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SEI INVESTMENTS CO

Form 10-Q

July 24, 2018

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2018-01-01 2018-06-30 0000350894 seic:InvestmentManagementFeesFromInvestmentProductsMember  
seic:InvestmentAdvisorsMember 2018-01-01 2018-06-30 0000350894 country:IE  
seic:InvestmentsInNewBusinessesMember 2018-01-01 2018-06-30 0000350894  
seic:InvestmentManagementFeesFromInvestmentProductsMember seic:InstitutionalInvestorsMember 2018-01-01  
2018-06-30 0000350894 seic:InvestmentManagementFeesFromInvestmentManagementAgreementsMember  
2018-01-01 2018-06-30 0000350894  
seic:InvestmentManagementFeesFromInvestmentManagementAgreementsMember  
seic:InvestmentsInNewBusinessesMember 2018-01-01 2018-06-30 0000350894  
seic:InvestmentOperationsFeesMember seic:PrivateBankMember 2018-01-01 2018-06-30 0000350894 country:IE  
seic:InstitutionalInvestorsMember 2018-01-01 2018-06-30 0000350894 seic:InvestmentOperationsFeesMember  
seic:InvestmentManagersMember 2018-01-01 2018-06-30 0000350894 country:GB  
seic:InstitutionalInvestorsMember 2018-01-01 2018-06-30 0000350894 country:CA  
seic:InvestmentManagersMember 2018-01-01 2018-06-30 0000350894 seic:ProfessionalServicesFeesMember  
seic:InvestmentAdvisorsMember 2018-01-01 2018-06-30 0000350894 seic:OtherGeographicAreasMember  
2018-01-01 2018-06-30 0000350894 seic:OtherGeographicAreasMember seic:InstitutionalInvestorsMember  
2018-01-01 2018-06-30 iso4217:USD xbrli:shares xbrli:shares iso4217:USD seic:Lawsuit

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

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**FORM 10-Q**

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(Mark One)\*

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
1934**

**for the quarterly period ended June 30, 2018**

**or**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
1934**

**for the transition period from                      to  
0-10200**

**(Commission File Number)**

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**SEI INVESTMENTS COMPANY**

**(Exact name of registrant as specified in its charter)**

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**Pennsylvania                      23-1707341**  
**(State or other jurisdiction of      (IRS Employer**  
**incorporation or organization)      Identification Number)**

**1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100**

(Address of principal executive offices)

(Zip Code)

**(610) 676-1000**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer

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

Emerging growth company

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

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

The number of shares outstanding of the registrant's common stock as of July 16, 2018 was 156,826,030.

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**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****SEI Investments Company****Consolidated Balance Sheets***(unaudited)**(In thousands, except par value)*

|  | June 30, 2018 | December 31,<br>2017 |
|--|---------------|----------------------|
| <u>Assets</u>  |               |                      |
| Current Assets:  |               |                      |
| Cash and cash equivalents  | \$693,442     | \$744,247            |
| Restricted cash  | 3,509         | 3,505                |
| Receivables from investment products   | 53,386        | 56,666               |
| Receivables, net of allowance for doubtful accounts of \$605 and \$695             | 314,631       | 282,706              |
| Securities owned   | 28,981        | 21,526               |
| Other current assets   | 36,248        | 31,158               |
| Total Current Assets   | 1,130,197     | 1,139,808            |
| Property and Equipment, net of accumulated depreciation of \$323,992 and \$309,955 | 144,330       | 146,428              |
| Capitalized Software, net of accumulated amortization of \$372,249 and \$350,045   | 312,814       | 310,405              |
| Investments Available for Sale   | 89,019        | 87,983               |
| Investments in Affiliated Funds, at fair value                                     | 5,739         | 6,034                |
| Investment in Unconsolidated Affiliate   | 51,810        | 59,492               |
| Goodwill   | 65,249        | 52,990               |
| Intangible Assets, net of accumulated amortization of \$3,248 and \$1,552          | 33,852        | 28,578               |
| Deferred Contract Costs  | 21,521        | —                    |
| Deferred Income Taxes  | 2,360         | 2,767                |
| Other Assets, net  | 33,815        | 18,884               |
| Total Assets   | \$1,890,706   | \$1,853,369          |

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

**SEI Investments Company**  
**Consolidated Balance Sheets**

*(unaudited)*

*(In thousands, except par value)*

|   | June 30, 2018 | December 31,<br>2017 |
|---|---------------|----------------------|
| <b><u>Liabilities and Equity</u></b>  |               |                      |
| <b>Current Liabilities:</b>   |               |                      |
| Accounts payable  | \$7,519       | \$5,268              |
| Accrued liabilities   | 193,832       | 265,058              |
| Deferred revenue  | 5,587         | 4,723                |
| Total Current Liabilities   | 206,938       | 275,049              |
| Borrowings Under Revolving Credit Facility  | —             | 30,000               |
| Long-term Income Taxes Payable  | 9,629         | 10,629               |
| Deferred Income Taxes   | 56,871        | 48,472               |
| Other Long-term Liabilities   | 26,386        | 12,380               |
| Total Liabilities   | 299,824       | 376,530              |
| <b>Commitments and Contingencies</b>  |               |                      |
| <b>Shareholders' Equity:</b>  |               |                      |
| Common stock, \$.01 par value, 750,000 shares authorized; 156,800 and 157,069 shares issued and outstanding | 1,568         | 1,571                |
| Capital in excess of par value  | 1,094,771     | 1,027,709            |
| Retained earnings   | 522,764       | 467,467              |
| Accumulated other comprehensive loss, net   | (28,221 )     | (19,908 )            |
| Total Shareholders' Equity  | 1,590,882     | 1,476,839            |
| Total Liabilities and Shareholders' Equity  | \$1,890,706   | \$1,853,369          |

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

**SEI Investments Company**  
**Consolidated Statements of Operations**

(unaudited)

(In thousands, except per share data)

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2018                        | 2017      | 2018                      | 2017      |
| Revenues:  |                             |           |                           |           |
| Asset management, administration and distribution fees     | \$316,508                   | \$289,682 | \$632,717                 | \$569,143 |
| Information processing and software servicing fees         | 88,322                      | 82,649    | 177,711                   | 163,172   |
| Total revenues   | 404,830                     | 372,331   | 810,428                   | 732,315   |
| Expenses:  |                             |           |                           |           |
| Subadvisory, distribution and other asset management costs | 45,209                      | 43,907    | 90,414                    | 87,059    |
| Software royalties and other information processing costs  | 7,977                       | 11,319    | 16,695                    | 23,290    |
| Compensation, benefits and other personnel                 | 127,375                     | 109,555   | 251,652                   | 218,498   |
| Stock-based compensation                                   | 5,323                       | 6,259     | 10,518                    | 12,439    |
| Consulting, outsourcing and professional fees              | 50,441                      | 48,335    | 99,148                    | 91,484    |
| Data processing and computer related                       | 21,133                      | 18,990    | 41,724                    | 37,315    |
| Facilities, supplies and other costs                       | 17,783                      | 17,575    | 35,396                    | 33,500    |
| Amortization   | 12,161                      | 12,565    | 24,015                    | 24,587    |
| Depreciation   | 7,138                       | 6,599     | 14,260                    | 13,399    |
| Total expenses   | 294,540                     | 275,104   | 583,822                   | 541,571   |
| Income from operations                                     | 110,290                     | 97,227    | 226,606                   | 190,744   |
| Net (loss) gain from investments                           | (139)                       | ) 44      | (549)                     | ) 391     |
| Interest and dividend income                               | 3,162                       | 1,686     | 5,664                     | 3,029     |
| Interest expense   | (132)                       | ) (114)   | ) (389)                   | ) (226)   |
| Equity in earnings of unconsolidated affiliate             | 41,073                      | 36,315    | 81,680                    | 69,880    |
| Income before income taxes                                 | 154,254                     | 135,158   | 313,012                   | 263,818   |
| Income taxes   | 32,577                      | 43,389    | 51,497                    | 83,312    |
| Net income   | \$121,677                   | \$91,769  | \$261,515                 | \$180,506 |
| Basic earnings per common share                            | \$0.77                      | \$0.58    | \$1.66                    | \$1.14    |
| Shares used to compute basic earnings per share            | 157,542                     | 158,325   | 157,488                   | 158,708   |
| Diluted earnings per common share                          | \$0.75                      | \$0.57    | \$1.61                    | \$1.11    |
| Shares used to compute diluted earnings per share          | 162,225                     | 161,709   | 162,825                   | 162,226   |
| Dividends declared per common share                        | \$0.30                      | \$0.28    | \$0.30                    | \$0.28    |

