33 per share on DST's common stock. The dividend will be payable on March 15, 2016, to stockholders of record at the close of business on March 2, 2016.

	Dividend	High	Low
2015			
1st Quarter	$0.30	$109.81	$91.95
2nd Quarter	0.30	125.70	109.68
3rd Quarter	0.30	133.42	95.03
4th Quarter	0.30	124.52	105.08
2014			
1st Quarter	$0.30	$98.21	$85.82
2nd Quarter	0.30	95.71	84.77
3rd Quarter	0.30	92.90	83.67
4th Quarter	0.30	99.67	82.26

The prices set forth above do not include commissions and do not necessarily represent actual transactions. The closing price of our common stock on the NYSE on December 31, 2015 was $114.06.

Stock Repurchases

The following table sets forth information with respect to shares of our common stock purchased by us during the quarter ended December 31, 2015.

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total $ Amount of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Amount That May Yet Be Purchased Under the Plans or Programs	
October 1 - October 31	335,243	(1)	$110.03	$36,823,891	$188,176,283	
November 1 - November 30	262,260	(1)	122.43	32,104,985	156,071,298	
December 1 - December 31	49,515	(1)	123.61	6,071,103	150,000,195	
Total	647,018		$116.27	$74,999,979	$150,000,195	(2)

(1) For the three months ended December 31, 2015, we purchased, in accordance with the 2015 Equity and Incentive Plan (formerly the 2005 Equity Incentive Plan), 974 shares of our common stock for participant income tax withholding in conjunction with stock option exercises or from the vesting of restricted stock shares, as requested by the participants or from shares surrendered in satisfaction of option exercise price. These purchases were not made under the publicly-announced repurchase plans or programs, but were allowed by the rules of the Compensation Committee of the DST Board of Directors. Of these shares, 534 shares were purchased in October 2015, 18 shares were purchased in November 2015, and 422 shares were purchased in December 2015.

(2) On July 29, 2015 we announced that our Board of Directors authorized an additional $250.0 million shares repurchases which is incremental to the existing plan authorizing $250.0 million, which was announced on January 28, 2015. The plan allows, but does not require, the repurchase of common stock in open market and private

transactions. The plan does not have an expiration date. We have entered and may enter into one or more plans with our brokers or banks for pre-authorized purchases within defined limits pursuant to Rule 10b5-1 to affect all or a portion of such share repurchases.

Table of Contents

Stock Performance Graph

The following graph shows the changes in value since December 31, 2010 of an assumed investment of $100 in: (i) DST Common Stock; (ii) the stocks that comprise the S&P 400 MidCap index[(1)]; (iii) the stocks that comprise the S&P 400 MidCap Index - Information Technology Sector ("S&P MidCap IT Index"[(2)]); and (iv) the stock that comprise a peer group of companies that we used in prior years ("Former Peer Group"[(3)]). The table following the graph shows the dollar value of those investments as of December 31, 2015 and as of December 31 for each of the five preceding years. The value for the assumed investments depicted on the graph and in the table has been calculated assuming that cash dividends, if any, are reinvested at the end of each quarter in which they are paid.

Comparison of Cumulative Five Year Total Return

	As of December 31,					
	2010	2011	2012	2013	2014	2015
DST Systems, Inc	$100.00	$104.04	$140.51	$213.86	$224.74	$275.20
S&P MidCap 400 Index	100.00	98.27	115.83	154.64	169.74	166.05
S&P MidCap IT Index	100.00	88.46	101.91	131.26	141.65	142.52
Former Peer Group	100.00	109.73	129.74	196.12	219.90	248.61

(1) Standard & Poor's Corporation, an independent company, prepares the S&P 400 MidCap Index.

(2) In 2015, we changed our peer group index to a published industry index rather than a selected peer group to maintain alignment with the Company's continued expansion of technology-based processing and servicing solutions offered to our clients.

(3) For comparative purposes to prior year, the companies included in the Former Peer Group are: Alliance Data Systems Corp, Automatic Data Processing, Inc., Broadridge Financial Solutions, Inc., Convergys Corp, CSG Systems International, Inc., Fiserv, Inc., NCR Corp, Paychex, Inc., SEI Investments Co., TeleTech Holdings, Inc. and Total System Services, Inc.

DST selected the Former Peer Group based on comparable company information for DST's industry developed by an independent compensation consultant with the input of the CFO.

Table of Contents

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data of the Company. The selected consolidated financial data should be read in conjunction with and are qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Form 10-K and our audited consolidated financial statements, including the notes thereto, and the report of the independent registered public accounting firm thereon and the other financial information included in Item 8 of this Form 10-K.

	Year Ended December 31,				
	2015 (1)	2014 (2)	2013 (3)	2012 (4)	2011 (5)
Income Statement Data:	(dollars in millions, except per share amounts)				
Operating revenues (excluding out-of-pockets)	$2,013.0	$2,042.0	$1,960.6	$1,892.4	$1,744.0
Income from operations	305.6	308.9	313.2	157.3	260.1
Other income, net	204.5	373.5	243.2	373.5	38.7
Income before income taxes and non-controlling interest	531.8	791.7	544.9	519.5	274.0
Net income attributable to DST Systems, Inc.	358.2	593.3	352.6	324.0	183.1
Basic earnings per share (6)	9.95	14.82	8.15	7.22	4.01
Diluted earnings per share (6)	9.83	14.66	8.00	7.08	3.95
Non-GAAP diluted earnings per share (6) (7)	5.94	5.55	4.57	3.98	4.09
Cash dividends per share of common stock	1.20	1.20	1.20	0.80	0.70

	December 31,				
	2015 (1)	2014 (2)	2013 (3)	2012 (4)	2011 (5)
Balance Sheet Data:	(dollars in millions)				
Total assets	$2,813.2	$2,942.9	$3,090.5	$3,392.5	$3,428.6
Total debt	562.1	552.9	683.0	1,011.6	1,380.3

---

(1) In 2015, we acquired the following businesses: kasina LLC, Red Rocks Capital LLC and Wealth Management Systems Inc. Additionally, we recorded net gains on securities and other investments of $199.3 million, which is included in Other income, net, in the Consolidated Statement of Income.

(2) In 2014, we recorded a pretax gain of $100.5 million on the sale of the wholly-owned subsidiary, DST Global Solutions, Ltd, which is included in Gain on sale of business in the Consolidated Statement of Income. In addition, we recorded net gains on securities and other investments of $343.5 million, which were included in Other income, net on the Consolidated Statement of Income.

(3) In 2013, we recorded net gains on securities and other investments of $222.8 million, which were included in Other income, net on the Consolidated Statement of Income.

(4) In 2012, we recorded a goodwill impairment charge of $60.8 million associated with our U.K. Customer Communications business, which is included in Depreciation and amortization expense in the Consolidated Statement of Income. In addition, we recorded net gains on securities and other investments of $293.7 million and dividend income from a private company investment of $48.4 million, both of which are included in Other income, net, in the Consolidated Statement of Income.

(5) In 2011, we acquired the following businesses: ALPS Holdings, Inc., Newkirk Products, Inc., Lateral Group Limited, Intellisource Healthcare Solutions, Finix Business Strategies, LLC, Finix Converge, LLC and Subserveo, Inc. Additionally, we recorded net gains on securities and other investments of $17.2 million, which is included in Other income, net, in the Consolidated Statement of Income.

(6)

During the years ended December 31, 2015, 2014, 2013, 2012, and 2011, we repurchased 3.6 million, 4.7 million, 3.8 million, 1.8 million and 3.8 million shares of our common stock, respectively.

(7) Non-GAAP diluted earnings per share have been calculated by taking into account the impact of certain items that are not necessarily ongoing in nature, do not have a high level of predictability associated with them or are non-operational items. Management believes the exclusion of these items provides a useful basis for evaluating underlying business unit performance, but should not be considered in isolation and is not in accordance with, or a substitute for, evaluating business unit performance utilizing GAAP financial information. A description of the use of non-GAAP financial information and a reconciliation of diluted earnings per share and non-GAAP diluted earnings per share is below.