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

**SEI Investments Company****Consolidated Statements of Comprehensive Income***(unaudited)**(In thousands)*

|   | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|---|-----------------------------|-----------|---------------------------|------------|
|   | 2018                        | 2017      | 2018                      | 2017       |
| Net income  | \$ 121,677                  | \$ 91,769 | \$ 261,515                | \$ 180,506 |
| Other comprehensive (loss) gain, net of tax:  |                             |           |                           |            |
| Foreign currency translation adjustments  | (10,203 )                   | 7,222     | (6,826 )                  | 9,710      |
| Unrealized gain (loss) on investments:  |                             |           |                           |            |
| Unrealized gains (losses) during the period, net of income taxes of \$(52), \$(51), \$372 and \$(32)  | 32                          | 165       | (1,325 )                  | 141        |
| Less: reclassification adjustment for losses (gains) realized in net income, net of income taxes of \$(31), 112 144 \$(53), \$(46) and \$(43) |                             | 111 276   | (162 ) (1,487 )           | 89 230     |
| Total other comprehensive (loss) gain, net of tax   | (10,059 )                   | 7,498     | (8,313 )                  | 9,940      |
| Comprehensive income  | \$ 111,618                  | \$ 99,267 | \$ 253,202                | \$ 190,446 |

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

**SEI Investments Company****Consolidated Condensed Statements of Cash Flows***(unaudited)**(In thousands)*

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2018                      | 2017       |
| Cash flows from operating activities:   |                           |            |
| Net income  | \$261,515                 | \$180,506  |
| Adjustments to reconcile net income to net cash provided by operating activities (See Note 1) | 1,361                     | 4,351      |
| Net cash provided by operating activities   | 262,876                   | 184,857    |
| Cash flows from investing activities:   |                           |            |
| Additions to property and equipment   | (12,671 )                 | (10,247 )  |
| Additions to capitalized software   | (24,613 )                 | (33,292 )  |
| Purchases of marketable securities  | (74,957 )                 | (28,703 )  |
| Prepayments and maturities of marketable securities   | 64,626                    | 26,811     |
| Cash paid for acquisition, net of cash acquired   | (5,794 )                  | —          |
| Other investing activities  | (10,500 )                 | (1,450 )   |
| Net cash used in investing activities   | (63,909 )                 | (46,881 )  |
| Cash flows from financing activities:   |                           |            |
| Repayments under revolving credit facility  | (30,000 )                 | —          |
| Purchase and retirement of common stock   | (189,372 )                | (122,066 ) |
| Proceeds from issuance of common stock  | 69,958                    | 29,127     |
| Payment of dividends  | (94,318 )                 | (88,862 )  |
| Net cash used in financing activities   | (243,732 )                | (181,801 ) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash                 | (6,036 )                  | 8,488      |
| Net decrease in cash, cash equivalents and restricted cash                                    | (50,801 )                 | (35,337 )  |
| Cash, cash equivalents and restricted cash, beginning of period                               | 747,752                   | 699,201    |
| Cash, cash equivalents and restricted cash, end of period                                     | \$696,951                 | \$663,864  |

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

## **Notes to Consolidated Financial Statements**

(all figures are in thousands except share and per share data)

### **Note 1. Summary of Significant Accounting Policies**

#### **Nature of Operations**

SEI Investments Company (the Company), a Pennsylvania corporation, provides investment processing, investment management, and investment operations platforms to financial institutions, financial advisors, institutional investors, investment managers and ultra-high-net-worth families in the United States, Canada, the United Kingdom, continental Europe and various other locations throughout the world.

Investment processing platforms consist of application and business process outsourcing services, professional services and transaction-based services. Revenues from investment processing platforms are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations. Investment management programs consist of mutual funds, alternative investments and separate accounts. These include a series of money market, equity, fixed-income and alternative investment portfolios, primarily in the form of registered investment companies. The Company serves as the administrator and investment advisor for many of these products. Revenues from investment management programs are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

Investment operations platforms consist of outsourcing services including fund and investment accounting, administration, reconciliation, investor servicing and client reporting. Revenues from investment operations platforms are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

#### **Basis of Presentation**

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain financial information and accompanying note disclosure normally included in the Company's Annual Report on Form 10-K have been condensed or omitted. The interim financial information is unaudited but reflects all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of financial position of the Company as of June 30, 2018, the results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six-month periods ended June 30, 2018 and 2017. These interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company adopted the requirements of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (Accounting Standards Codification (ASC) 606 (ASC 606)) using the modified retrospective method during the six months ended June 30, 2018. As a result of the adoption of ASC 606, the Company recorded a cumulative effect adjustment of \$14,402 to retained earnings as of January 1, 2018. Prior period information has not been restated (see following caption "Revenue Recognition"). The Company also adopted ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (see Note 6) and ASU No. 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230) (see following caption "Statements of Cash Flows"). All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards.

#### **Revenue Recognition**

Revenue is recognized when the transfer of control of promised goods or services under the terms of a contract with customers are satisfied in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those promised goods or services. Certain portions of the Company's revenues involve a third party in providing goods or services to its customers. In such circumstances, the Company must determine whether the nature of its promise to the customer is to provide the underlying goods or services (the Company is the principal in the transaction and reports the transaction gross) or to arrange for a third party to provide the underlying goods or services (the entity is the agent in the transaction and reports the transaction net).

ASC 606 did not change the accounting for the majority of the Company's revenue arrangements and did not have a material impact to the Company's consolidated financial statements. The following is a summary of the impact from

the adoption of ASC 606:

- The majority of the Company's services are bundled together, and provided and completed for the client on a monthly basis. For these revenue arrangements, the Company will continue to recognize revenue on a monthly basis as the client consumes the benefits continuously over time. The timing and recognition of revenues from these arrangements did not change.

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•Contracts with new clients or with existing clients for new services generally include implementation fees. These fees are recognized in Information processing and software servicing fees when in connection with investment processing platforms and are recognized in Asset management, administration and distribution fees when in connection with investment operations platforms. The Company concluded that most of the current arrangements for implementation services are a distinct and separate performance obligation from the monthly recurring services. The timing and recognition of fees for most of these arrangements have not changed. However, each new revenue arrangement for implementation fees is analyzed to determine whether or not it is a distinct performance obligation. Implementation fees determined not to be a distinct performance obligation would be required to be recognized over the expected life of the client relationship along with the costs relating directly to satisfying such performance obligation. The Company will evaluate each contract in accordance with the requirements of ASC 606.

•Research services provided by SIDCO, the Company's broker-dealer subsidiary, to customers in soft-dollar arrangements were determined to be a separate performance obligation. Research services provided by a broker-dealer may be internally generated or provided by a third party and paid directly by the broker-dealer on the customer's behalf. It was determined that SIDCO is considered an agent since it does not control the research services before they are transferred to the customer. Therefore, fees received for research services should be recorded in revenues net of amounts paid for the soft dollar arrangement. These amounts paid by the Company were previously recorded gross as an expense and, beginning January 1, 2018, are recorded net of any revenue recognized. The amounts related to soft dollar arrangements during the three months ended June 30, 2018 and 2017 were \$3,265 and \$3,429, respectively. The amounts related to soft dollar arrangements during the six months ended June 30, 2018 and 2017 were \$7,232 and \$7,502, respectively.

•Incremental contract acquisition costs related to information processing contracts in the Private Banks segment and investment operations contracts in the Investment Managers segment will be deferred and recognized over the expected client life. These costs primarily consist of sales compensation payments to the Company's sales personnel. As a result, incremental contract acquisition costs are capitalized and subsequently amortized. The Company recorded a cumulative effect adjustment to retained earnings associated with the capitalization of contract costs. For the Company's other sales compensation payments, the Company either applies the practical expedient permitting the expensing of costs to obtain a contract when the expected amortization period is one year or less or there are no contract acquisition costs required to be deferred under the requirements of ASC 606.