Table of Contents

Use of Non-GAAP Financial Information

In addition to reporting financial information on a GAAP basis, we have disclosed non-GAAP financial information which has been reconciled to the corresponding GAAP measures in the following financial schedules titled "Reconciliation of Reported Diluted Earnings per Share to Non-GAAP Diluted Earnings per Share." In making these adjustments to determine the non-GAAP results, we take into account the impact of items that are not necessarily ongoing in nature, that do not have a high level of predictability associated with them or that are non-operational in nature. Generally, these items include net gains on dispositions of business units, net gains (losses) associated with securities and other investments, restructuring and impairment costs, and other similar items. Management believes the exclusion of these items provides a useful basis for evaluating underlying business unit performance, but should not be considered in isolation and is not in accordance with, or a substitute for, evaluating business unit performance utilizing GAAP financial information. Management uses non-GAAP measures in its budgeting and forecasting processes and to further analyze our financial trends and "operational run-rate," as well as making financial comparisons to prior periods presented on a similar basis. We believe that providing such adjusted results allows investors and other users of our financial statements to better understand our comparative operating performance for the periods presented.

DST's management uses each of these non-GAAP financial measures in its own evaluation of our performance, particularly when comparing performance to past periods. Our non-GAAP measures may differ from similar measures by other companies, even if similar terms are used to identify such measures. Although our management believes non-GAAP measures are useful in evaluating the performance of our business, we acknowledge that items excluded from such measures may have a material impact on our financial information calculated in accordance with GAAP. Therefore, management typically uses non-GAAP measures in conjunction with GAAP results. These factors should be considered when evaluating our results.

Reconciliation of Reported Diluted Earnings per Share to Non-GAAP Diluted Earnings per Share

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Reported GAAP Diluted Earnings per Share	$9.83	$14.66	$8.00	$7.08	$3.95
Adjusted to remove:					
Net gains on securities and other investments	(3.42)	(5.26)	(3.14)	(4.54)	(0.23)
Equity in earnings of unconsolidated affiliates items	(0.06)	(0.09)	(0.10)	(0.20)	0.06
Restructuring charges	0.06	0.26	0.03	0.51	0.08
Income tax items	(0.43)	(0.91)	(0.24)	(0.40)	—
Business development/advisory expenses	0.02	0.09	—	0.02	0.06
Net (gains) losses on real estate assets	(0.06)	—	0.04	0.09	—
Net gain on sale of business	—	(2.64)	—	—	—
Gain on contract to repurchase common stock	—	(0.45)	—	—	—
Loss accruals (loss accrual reversal)	—	(0.12)	0.06	0.04	0.08
Charitable contribution of securities	—	0.01	—	(0.06)	—
Contract termination payments received, net	—	—	(0.08)	—	(0.03)
Goodwill impairment	—	—	—	1.33	—
Insurance Solutions asset impairment and other costs	—	—	—	0.11	—
Restructuring cost to amend sales/marketing agreements	—	—	—	—	0.10
Loss on repurchase of convertible debentures	—	—	—	—	0.02
Adjusted Non-GAAP Diluted Earnings per Share	$5.94	$5.55	$4.57	$3.98	$4.09

Table of Contents

Item 7. 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;
- our investments in joint ventures or other unconsolidated affiliates; for example, some of our joint venture investments are subject to contractual obligations which could restrict us from selling such interests;
- 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 potential 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;
- the other factors that are described in Item 1A, "Risk Factors" of this Form 10-K.

These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update 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 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 business processing, data management, and customer communications solutions to clients globally within the asset management, brokerage, retirement, insurance, healthcare and other markets. Our wholly-owned data centers provide the secure technology infrastructure necessary to support our solutions offerings.

We manage our business through three operating segments, Financial Services, Healthcare Services and Customer Communications. Our investments in equity securities, private equity investments, real estate and certain financial interests have been aggregated into an Investments and Other segment.