#### Cash and Cash Equivalents

Cash and cash equivalents includes \$314,718 and \$401,292 at June 30, 2018 and December 31, 2017, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. The SEI-sponsored mutual funds are Level 1 assets.

#### Restricted Cash

Restricted cash includes \$3,000 at June 30, 2018 and December 31, 2017 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited. Restricted cash also includes \$509 and \$505 at June 30, 2018 and December 31, 2017, respectively, segregated in special reserve accounts for the benefit of customers of the Company's broker-dealer subsidiary, SEI Investments Distribution Co. (SIDCO), in accordance with certain rules established by the Securities and Exchange Commission (SEC) for broker-dealers.

#### Capitalized Software

The Company capitalized \$24,613 and \$33,292 of software development costs during the six months ended June 30, 2018 and 2017, respectively. The Company's software development costs primarily relate to the continued development of the SEI Wealth Platform<sup>SM</sup> (the Platform). The Company capitalized \$23,768 and \$27,994 of software development costs for significant enhancements to the Platform during the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the net book value of the Platform was \$289,376. The net book value includes \$36,189 of capitalized software development costs in-progress associated with future releases. The Platform has a weighted average remaining life of 8.4 years. Amortization expense for the Platform was \$19,599 and \$24,486 during the six months ended June 30, 2018 and 2017, respectively.

The Company also capitalized \$845 and \$5,298 of software development costs during the six months ended June 30, 2018 and 2017, respectively, related to an application for the Investment Managers segment. The application was

placed into service during the first quarter 2018 with an estimated useful life of 5 years. The net book value of the application at June 30, 2018 was \$23,438. Amortization expense for the application was \$2,605 during the six months ended June 30, 2018.

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Earnings per Share

The calculations of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 are:

|  | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|--|-----------------------------|-------------|---------------------------|-------------|
|  | 2018                        | 2017        | 2018                      | 2017        |
| Net income   | \$121,677                   | \$ 91,769   | \$261,515                 | \$ 180,506  |
| Shares used to compute basic earnings per common share   | 157,542,000                 | 158,325,000 | 157,488,000               | 158,708,000 |
| Dilutive effect of stock options                         | 4,683,000                   | 3,384,000   | 5,337,000                 | 3,518,000   |
| Shares used to compute diluted earnings per common share | 162,225,000                 | 161,709,000 | 162,825,000               | 162,226,000 |
| Basic earnings per common share                          | \$0.77                      | \$ 0.58     | \$ 1.66                   | \$ 1.14     |
| Diluted earnings per common share                        | \$0.75                      | \$ 0.57     | \$ 1.61                   | \$ 1.11     |

During the three months ended June 30, 2018 and 2017, employee stock options to purchase 6,221,000 and 11,255,000 shares of common stock with an average exercise price of \$53.33 and \$37.68, respectively, were outstanding but not included in the computation of diluted earnings per common share. During the six months ended June 30, 2018 and 2017, employee stock options to purchase 6,138,000 and 11,267,000 shares of common stock with an average exercise price of \$53.03 and \$37.69, respectively, were outstanding but not included in the computation of diluted earnings per common share. These options for the three and six month periods were not included in the computation of diluted earnings per common share because either the performance conditions have not been satisfied or would have been satisfied if the reporting date was the end of the contingency period or the option's exercise price was greater than the average market price of the Company's common stock and the effect on diluted earnings per common share would have been anti-dilutive.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02) requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The updated standard is effective for the Company beginning in the first quarter of 2019. Early adoption is permitted. As part of its project plan's preliminary assessment and design implementation phases for the adoption of ASU 2016-02, the Company has adopted implementation controls that allows it to properly and timely adopt 2016-02 on the effective date. The Company will make continuous updates to the quarterly and year-end disclosures, with a focus on both status and internal controls over financial reporting. While the Company is not yet in a position to assess the full impact of the adoption of ASU 2016-02 on its consolidated financial statements and related disclosures, the Company is currently in the process of cataloging existing lease agreements and evaluating the transition method to be elected.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13) which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. ASU 2016-13 becomes effective for the Company during the first quarter of 2020. Early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (ASU 2017-04). The objective of ASU 2017-04 is to simplify the subsequent measurement of goodwill by entities performing their annual goodwill impairment tests by comparing the fair value of a reporting unit, including income tax effects from any tax-deductible goodwill, with its carrying amount and recognizing an impairment charge for the amount by which the

carrying amount exceeds fair value. ASU 2017-04 is effective for the Company beginning in the first quarter of 2020. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2017-04 on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07) which simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. ASU 2018-07 is effective for the Company beginning in

the first quarter of 2019. The Company is currently evaluating the impact of adopting ASU 2018-07 on its consolidated financial statements and related disclosures.

#### Statements of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, the Company considers investment instruments purchased with an original maturity of three months or less to be cash equivalents.

The Company adopted ASU No. 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230) (ASU 2016-18) on January 1, 2018 which requires that a statement of cash flows explain the change during the period for the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The prior period was retrospectively adjusted to conform to the current period's presentation. There was no material impact to net cash flows for the six months ended June 30, 2017 as a result of including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the accompanying Consolidated Condensed Statement of Cash Flows in accordance with ASU 2016-18.

The following table provides the details of the adjustments to reconcile net income to net cash provided by operating activities for the six months ended June 30:

|   | 2018      | 2017      |
|---|-----------|-----------|
| Net income  | \$261,515 | \$180,506 |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |
| Depreciation  | 14,260    | 13,399    |
| Amortization  | 24,015    | 24,587    |
| Equity in earnings of unconsolidated affiliate                                    | (81,680 ) | (69,880 ) |
| Distributions received from unconsolidated affiliate                              | 89,362    | 75,142    |
| Stock-based compensation  | 10,518    | 12,439    |
| Provision for losses on receivables   | (90 )     | 157       |
| Deferred income tax expense   | 4,893     | 918       |
| Net loss (gain) from investments  | 549       | (391 )    |
| Change in long-term income taxes payable  | (1,000 )  | —         |
| Change in other long-term liabilities   | 1,222     | (503 )    |
| Change in other assets  | (4,713 )  | 122       |
| Other   | (3,206 )  | 494       |
| Change in current assets and liabilities  |           |           |
| Decrease (increase) in  |           |           |
| Receivables from investment products  | 3,280     | 12,713    |
| Receivables   | (31,835 ) | (34,744 ) |
| Other current assets  | (5,090 )  | (4,378 )  |
| Increase (decrease) in  |           |           |
| Accounts payable  | 2,251     | (2,329 )  |
| Accrued liabilities   | (22,121 ) | (23,324 ) |
| Deferred revenue  | 746       | (71 )     |
| Total adjustments   | 1,361     | 4,351     |
| Net cash provided by operating activities   | \$262,876 | \$184,857 |

#### **Note 2. Investment in Unconsolidated Affiliate**

##### LSV Asset Management

The Company has an investment in LSV Asset Management (LSV), a registered investment advisor that provides investment advisory services primarily to institutions, including pension plans and investment companies. LSV is currently an investment sub-advisor for a limited number of SEI-sponsored investment products. The Company's partnership interest in LSV as of June 30, 2018 was 38.9 percent. The Company accounts for its interest in LSV using the equity method because of its less than 50 percent ownership. The Company's interest in the net assets of LSV is

reflected in Investment in unconsolidated

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affiliate on the accompanying Consolidated Balance Sheets and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statements of Operations. At June 30, 2018, the Company's total investment in LSV was \$51,810. The Company receives partnership distributions from LSV on a quarterly basis. The Company received partnership distributions from LSV of \$89,362 and \$75,142 in the six months ended June 30, 2018 and 2017, respectively. As such, the Company considers these distribution payments as returns on investment rather than returns of the Company's original investment in LSV and has therefore classified the associated cash inflows as an operating activity on the Consolidated Statements of Cash Flows.

The Company's proportionate share in the earnings of LSV was \$41,073 and \$36,315 during the three months ended June 30, 2018 and 2017, respectively. During the six months ended June 30, 2018 and 2017, the Company's proportionate share in the earnings of LSV was \$81,680 and \$69,880, respectively.

These tables contain condensed financial information of LSV:

| Condensed Statement of Operations | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|-----------------------------------|-----------------------------|-----------|---------------------------|-----------|
|                                   | 2018                        | 2017      | 2018                      | 2017      |
| Revenues                          | \$132,111                   | \$119,320 | \$263,829                 | \$229,273 |
| Net income                        | 105,605                     | 93,372    | 210,011                   | 179,587   |

| Condensed Balance Sheets                | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Current assets                          | \$153,014        | \$155,239            |
| Non-current assets                      | 1,520            | 1,407                |
| Total assets                            | \$154,534        | \$156,646            |
| Current liabilities                     | \$63,594         | \$46,486             |
| Partners' capital                       | 90,940           | 110,160              |
| Total liabilities and partners' capital | \$154,534        | \$156,646            |

### Note 3. Variable Interest Entities – Investment Products

The Company or its affiliates have created numerous investment products for its clients in various types of legal entity structures. The Company serves as the Manager, Administrator and Distributor for these investment products and may also serve as the Trustee for some of the investment products. The Company receives asset management, distribution, administration and custodial fees for these services. Clients are the equity investors and participate in proportion to their ownership percentage in the net income or loss and net capital gains or losses of the products, and, on liquidation, will participate in proportion to their ownership percentage in the remaining net assets of the products after satisfaction of outstanding liabilities.

The Company has concluded that it is not the primary beneficiary of the entities and; therefore, is not required to consolidate any of the pooled investment vehicles for which it receives asset management, distribution, administration and custodial fees under the VIE model. The entities either do not meet the definition of a VIE or the Company does not hold a variable interest in the entities. The entities either qualify for the money market scope exception, or are entities in which the Company's asset management, distribution, administration and custodial fees are commensurate with the services provided and include fair terms and conditions, or are entities that are limited partnerships which have substantive kick-out rights. The Company acts as a fiduciary and does not hold any other interests other than insignificant seed money investments in the pooled investment vehicles. For this reason, the Company also concluded that it is not required to consolidate the pooled investment vehicles under the voting interest entity (VOE) model. The Company is a party to expense limitation agreements with certain SEI-sponsored money market funds subject to Rule 2a-7 of the Investment Company Act of 1940 which establish a maximum level of ordinary operating expenses incurred by the fund in any fiscal year including, but not limited to, fees of the administrator or its affiliates. Under the

terms of these agreements, the Company waived \$6,372 and \$6,606 in fees during the three months ended June 30, 2018 and 2017, respectively. During the six months ended June 30, 2018 and 2017, the Company waived \$13,026 and \$13,678, respectively, in fees.



**Note 4. Composition of Certain Financial Statement Captions****Receivables**

Receivables on the accompanying Consolidated Balance Sheets consist of:

|   | June 30, 2018 | December 31,<br>2017 |
|---|---------------|----------------------|
| Trade receivables                                   | \$85,113      | \$76,760             |
| Fees earned, not billed                             | 218,237       | 194,331              |
| Other receivables                                   | 11,886        | 12,310               |
|   | 315,236       | 283,401              |
| Less: Allowance for doubtful accounts (605 ) (695 ) |               |                      |
|   | \$314,631     | \$282,706            |

Fees earned, not billed represents receivables earned but unbilled and results from timing differences between services provided and contractual billing schedules. These billing schedules generally provide for fees to be billed on a quarterly basis. In addition, certain fees earned from investment operations services are calculated based on assets under administration that have a prolonged valuation process which delays billings to clients.

Receivables from investment products on the accompanying Consolidated Balance Sheets primarily represent fees receivable for distribution, investment advisory, and administration services to various regulated investment companies and other investment products sponsored by SEI.

**Property and Equipment**

Property and Equipment on the accompanying Consolidated Balance Sheets consists of:

|  | June 30, 2018 | December 31,<br>2017 |
|--|---------------|----------------------|
| Buildings  | \$154,305     | \$153,961            |
| Equipment  | 121,442       | 115,546              |
| Land   | 10,557        | 10,030               |
| Purchased software                                   | 138,122       | 134,610              |
| Furniture and fixtures                               | 18,007        | 18,114               |
| Leasehold improvements                               | 18,464        | 18,017               |
| Construction in progress                             | 7,425         | 6,105                |
|  | 468,322       | 456,383              |
| Less: Accumulated depreciation (323,992 ) (309,955 ) |               |                      |
| Property and Equipment, net                          | \$144,330     | \$146,428            |

The Company recognized \$14,260 and \$13,399 in depreciation expense related to property and equipment for the six months ended June 30, 2018 and 2017, respectively.

**Accrued Liabilities**

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| Accrued employee compensation                                      | \$57,077         | \$88,960             |
| Accrued consulting, outsourcing and professional fees              | 29,340           | 29,658               |
| Accrued sub-advisory, distribution and other asset management fees | 46,455           | 42,365               |
| Accrued dividend payable   | —                | 47,179               |
| Accrued income taxes   | 14,387           | 5,583                |
| Other accrued liabilities  | 46,573           | 51,313               |
| Total accrued liabilities  | \$193,832        | \$265,058            |



**Note 5. Fair Value Measurements**

The fair value of the Company's financial assets and liabilities, except for the Company's investment funds sponsored by LSV, is determined in accordance with the fair value hierarchy. The fair value of the Company's Level 1 financial assets consist mainly of investments in open-ended mutual funds that are quoted daily. Level 2 financial assets consist of Government National Mortgage Association (GNMA) mortgage-backed securities held by the Company's wholly-owned limited purpose federal thrift subsidiary, SEI Private Trust Company (SPTC), Federal Home Loan Bank (FHLB) and other U.S. government agency short-term notes held by SIDCO. The financial assets held by SIDCO were purchased as part of a cash management program requiring only short term, top-tier investment grade government and corporate securities. The financial assets held by SPTC are debt securities issued by GNMA and are backed by the full faith and credit of the U.S. government. These securities were purchased for the sole purpose of satisfying applicable regulatory requirements and have maturity dates which range from 2021 to 2041.

The fair value of the Company's investment funds sponsored by LSV is measured using the net asset value per share (NAV) as a practical expedient. The NAVs of the funds are calculated by the funds' independent custodian and are derived from the fair values of the underlying investments as of the reporting date. The funds allow for investor redemptions at the end of each calendar month. This investment has not been classified in the fair value hierarchy but is presented in the tables below to permit reconciliation to the amounts presented on the accompanying Consolidated Balance Sheets.

The valuation of the Company's Level 2 financial assets held by SIDCO and SPTC are based upon securities pricing policies and procedures utilized by third-party pricing vendors.

The pricing policies and procedures applied for our Level 1 and Level 2 financial assets during the six months ended June 30, 2018 were consistent with those as described in our Annual Report on Form 10-K at December 31, 2017. The Company had no Level 3 financial assets at June 30, 2018 or December 31, 2017 that were required to be measured at fair value on a recurring basis. The Company's Level 3 financial liabilities at June 30, 2018 consist entirely of the estimated contingent consideration of \$13,220 resulting from an acquisition (See Note 13). There was no material change in the fair value of the contingent consideration from the acquisition date through June 30, 2018. The Company had no Level 3 financial liabilities as of December 31, 2017 that were required to be measured at fair value on a recurring basis. There were no transfers of financial assets between levels within the fair value hierarchy during the six months ended June 30, 2018.