Beginning in 2015, we modified our reportable segment presentation to reflect changes in how we now operate the business and make resource allocations. Certain operations, including the electronic presentment services for our financial services customers and our retirement plan participant communications and enrollment materials services, are now presented in the Financial Services segment rather than the Customer Communications segment. Additionally, real estate utilized principally by our business operations has been reclassified from our Investments and Other segment to the segment that utilizes the property. Real estate primarily occupied by third parties or unoccupied remains within Investments and Other segment under the revised presentation. Prior periods have been revised to reflect the new reportable segments.

Financial Services Segment

DST's proprietary software applications enable us to offer our customers information processing solutions that enable them to capture, analyze and report their investors' transactions. Examples of the services we provide include tracking of purchases, redemptions, exchanges and transfers of shares; maintaining investor identification and ownership records; reconciling cash and share activity; processing dividends; reporting sales; performing tax and other compliance functions; and providing information for printing of investor trade confirmations, statements and year-end tax forms.

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

In the U.S. we provide services to mutual funds, brokerage firms, retirement plans and alternative investment funds (such as real estate investment trusts) either directly or through BFDS, our domestic joint venture with State Street Corporation (“State Street”). In Australia and the U.K., we license software solutions to funds and fund managers, who perform participant accounting and recordkeeping for the wealth management and retirement savings market. We also provide investor services on a Remote and BPO basis internationally (U.K., Canada, Ireland and Luxembourg) solely through IFDS U.K. and IFDS L.P., which are joint ventures with State Street.

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 revenue 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. We receive revenues for processing services and products provided under various agreements with unconsolidated affiliates. We believe that the terms of our contracts with unconsolidated affiliates are fair to us and are no less favorable to us than those obtained from unaffiliated parties. Our operating revenues derived from sales to unconsolidated affiliates were $162.6 million, $166.6 million, and $170.5 million for the years ended December 31, 2015, 2014, and 2013, respectively.

On January 1, 2015, we acquired all of the membership interests of kasina LLC, a strategic advisory firm to the asset management industry for $9.0 million of upfront cash consideration and up to $5.0 million of performance-related contingent consideration. The acquisition provides us with additional opportunities to provide a combination of advisory, research, technology and analytics to asset managers.

On July 31, 2015, we acquired all of the membership interests of asset manager Red Rocks Capital LLC, which focuses on listed private equity and other private asset investments, for $45.0 million of upfront cash consideration and up to $20.0 million of performance-related contingent considerations. We expect the acquisition to provide us with additional opportunities within the alternative investment marketplace to enhance our ongoing asset management strategy.

On August 21, 2015, we acquired all of the outstanding common stock of Wealth Management Systems Inc., a provider of technology-based rollover services, for $64.0 million of cash consideration. Wealth Management Systems Inc. automates the migration of assets from retirement plans to investment management platforms. We expect the acquisition to provide us with additional opportunities to expand rollover service options to new and existing customers and enhance our ongoing retirement and asset management strategies.

On February 24, 2016, we acquired all of the membership interests of Kaufman Rossin Fund Services LLC (“KRFS”), for $95.0 million in cash, subject to certain adjustments. KRFS is an independent, 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 expand our asset administration service offerings.

In December 2015, we entered into a ten year contract with a new client to provide both subaccounting and mutual fund servicing solutions. Based on current volumes, the client is expected to convert approximately 10.0 million subaccounts onto our platform by the end of 2016 and approximately 2.3 million registered accounts onto our platform by the end of 2017. Implementation efforts will result in increased costs as we convert the client onto our platforms over the course of 2016 and 2017.

During 2014, we sold our wholly-owned U.K. subsidiary, DST Global Solutions Limited and certain related affiliates (“Global Solutions”). Global Solutions provided post-trade, middle-, and back-office investment management software applications, implementation and other professional services.