The fair value of certain financial assets of the Company was determined using the following inputs:

| <u>Assets</u>                              | June 30,<br>2018 | Fair Value Measurements<br>at the End of the<br>Reporting Period Using<br>Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) |            |
|--|------------------|---|------------|
|  |                  | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2)   |            |
| Equity available-for-sale securities       | \$ 11,042        | \$ 11,042   | \$ —       |
| Fixed-income available-for-sale securities | 77,977           | —   | 77,977     |
| Fixed-income securities owned              | 28,981           | —   | 28,981     |
| Investment funds sponsored by LSV (1)      | 5,739            |   |            |
|  | \$ 123,739       | \$ 11,042   | \$ 106,958 |

| <u>Assets</u> | December 31,<br>2017 | Fair Value<br>Measurements at the<br>End of the Reporting<br>Period Using<br>Quoted Prices |  |
|---------------|----------------------|--|--|
|               |                      | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2)                                  |  |
|               |                      |  |  |

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|  |           | for<br>Identical<br>Assets<br>(Level 1) |          |  |
|--|-----------|---|----------|--|
| Equity available-for-sale securities       | \$11,250  | \$11,250                                | \$—      |  |
| Fixed-income available-for-sale securities | 76,733    | —                                       | 76,733   |  |
| Fixed-income securities owned              | 21,526    | —                                       | 21,526   |  |
| Investment funds sponsored by LSV (1)      | 6,034     |   |          |  |
|  | \$115,543 | \$11,250                                | \$98,259 |  |

(1) The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the accompanying Consolidated Balance Sheets (See Note 6).

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**Note 6. Marketable Securities****Investments Available for Sale**

Investments available for sale classified as non-current assets consist of:

|                                 | At June 30, 2018     |                              |                                 |               |
|---------------------------------|----------------------|------------------------------|---------------------------------|---------------|
|                                 | Cost<br>Amount       | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value |
| SEI-sponsored mutual funds      | \$7,388              | \$ 96                        | \$(355 )                        | \$7,129       |
| Equities and other mutual funds | 3,461                | 452                          | —                               | 3,913         |
| Debt securities                 | 80,409               | —                            | (2,432 )                        | 77,977        |
|                                 | \$91,258             | \$ 548                       | \$(2,787 )                      | \$89,019      |
|                                 | At December 31, 2017 |                              |                                 |               |
|                                 | Cost<br>Amount       | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value |
| SEI-sponsored mutual funds      | \$7,369              | \$ 110                       | \$(143 )                        | \$7,336       |
| Equities and other mutual funds | 3,456                | 458                          | —                               | 3,914         |
| Debt securities                 | 77,745               | —                            | (1,012 )                        | 76,733        |
|                                 | \$88,570             | \$ 568                       | \$(1,155 )                      | \$87,983      |

The Company adopted ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) on January 1, 2018 which requires the Company to recognize all changes in fair value of available-for-sale equity securities in current period earnings. Previously, these changes in fair value were recognized as a separate component of comprehensive income. The adoption of ASU 2016-01 did not have a material impact to the Company's consolidated financial statements.

Net unrealized losses at June 30, 2018 and December 31, 2017 of the Company's available-for-sale debt securities were \$1,873 (net of income tax benefit of \$559) and \$779 (net of income tax benefit of \$233), respectively. These net unrealized losses are reported as a separate component of Accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets.

There were no material realized gains or losses from available-for-sale securities during the six months ended June 30, 2018 and 2017. Gains and losses from available-for-sale securities, including amounts reclassified from accumulated comprehensive loss, are reflected in Net (loss) gain from investments on the accompanying Consolidated Statements of Operations.

**Investments in Affiliated Funds**

The Company has an investment in funds sponsored by LSV. The Company records this investment on the accompanying Consolidated Balance Sheets at fair value. Unrealized gains and losses from the change in fair value of these funds are recognized in Net (loss) gain from investments on the accompanying Consolidated Statements of Operations.

The investment primarily consists of U.S. dollar denominated funds that invest primarily in securities of Canadian, Australian and Japanese companies as well as various other global securities. The underlying securities held by the funds are translated into U.S. dollars within the funds. The funds had a fair value of \$5,739 and \$6,034 at June 30, 2018 and December 31, 2017, respectively. The Company recognized gains of \$205 and \$194 during the three months ended June 30, 2018 and 2017, respectively, from the change in fair value of the funds. The Company recognized losses of \$295 and gains of \$492 during the six months ended June 30, 2018 and 2017, respectively, from the change in fair value of the funds.

**Securities Owned**

The Company's broker-dealer subsidiary, SIDCO, has investments in U.S. government agency securities with maturity dates less than one year. These investments are reflected as Securities owned on the accompanying Consolidated Balance Sheets. Due to specialized accounting practices applicable to investments by broker-dealers, the securities are reported at fair value and changes in fair value are recorded in current period earnings. The securities had a fair value

of \$28,981 and \$21,526 at June 30, 2018 and December 31, 2017, respectively. There were no material net gains or losses related to the securities during the three and six months ended June 30, 2018 and 2017.

**Note 7. Line of Credit**

The Company has a five-year \$300,000 Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association, and a syndicate of other lenders. The Credit Facility is scheduled to expire in June 2021, at which time any aggregate principal amount of loans outstanding becomes payable in full. Any borrowings made under the Credit Facility will accrue interest at rates that, at the Company's option, are based on a base rate (the Base Rate) plus a premium that can range from 0.25 percent to 1.00 percent or the London InterBank Offered Rate (LIBOR) plus a premium that can range from 1.25 percent to 2.00 percent depending on the Company's Leverage Ratio (a ratio of consolidated indebtedness to consolidated EBITDA for the four preceding fiscal quarters, all as defined in the related agreement). The Base Rate is defined as the highest of a) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 0.50 percent, b) the prime commercial lending rate of Wells Fargo, c) the applicable LIBOR plus 1.00 percent, or d) 0 percent. The Company also pays quarterly commitment fees based on the unused portion of the Credit Facility. The quarterly fees for the Credit Facility can range from 0.15 percent of the amount of the unused portion to 0.30 percent, depending on the Company's Leverage Ratio. Certain wholly-owned subsidiaries of the Company have guaranteed the obligations of the Company under the agreement. The aggregate amount of the Credit Facility may be increased by an additional \$100,000 under certain conditions set forth in the agreement.

The Credit Facility contains covenants that restrict the ability of the Company to engage in mergers, consolidations, asset sales, investments, transactions with affiliates, or to incur liens, as defined in the agreement. In the event of a default under the Credit Facility, the Company would also be restricted from paying dividends on, or repurchasing, its common stock without the approval of the lenders. None of the covenants of the Credit Facility negatively affect the Company's liquidity or capital resources. Upon the occurrence of certain financial or economic events, significant corporate events, or certain other events of default constituting an event of default under the Credit Facility, all loans outstanding may be declared immediately due and payable and all commitments under the agreement may be terminated.

In July 2017, the Company borrowed \$40,000 under the Credit Facility for the funding of an acquisition. In October 2017, the Company made a principal payment of \$10,000. During the six months ended June 30, 2018, the Company made additional principal payments of \$30,000 to fully repay the remaining outstanding balance of the Credit Facility. The Company was in compliance with all covenants of the Credit Facility during the six months ended June 30, 2018. As of July 16, 2018, the amount of the Credit Facility that is available for general corporate purposes was \$300,000.

**Note 8. Shareholders' Equity****Stock-Based Compensation**

The Company has only non-qualified stock options outstanding under its equity compensation plans. All outstanding stock options have performance-based vesting provisions specific to each option grant that tie the vesting of the applicable stock options to the Company's financial performance. The Company's stock options vest at a rate of 50 percent when a specified diluted earnings per share target is achieved, and the remaining 50 percent when a second, higher specified diluted earnings per share target is achieved. Options do not vest due to the passage of time but solely as a result of achievement of the financial vesting targets. Options granted in December 2017 include a service condition which requires a minimum two or four year waiting period from the grant date along with the attainment of the applicable financial vesting target. Earnings per share targets are established at time of grant and exclude the impact of stock-based compensation and, for earnings per share targets for the options granted in December 2017, also exclude income tax expense. The targets are measured annually on December 31. The amount of stock-based compensation expense recognized in the period is based upon management's estimate of when the earnings per share targets may be achieved. Any change in management's estimate could result in the remaining amount of stock-based compensation expense to be accelerated, spread out over a longer period, or reversed. This may cause volatility in the recognition of stock-based compensation expense in future periods and could materially affect the Company's earnings.

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the three and six months ended June 30, 2018 and 2017, respectively, as follows:

Six Months Ended June 30,

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|  | Three Months Ended |          |          |          |
|--|--------------------|----------|----------|----------|
|  | June 30,           |          |          |          |
|  | 2018               | 2017     | 2018     | 2017     |
| Stock-based compensation expense             | \$5,323            | \$6,259  | \$10,518 | \$12,439 |
| Less: Deferred tax benefit                   | (1,142 )           | (2,189 ) | (2,245 ) | (4,342 ) |
| Stock-based compensation expense, net of tax | \$4,181            | \$4,070  | \$8,273  | \$8,097  |

As of June 30, 2018, there was approximately \$54,314 of unrecognized compensation cost remaining related to unvested employee stock options that management expects will vest and is being amortized.

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The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the six months ended June 30, 2018 was \$111,031. The total options exercisable as of June 30, 2018 had an intrinsic value of \$271,157. The total intrinsic value for options exercisable is calculated as the difference between the market value of the Company's common stock as of June 30, 2018 and the weighted average exercise price of the shares. The market value of the Company's common stock as of June 30, 2018 was \$62.52 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of June 30, 2018 was \$29.36. Total options that were outstanding as of June 30, 2018 were 14,399,000. Total options that were exercisable as of June 30, 2018 were 8,178,000.

#### Common Stock Buyback

The Company's Board of Directors, under multiple authorizations, has authorized the repurchase of the Company's common stock on the open market or through private transactions. The Company purchased 2,751,000 shares at a total cost of \$186,900 during the six months ended June 30, 2018, which reduced the total shares outstanding of common stock. The cost of stock purchases during the period includes the cost of certain transactions that settled in the following quarter. As of June 30, 2018, the Company had approximately \$183,738 of authorization remaining for the purchase of common stock under the program.

The Company immediately retires its common stock when purchased. Upon retirement, the Company reduces Capital in excess of par value for the average capital per share outstanding and the remainder is charged against Retained earnings. If the Company reduces its Retained earnings to zero, any subsequent purchases of common stock will be charged entirely to Capital in excess of par value.

#### Cash Dividend

On May 30, 2018, the Board of Directors declared a cash dividend of \$0.30 per share on the Company's common stock, which was paid on June 22, 2018, to shareholders of record on June 14, 2018. Cash dividends declared during the six months ended June 30, 2018 and 2017 were \$47,139 and \$44,264, respectively.

#### **Note 9. Accumulated Other Comprehensive Loss**

The components of Accumulated other comprehensive loss, net of tax, are as follows:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Gains (Losses)<br>on Investments | Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|--|---|
| Balance, January 1, 2018                                       | \$(19,522 )                                       | \$ (386 )                                      | \$ (19,908 )                                  |
| Other comprehensive gain before reclassifications              | (6,826 )  | (1,325 )                                       | (8,151 )                                      |
| Amounts reclassified from accumulated other comprehensive loss | —   | (162 )   | (162 )  |
| Net current-period other comprehensive gain                    | (6,826 )  | (1,487 )                                       | (8,313 )                                      |
| Balance, June 30, 2018   | \$(26,348 )                                       | \$ (1,873 )                                    | \$ (28,221 )                                  |

#### **Note 10. Business Segment Information**

The Company's reportable business segments are:

Private Banks – provides outsourced investment processing and investment management platforms to banks and trust institutions, independent wealth advisers and financial advisers worldwide;

Investment Advisors – provides investment management and investment processing platforms to affluent investors through a network of independent registered investment advisors, financial planners and other investment professionals in the United States;

Institutional Investors – provides investment management and administrative outsourcing platforms to retirement plan sponsors, healthcare systems and not-for-profit organizations worldwide;

Investment Managers – provides investment operations outsourcing platforms to fund companies, banking institutions and both traditional and non-traditional investment managers worldwide; and



Investments in New Businesses – focuses on providing investment management programs to ultra-high-net-worth families residing in the United States; developing internet-based investment services and advice platforms; entering new markets; and conducting other research and development activities.

The information in the following tables is derived from the Company’s internal financial reporting used for corporate management purposes. There are no inter-segment revenues for the three and six months ended June 30, 2018 and 2017. Management evaluates Company assets on a consolidated basis during interim periods. The accounting policies of the reportable business segments are the same as those described in Note 1 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The following tables highlight certain financial information about each of the Company’s business segments for the three months ended June 30, 2018 and 2017.

|  | Private<br>Banks | Investment<br>Advisors | Institutional<br>Investors | Investment<br>Managers | Investments<br>In New<br>Businesses | Total     |
|--|------------------|------------------------|----------------------------|------------------------|-------------------------------------|-----------|
| For the Three Months Ended June 30, 2018 |                  |                        |                            |                        |                                     |           |
| Revenues                                 | \$121,126        | \$99,890               | \$83,434                   | \$97,566               | \$2,814                             | \$404,830 |
| Expenses                                 | 114,842          | 53,052                 | 40,871                     | 63,321                 | 5,940                               | 278,026   |
| Operating profit (loss)                  | \$6,284          | \$46,838               | \$42,563                   | \$34,245               | \$(3,126)                           | \$126,804 |

|  | Private<br>Banks | Investment<br>Advisors | Institutional<br>Investors | Investment<br>Managers | Investments<br>In New<br>Businesses | Total     |
|--|------------------|------------------------|----------------------------|------------------------|-------------------------------------|-----------|
| For the Three Months Ended June 30, 2017 |                  |                        |                            |                        |                                     |           |
| Revenues                                 | \$116,184        | \$92,746               | \$78,068                   | \$83,616               | \$1,717                             | \$372,331 |
| Expenses                                 | 112,353          | 49,380                 | 38,668                     | 53,847                 | 5,124                               | 259,372   |
| Operating profit (loss)                  | \$3,831          | \$43,366               | \$39,400                   | \$29,769               | \$(3,407)                           | \$112,959 |

A reconciliation of the total operating profit reported for the business segments to income from operations in the Consolidated Statements of Operations for the three months ended June 30, 2018 and 2017 is as follows:

|                                      | 2018      | 2017      |
|--------------------------------------|-----------|-----------|
| Total operating profit from segments | \$126,804 | \$112,959 |
| Corporate overhead expenses          | (16,514)  | (15,732)  |
| Income from operations               | \$110,290 | \$97,227  |

The following tables provide additional information for the three months ended June 30, 2018 and 2017 pertaining to our business segments:

|                               | Capital Expenditures (1) |          | Depreciation |         |
|-------------------------------|--------------------------|----------|--------------|---------|
|                               | 2018                     | 2017     | 2018         | 2017    |
| Private Banks                 | \$9,529                  | \$9,479  | \$3,323      | \$4,172 |
| Investment Advisors           | 4,284                    | 3,698    | 1,105        | 802     |
| Institutional Investors       | 997                      | 1,086    | 452          | 244     |
| Investment Managers           | 3,370                    | 8,665    | 1,806        | 1,028   |
| Investments in New Businesses | 240                      | 153      | 155          | 171     |
| Total from business segments  | \$18,420                 | \$23,081 | \$6,841      | \$6,417 |
| Corporate overhead            | 366                      | 392      | 297          | 182     |
|                               | \$18,786                 | \$23,473 | \$7,138      | \$6,599 |

(1) Capital expenditures include additions to property and equipment and capitalized software.

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|                               | Amortization |          |
|-------------------------------|--------------|----------|
|                               | 2018         | 2017     |
| Private Banks                 | \$6,747      | \$8,876  |
| Investment Advisors           | 2,401        | 2,897    |
| Institutional Investors       | 427          | 426      |
| Investment Managers           | 2,345        | 275      |
| Investments in New Businesses | 184          | 41       |
| Total from business segments  | \$12,104     | \$12,515 |
| Corporate overhead            | 57           | 50       |
|                               | \$12,161     | \$12,565 |

The following tables highlight certain financial information about each of the Company's business segments for the six months ended June 30, 2018 and 2017.