Healthcare Services Segment

The Healthcare Services segment uses our proprietary software applications to provide healthcare organizations a variety of medical and pharmacy benefit solutions to satisfy their information processing, quality of care, cost management concerns and payment integrity programs, while achieving compliance and improving operational efficiencies. Our healthcare solutions include claims adjudication, benefit management, care management, business intelligence and other ancillary services. We also

Table of Contents

continue to expand and enhance our Healthcare Services' offerings to ensure we are able to address the changing needs of our clients within the complex and highly regulated health industries which we serve. For example, our pharmacy management business continues to make investments to expand our clinical, network, and analytic capabilities to help our customers and prospective customers achieve the best possible outcomes for their members and to allow us to more effectively compete in the broader competitive pharmacy benefit manager ("PBM") market. Historically, we have acted as an agent within our pharmacy-solutions business and, accordingly, recognized revenue on a net basis. As our enhanced products evolve and we expand our pharmacy-solutions service offerings, we will evaluate the provisions within our new pharmacy network and customer contracts to determine whether we are acting as a principal or an agent in the transactions. If we determine that we are acting as a principal in the transactions, we will report the transactions on a gross basis, resulting in significantly higher revenues and costs reflected within our consolidated financial statements.

We generally derive revenue 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. Medical claim processing revenues are generally derived from fees charged based on a per member/per month basis and transactional basis. We also realize revenue 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.

During 2015, we renewed our contract with a significant Healthcare Services client which extends our contract to provide them pharmacy claims processing, reporting and other administration services through June 2020.

Effective January 2015, a significant client deconverted approximately 40% of their business with us. Subsequently, during mid-2015, we entered into a new multi-year contract with this existing client to provide administrative management of pharmacy claims for the client's commercial plan members. As a result of this agreement, the previously announced deconversion of this client's remaining members which was scheduled for 2015 and 2016 will not take place, and the client will remain on our pharmacy claims processing platform.

Customer Communications Segment

Within our Customer Communications segment, we offer a full range of integrated print, mail, and electronic solutions to customers in the U.S., Canada and the U.K. We produce customized communications for our client's customers such as investment fund statements, explanation of health benefit statements, and monthly utility bills. We use proprietary and third- party software applications to provide the formatting, printing, mailing, electronic presentment and archiving of these types of communications. As one of the largest First-Class mailers in the U.S., we also provide a range of postal services to help clients optimize mail efficiencies and control postage expenses.

Revenues in this segment are derived from presentation and delivery (either print or digital), mailing fees and archiving of customer documents, and are generally based on the number of images processed or packages mailed and the range of customization and personalization options chosen by the client.

During 2015, we completed the sale and leaseback of our four North American Customer Communications' production facilities for pretax proceeds totaling approximately $129.0 million. A pretax gain of approximately $39.9 million on the combined sale transactions will be deferred and amortized on a straight-line basis over the future lease terms. The U.S. and Canadian production facilities' leases provide for initial terms of 14 years and 12.5 years, respectively, and further provide the Company with options to extend the lease terms for two consecutive five year terms at then fair market rents. The total rent payments for year one will be approximately $9.0 million and include 2% annual rent escalations, resulting in approximately $10.3 million of annual rent expense. Annual depreciation for the four facilities was approximately $6.1 million.

Investments and Other Segment

The Investments and Other segment is comprised of our real estate consolidated subsidiaries and joint ventures, investments in equity securities, private equity investments and other financial interests. The assets held by this segment are primarily passive in nature.

The Investments and Other segment's revenues are derived from rental income from third-party real estate leases. Rental income is recorded as revenue when, based on lease terms, it is earned. The Investments and Other segment records investment income (dividends, interest and net gains or losses on investment securities) within Other income, net. The Investments and Other segment derives part of its income from its pro rata share in the earnings or losses of certain unconsolidated affiliates. We make lease payments to certain real estate joint ventures.

Table of Contents

Seasonality

Generally, we do not have significant seasonal fluctuations in our business operations. Processing volumes for mutual fund customers within our Financial Services and Customer Communications segments are usually highest during the quarter ended March 31 due primarily to processing year-end transactions and printing and mailing of year-end statements and tax forms during January. We have historically added operating equipment in the last half of the year in preparation for processing year-end transactions, which has the effect of increasing costs for the second half of the year. Revenues and operating results from individual license sales vary depending on the timing and size of the contracts.

New Authoritative Accounting Guidance

See Item 8, Financial Statements and Supplementary Data - Note 2, "Significant Accounting Policies - New authoritative accounting guidance."

Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition, results of operations and cash flows are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements: revenue recognition; software capitalization and amortization; depreciation of fixed assets; valuation of long-lived and intangible assets and goodwill; accounting for investments; and accounting for income taxes.

Revenue recognition

We recognize revenue when it is realized or realizable and it is earned. The majority of our revenues are derived from computer processing and services and are recognized upon completion of the services provided. Software license fees, maintenance fees and other ancillary fees are recognized as services are provided or delivered and all customer obligations have been met. We generally do not have payment terms from customers that extend beyond one year. Billing for services in advance of performance is recorded as deferred revenue.

We recognize revenue when the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the sales price is fixed or determinable; and 4) collectibility is reasonably assured. If there is a customer-specific acceptance provision in a contract or if there is uncertainty about customer acceptance, the associated revenue is deferred until we have evidence of customer acceptance.

Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables (items) can be divided into more than one unit of accounting. An item can generally be considered a separate unit of accounting if both of the following criteria are met: 1) the delivered item(s) has value to the customer on a standalone basis and 2) if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. Once separate units of accounting are determined, the arrangement consideration should be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Relative selling price is obtained from sources such as vendor-specific objective evidence, which is based on the separate selling price for that or a similar item or from third-party evidence such as how competitors have priced similar items. If such evidence is unavailable, we use our best estimate of the selling price, which includes various internal factors such as our pricing strategy and market factors.

We derive over 90% of our revenues as a result of providing processing and services under contracts. The majority of the amount is billed on a monthly basis, generally with thirty-day collection terms. Revenues are recognized for monthly processing and services upon performance of the services. In the event a portion of the arrangement fees are due 12 months or more from the invoice date, we have concluded that the fees do not meet the criteria for being fixed or determinable. In these cases, we recognize the revenue as the fees become due.

Our standard business practice is to bill monthly for development, consulting and training services on a time and materials basis. In some cases we bill a fixed fee for development and consulting services. For fixed fee arrangements, we recognize revenue on a “proportionate performance” basis.

Table of Contents

We derive less than 10% of our revenues from licensing products. We license our wealth management products, AWD products, healthcare administration processing software solutions and customer billing software solution products. Perpetual software license revenues are recognized at the time the contract is signed, the software is delivered and no future software obligations exist. Deferral of software license revenue billed results from delayed payment provisions, disproportionate discounts between the license and other services or the inability to unbundle certain services. Term software license revenues are recognized ratably over the term of the license agreement. While license fee revenues are not a significant percentage of our total operations, they can significantly impact earnings in the period in which they are recognized. Revenues from individual license sales depend heavily on the timing, size and nature of the contract. We recognize revenues for maintenance services ratably over the contract term, after collectibility has been reasonably assured.

DST may enter into arrangements with broker/dealers or other third parties to sell or market closed-end fund shares. Depending on the arrangement, we may earn distribution fees for marketing and selling the underlying fund shares. Conversely, we may incur distribution expenses, including structuring fees, finders' fees and referral fees paid to unaffiliated broker/dealers or introducing parties for marketing and selling underlying fund shares of a closed-end fund we sponsor. While distribution revenues and expenses are not significant percentages of our operating revenues or costs and expenses, they can significantly impact operations and earnings in the period in which they are recognized.

We have entered into various agreements with related parties, principally unconsolidated affiliates, under which we provide data processing and software services. We believe that the terms of our contracts with related parties are fair to us and are no less favorable than those obtained from unaffiliated parties.