|  | Private Banks | Investment Advisors | Institutional Investors | Investment Managers | Investments In New Businesses | Total     |
|--|---------------|---------------------|-------------------------|---------------------|-------------------------------|-----------|
| For the Six Months Ended June 30, 2018 |               |                     |                         |                     |                               |           |
| Revenues                               | \$243,290     | \$199,082           | \$168,925               | \$194,421           | \$4,710                       | \$810,428 |
| Expenses                               | 227,044       | 105,505             | 82,120                  | 126,659             | 11,038                        | 552,366   |
| Operating profit (loss)                | \$16,246      | \$93,577            | \$86,805                | \$67,762            | \$(6,328)                     | \$258,062 |
|  | Private Banks | Investment Advisors | Institutional Investors | Investment Managers | Investments In New Businesses | Total     |
| For the Six Months Ended June 30, 2017 |               |                     |                         |                     |                               |           |
| Revenues                               | \$228,818     | \$180,984           | \$155,072               | \$164,103           | \$3,338                       | \$732,315 |
| Expenses                               | 220,903       | 96,919              | 77,496                  | 105,912             | 10,004                        | 511,234   |
| Operating profit (loss)                | \$7,915       | \$84,065            | \$77,576                | \$58,191            | \$(6,666)                     | \$221,081 |

A reconciliation of the total operating profit reported for the business segments to income from operations in the Consolidated Statements of Operations for the six months ended June 30, 2018 and 2017 is as follows:

|                                      | 2018      | 2017      |
|--------------------------------------|-----------|-----------|
| Total operating profit from segments | \$258,062 | \$221,081 |
| Corporate overhead expenses          | (31,456)  | (30,337)  |
| Income from operations               | \$226,606 | \$190,744 |

The following tables provide additional information for the six months ended June 30, 2018 and 2017 pertaining to our business segments:

|                               | Capital Expenditures (1) |          | Depreciation |          |
|-------------------------------|--------------------------|----------|--------------|----------|
|                               | 2018                     | 2017     | 2018         | 2017     |
| Private Banks                 | \$19,768                 | \$22,329 | \$6,642      | \$8,582  |
| Investment Advisors           | 8,544                    | 8,230    | 2,210        | 1,535    |
| Institutional Investors       | 1,964                    | 1,897    | 900          | 471      |
| Investment Managers           | 5,890                    | 10,280   | 3,615        | 1,944    |
| Investments in New Businesses | 444                      | 259      | 305          | 539      |
| Total from business segments  | \$36,610                 | \$42,995 | \$13,672     | \$13,071 |
| Corporate Overhead            | 674                      | 544      | 588          | 328      |
|                               | \$37,284                 | \$43,539 | \$14,260     | \$13,399 |



|                               | Amortization |          |
|-------------------------------|--------------|----------|
|                               | 2018         | 2017     |
| Private Banks                 | \$13,374     | \$17,339 |
| Investment Advisors           | 4,758        | 5,747    |
| Institutional Investors       | 854          | 749      |
| Investment Managers           | 4,690        | 491      |
| Investments in New Businesses | 224          | 160      |
| Total from business segments  | \$23,900     | \$24,486 |
| Corporate Overhead            | 115          | 101      |
|                               | \$24,015     | \$24,587 |

**Note 11. Income Taxes**

The gross liability for unrecognized tax benefits at June 30, 2018 and December 31, 2017 was \$15,167 and \$14,480, respectively, exclusive of interest and penalties, of which \$14,546 and \$13,737 would affect the effective tax rate if the Company were to recognize the tax benefit.

The Company classifies interest and penalties on unrecognized tax benefits as income tax expense. As of June 30, 2018 and December 31, 2017, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was \$1,379 and \$1,175, respectively.

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| Gross liability for unrecognized tax benefits, exclusive of interest and penalties | \$15,167         | \$14,480             |
| Interest and penalties on unrecognized benefits                                    | 1,379            | 1,175                |
| Total gross uncertain tax positions  | \$16,546         | \$15,655             |
| Amount included in Current liabilities   | \$2,944          | \$3,275              |
| Amount included in Other long-term liabilities                                     | 13,602           | 12,380               |
|  | \$16,546         | \$15,655             |

The Company's effective income tax rate for the three and six months ended June 30, 2018 and 2017 differs from the federal income tax statutory rate due to the following:

|   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|---|--------------------------------|--------|------------------------------|--------|
|   | 2018                           | 2017   | 2018                         | 2017   |
| Statutory rate                                | 21.0 %                         | 35.0 % | 21.0 %                       | 35.0 % |
| State taxes, net of federal tax benefit       | 2.3                            | 1.7    | 2.3                          | 1.7    |
| Foreign tax expense and tax rate differential | (0.1 )                         | (1.0 ) | (0.1 )                       | (1.0 ) |
| Tax benefit from stock option exercises       | (2.0 )                         | (3.0 ) | (6.5 )                       | (3.6 ) |
| Other, net                                    | (0.1 )                         | (0.6 ) | (0.2 )                       | (0.5 ) |
|   | 21.1 %                         | 32.1 % | 16.5 %                       | 31.6 % |

The decrease in the effective tax rates for the three and six months ended June 30, 2018 was primarily due to the tax changes enacted in the 2017 Tax Cut and Jobs Act (The Tax Act). The Tax Act was enacted on December 22, 2017 and included a permanent reduction in the corporate tax rate from 35.0 percent to 21.0 percent. The Company's effective tax rates were also positively impacted by the excess tax benefits recognized on stock-based compensation expense.

The Tax Act also imposed a territorial rather than worldwide system which requires a one-time transition tax on the repatriation of previously deferred foreign earnings. The Company's estimate of the one-time transition tax as of June 30, 2018 was \$11,544. The Company made a payment of \$1,000 during the six months ended June 30, 2018. Of the remaining amount payable related to the transition tax, \$915 is expected to be paid within one year and \$9,629 is included in Long-term income taxes payable on the accompanying Consolidated Balance Sheet.

The Company files income tax returns in the United States on a consolidated basis and in many U.S. state and foreign jurisdictions. The Company is subject to examination of income tax returns by the Internal Revenue Service (IRS) and other domestic and foreign tax authorities. The Company is no longer subject to U.S. federal income tax examination for years before 2014 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2013.

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The Company estimates it will recognize \$2,944 of gross unrecognized tax benefits. This amount is expected to be paid within one year or to be removed at the expiration of the statute of limitations and resolution of income tax audits and is netted against the current payable account. These unrecognized tax benefits are related to tax positions taken on certain federal, state, and foreign tax returns. However, the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. While it is reasonably possible that some issues under examination could be resolved in the next twelve months, based upon the current facts and circumstances, the Company cannot reasonably estimate the timing of such resolution or the total range of potential changes as it relates to the current unrecognized tax benefits that are recorded as part of the Company's financial statements.

**Note 12. Commitments and Contingencies**

In the normal course of business, the Company is party to various claims and legal proceedings.

SEI has been named in seven lawsuits filed in Louisiana courts; four of the cases also name SPTC as a defendant. The underlying allegations in all actions relate to the purported role of SPTC in providing back-office services to Stanford Trust Company. The complaints allege that SEI and SPTC participated in some manner in the sale of "certificates of deposit" issued by Stanford International Bank so as to be a "seller" of the certificates of deposit for purposes of primary liability under the Louisiana Securities Law or so as to be secondarily liable under that statute for sales of certificates of deposit made by Stanford Trust Company. Two of the actions also include claims for violations of the Louisiana Racketeering Act and possibly conspiracy, and a third also asserts claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Racketeering Act, and conspiracy.

The procedural status of the seven cases varies. The *Lillie* case, filed originally in the 19th Judicial District Court for the Parish of East Baton Rouge, was brought as a class action and is procedurally the most advanced of the cases. SEI and SPTC filed exceptions, which the Court granted in part, dismissing claims under the Louisiana Unfair Trade Practices Act and permitting the claims under the Louisiana Securities Law to go forward. On March 11, 2013, newly-added insurance carrier defendants removed the case to the United States District Court for the Middle District of Louisiana. On August 7, 2013, the Judicial Panel on Multidistrict Litigation transferred the matter to the Northern District of Texas where MDL 2099, *In re: Stanford Entities Securities Litigation* ("the Stanford MDL"), is pending. On September 22, 2015, the District Court on the motion of SEI and SPTC dismissed plaintiffs' claims for primary liability under Section 714(A) of the Louisiana Securities Law, but declined to dismiss plaintiffs' claims for secondary liability under Section 714(B) of the Louisiana Securities Law based on the allegations pled by plaintiffs. On November 4, 2015, the District Court granted SEI and SPTC's motion to dismiss plaintiffs' claims under Section 712(D) of the Louisiana Securities Law. Consequently, the only claims of plaintiffs still pending before the District Court in *Lillie* are plaintiffs' claims for secondary liability against SEI and SPTC under Section 714(B) of the Louisiana Securities Law. On May 2, 2016, the District Court certified the class as being "all persons for whom Stanford Trust Company purchased or renewed Stanford Investment Bank Limited certificates of deposit in Louisiana between January 1, 2007 and February 13, 2009". Notice of the pendency of the class action was mailed to potential class members on October 4, 2016.