We assess collection based on a variety of factors, including past collection history with the customer and the credit-worthiness of the customer. We generally do not request collateral from our customers. If we determine that collection of revenues is not reasonably assured, revenue is deferred and is recognized at the time it becomes reasonably assured, which is generally upon receipt of cash. Allowances for billing adjustments and doubtful account expense are estimated as revenues are recognized. Allowances for billing adjustments are recorded as reductions in revenues and doubtful account expense is recorded within Costs and expenses. The annual amounts for these items are immaterial to our consolidated financial statements.

Software capitalization and amortization

We make substantial investments in software to enhance the functionality and facilitate the delivery of our processing services as well as our sale of licensed products. Purchased software is recorded at cost and is amortized on a straight-line basis over the estimated economic life, which is generally three to five years. We also develop a large portion of our software internally. We capitalize software development costs for computer software developed or obtained for internal use after the preliminary project phase has been completed and management has committed to funding the project. For computer software to be sold, leased or otherwise marketed to third parties, we capitalize software development costs which are incurred after the products reach technological feasibility but prior to the general release of the product to customers. The capitalized software development costs are generally amortized on a straight-line basis over the estimated economic life, which is generally three to five years.

Significant management judgment is required in determining what projects and costs associated with software development will be capitalized and in assigning estimated economic lives to the completed projects. Management specifically evaluates software development projects and analyzes the percentage of completion as compared to the initial plan and subsequent forecasts, milestones achieved and the commitment to continue funding the projects. Significant changes in any of these items may result in discontinuing capitalization of development costs, as well as immediately expensing previously capitalized costs. We review, on a quarterly basis, our capitalized software for possible impairment.

Depreciation of fixed assets

Our approach on personal property, specifically technology equipment, printing and inserting equipment, is to own the property as opposed to leasing it where practicable. We believe this approach provides us with better flexibility for disposing or redeploying the asset as it nears the completion of its economic life. We depreciate technology equipment using accelerated depreciation methods over the following lives: (1) non-mainframe equipment—three years;

(2) mainframe central processing unit—four years; and (3) mainframe direct access storage devices—five years. We depreciate furniture and fixtures over estimated useful lives, principally three to five years, using accelerated depreciation methods. We depreciate large printing and inserting equipment used by the Customer Communications segment over a five to seven year life using accelerated depreciation methods. We depreciate leasehold improvements using the straight-line method over the lesser of the term of the lease or life of the improvements. Management judgment is required in assigning economic lives to fixed assets. Management specifically analyzes fixed asset additions, remaining net book values and gain/loss upon disposition of fixed assets to determine the appropriateness of assigned economic lives. Significant changes in any of these items may result in changes in the economic life assigned and the resulting depreciation expense.

Valuation of long-lived and intangible assets and goodwill

Goodwill and intangible assets that have indefinite useful lives are not amortized but are evaluated for impairment. We evaluate the impairment of goodwill at least annually (as of October 1) and evaluate identifiable intangibles, long-lived assets and related assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include the following: significant under-performance relative to expected historical or projected future operating results; significant changes in the manner of our use of the acquired assets or our strategy for the overall business; and significant negative industry or economic trends. When it is determined that the carrying value of intangibles, long-lived assets or goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we assess actual impairment based on gross cash flows.

Our assessment of goodwill for impairment includes a qualitative assessment that considers various factors, including growth in operating revenues and income from operations of our reporting units since our last quantitative assessment. Our last quantitative assessment was performed in 2014, in which the estimated fair value of each of our reporting units substantially exceeded the carrying value of the reporting units.

Our quantitative assessment of goodwill for impairment includes comparing the fair value to the net book value of our reporting units. We estimate fair value using a combination of discounted cash flow models and market approaches. If the fair value of a reporting unit exceeds its net book value, goodwill is not impaired and no further testing is necessary. If the net book value of a reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the implied fair value of goodwill in the same manner as if the affected reporting unit was being acquired in a business combination. Specifically, we allocate the fair value of the affected reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on our balance sheet, an impairment charge is recorded for the difference.

Our 2015, 2014 and 2013 annual goodwill impairment tests determined that goodwill was not impaired.

Accounting for investments

We have three significant types of investments: 1) investments in available-for-sale securities, the largest of which is our investment in State Street common stock; 2) investments in unconsolidated affiliates, which is comprised principally of BFDS, IFDS U.K., IFDS L.P. and certain real estate joint ventures; and 3) investments in private equity funds and other investments accounted for under the cost method.

We account for investments in entities in which we own less than 20% and do not have significant influence in accordance with authoritative guidance related to accounting for certain investments in debt and equity securities, which requires us to designate our investments as trading or available-for-sale. Available-for-sale securities are reported at fair value with unrealized gains and losses excluded from earnings and recorded net of deferred taxes directly to Accumulated other comprehensive income within Stockholders' equity.

We record an investment impairment charge for an investment with a gross unrealized holding loss resulting from a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future, which could have a material effect on our financial position.

The equity method of accounting is used for investments in entities, partnerships and similar interests (including investments in private equity funds where we are the limited partner) in which we have significant influence but do not control. We classify these investments as unconsolidated affiliates. Under the equity method, we recognize income or losses from our pro-rata share of these unconsolidated affiliates' net income or loss, which changes the carrying value of the investment of the unconsolidated affiliate. In certain cases, pro-rata losses are recognized only to the extent of our investment and advances to the unconsolidated affiliate.

The cost method of accounting is used for these investments when we have a de-minimus ownership percentage and do not have significant influence. Our cost method investments are held at the lower of cost or market.

Table of Contents

Accounting for income taxes

We account for income taxes in accordance with authoritative accounting guidance. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns (e.g., realization of deferred tax assets, changes in tax laws or interpretations thereof).

In addition, we are subject to examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact our consolidated financial statements. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for potential tax exposures based on our estimate of whether, and the extent to which, additional taxes may be required. If we ultimately determine that payment of these amounts is unnecessary, then we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is more likely than not that our positions will be sustained if challenged by the taxing authorities. To the extent we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period may be materially affected. An unfavorable tax settlement would require cash payments and may result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution. We report interest and penalties related to uncertain income tax positions as income taxes.

Results of Operations

The following table summarizes our consolidated operating results (in millions). Additional information regarding our segments is included below under the caption, "Year to Year Business Segment Comparisons."

	Year Ended December 31,			Change 2015 vs 2014		2014 vs 2013	
	2015	2014	2013	$	%	$	%
Operating revenues	$2,013.0	$2,042.0	$1,960.6	$(29.0)	(1.4)%	$81.4	4.2%
Out-of-pocket reimbursements	812.1	707.3	698.0	104.8	14.8%	9.3	1.3%
Total revenues	2,825.1	2,749.3	2,658.6	75.8	2.8%	90.7	3.4%
Costs and expenses	2,397.5	2,309.4	2,202.1	88.1	3.8%	107.3	4.9%
Depreciation and amortization	122.0	131.0	143.3	(9.0)	(6.9)%	(12.3)	(8.6)%
Income from operations	305.6	308.9	313.2	(3.3)	(1.1)%	(4.3)	(1.4)%
Interest expense	(24.1)	(26.6)	(34.5)	(2.5)	(9.4)%	(7.9)	(22.9)%
Gain on sale of business	—	100.5	—	(100.5)	(100.0)%	100.5	100.0%
Other income, net	204.5	373.5	243.2	(169.0)	(45.2)%	130.3	53.6%
Equity in earnings of unconsolidated affiliates	45.8	35.4	23.0	10.4	29.4%	12.4	53.9%
Income before income taxes and non-controlling interest	531.8	791.7	544.9	(259.9)	(32.8)%	246.8	45.3%
Income taxes	173.7	198.4	192.3	(24.7)	(12.4)%	6.1	3.2%
Net income	358.1	593.3	352.6	(235.2)	(39.6)%	240.7	68.3%
Net loss attributable to non-controlling interest	0.1	—	—	0.1	100.0%	—	100.0%
Net income attributable to DST Systems, Inc.	$358.2	$593.3	$352.6	$(235.1)	(39.6)%	$240.7	