On December 1, 2016, a group of plaintiffs who opted out of the *Lillie* class filed a complaint against SEI and SPTC in the United States District Court in the Middle District of Louisiana, alleging claims essentially the same as those in *Lillie*. In January 2017, the Judicial Panel on Multidistrict Litigation transferred the proceeding to the Northern District of Texas and the Stanford MDL. During February 2017, SEI filed its response to the Complaint and in March 2017 the District Court for the Northern District of Texas approved the stipulated dismissal of all claims in this complaint predicated on Section 712(D) or Section 714(A) of the Louisiana Securities Law.

Another one of the cases, filed in the 23rd Judicial District Court for the Parish of Ascension, also was removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas and the Stanford MDL. The schedule for responding to that Complaint has not yet been established.

The plaintiffs in two of the cases remaining in the Parish of East Baton Rouge have granted SEI and SPTC indefinite extensions to respond to the petitions.



In the two additional cases, filed in East Baton Rouge and brought by the same counsel who filed the *Lillie* action, virtually all of the litigation to date has involved motions practice and appellate litigation regarding the existence of federal subject matter jurisdiction under the federal Securities Litigation Uniform Standards Act (SLUSA). After the matter was removed to the United States District Court for the Northern District of Texas, that court dismissed the action under SLUSA. The Court of Appeals for the Fifth Circuit reversed that order, and the Supreme Court of the United States affirmed the Court of Appeals judgment on February 26, 2014. The matter was remanded to state court and no material activity has taken place since that date.

While the outcome of this litigation remains uncertain, SEI and SPTC believe that they have valid defenses to plaintiffs'

claims and intend to defend the lawsuits vigorously. Because of uncertainty in the make-up of the *Lillie* class, the specific theories of liability that may survive a motion for summary judgment or other dispositive motion, the relative lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

**Note 13. Business Acquisition**

On April 2, 2018, the Company acquired all ownership interests of Huntington Steele, LLC (Huntington Steele), a registered investment advisor based in Seattle, Washington servicing the ultra-high-net-worth market, to enhance the Company's business development and research efforts in an additional geographic region. Under the acquisition method of accounting, the total purchase price was preliminarily allocated to Huntington Steele's net tangible and intangible assets based upon their estimated fair values as of April 2, 2018 based on management's best estimates and assumptions as of the reporting date and are considered preliminary pending finalization of valuation analyses pertaining to the intangible assets acquired and the contingent consideration. The total estimated purchase price for Huntington Steele is \$19,014, which includes \$5,794 in cash consideration, net of \$125 in cash acquired, and an estimated contingent purchase price of \$13,220. The contingent purchase price consists of amounts payable to the sellers upon the attainment of specified financial measures determined at various intervals over the next five years. The current portion of the contingent purchase price is included in Accrued liabilities on the accompanying Balance Sheet. The long-term portion of the contingent consideration is included in Other long-term liabilities on the accompanying Balance Sheet.

The results of operations of Huntington Steele, as well as all tangible and intangible assets resulting from the transaction, are included in the Investments in New Businesses segment. Amortization expense related to the intangible assets acquired was \$144 during the period ended June 30, 2018. Any goodwill generated from the acquisition is fully deductible for income tax purposes.

Pro forma information has not been presented because the effect of the Huntington Steele acquisition is not material to the Company's consolidated financial results.

**Note 14. Goodwill and Intangible Assets**

On April 2, 2018, the Company acquired all ownership interests of Huntington Steele (See Note 13). The excess purchase price over the value of the identifiable intangible assets was preliminarily allocated to goodwill and is included on the accompanying Consolidated Balance Sheet.

In July 2017, the Company acquired all ownership interests of Archway Technology Partners, LLC, Archway Finance & Operations, Inc. and Keystone Capital Holdings, LLC (collectively, Archway), a provider of operating technologies and services to the family office industry. The total purchase price was allocated to Archway's net tangible and intangible assets based upon their estimated fair values at the date of purchase. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill. The total amount of goodwill from this transaction amounted to \$52,990 and is included on the accompanying Consolidated Balance Sheets.

The change in the gross carrying amount of the Company's goodwill and intangible assets during the six months ended June 30, 2018 was due to the acquisition of Huntington Steele. The Company recognized \$1,696 of amortization expense related to the intangible assets acquired from Archway and Huntington Steele during the six months ended June 30, 2018.

**Note 15. Revenues from Contracts with Customers**

The Company's principal sources of revenues are: (1) asset management, administration and distribution fees primarily earned based upon a contractual percentage of net assets under management or administration; and (2) information processing and software servicing fees that are either recurring and primarily earned based upon the number of trust accounts being serviced or a percentage of the total average daily market value of the clients' assets processed on the Company's platforms, or non-recurring and based upon project-oriented contractual agreements related to client implementations.

Disaggregation of Revenue

The following tables provide additional information pertaining to our revenues disaggregated by major product line and primary geographic market based on the location of the use of the products or services for each of the Company's business segments for the three and six months ended June 30, 2018:

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|  | Private<br>Banks | Investment<br>Advisors | Institutional<br>Investors | Investment<br>Managers | Investments<br>In New<br>Businesses | Total     |
|--|------------------|------------------------|----------------------------|------------------------|-------------------------------------|-----------|
| <b>Major Product Lines:</b>                                      |                  |                        |                            |                        |                                     |           |
| For the Three Months Ended June 30, 2018                         |                  |                        |                            |                        |                                     |           |
| Investment management fees from pooled investment products       | \$35,164         | \$72,481               | \$15,347                   | \$239                  | \$237                               | \$123,468 |
| Investment management fees from investment management agreements | 214              | 23,389                 | 67,608                     | 80                     | 2,549                               | 93,840    |
| Investment operations fees                                       | 375              | —                      | —                          | 88,311                 | —                                   | 88,686    |
| Investment processing fees - PaaS                                | 43,915           | —                      | —                          | 642                    | —                                   | 44,557    |
| Investment processing fees - SaaS                                | 35,453           | —                      | —                          | 2,370                  | —                                   | 37,823    |
| Professional services fees                                       | 4,195            | —                      | —                          | 1,981                  | —                                   | 6,176     |
| Account fees and other   | 1,810            | 4,020                  | 479                        | 3,943                  | 28                                  | 10,280    |
| Total revenues   | \$121,126        | \$99,890               | \$83,434                   | \$97,566               | \$2,814                             | \$404,830 |

**Primary Geographic Markets:**

|                |           |          |          |          |         |           |
|----------------|-----------|----------|----------|----------|---------|-----------|
| United States  | \$75,669  | \$99,890 | \$64,048 | \$92,845 | \$2,814 | \$335,266 |
| United Kingdom | 29,005    | —        | 13,894   | —        | —       | 42,899    |
| Canada         | 11,516    | —        | 2,134    | —        | —       | 13,650    |
| Ireland        | 4,936     | —        | 3,027    | 4,721    | —       | 12,684    |
| Other          | —         | —        | 331      | —        | —       | 331       |
| Total revenues | \$121,126 | \$99,890 | \$83,434 | \$97,566 | \$2,814 | \$404,830 |

|  | Private<br>Banks | Investment<br>Advisors | Institutional<br>Investors | Investment<br>Managers | Investments<br>In New<br>Businesses | Total     |
|--|------------------|------------------------|----------------------------|------------------------|-------------------------------------|-----------|
| <b>Major Product Lines:</b>                                      |                  |                        |                            |                        |                                     |           |
| For the Six Months Ended June 30, 2018                           |                  |                        |                            |                        |                                     |           |
| Investment management fees from pooled investment products       | \$70,354         | \$144,899              | \$31,205                   | \$239                  | \$462                               | \$247,159 |
| Investment management fees from investment management agreements | 412              | 46,153                 | 136,884                    | 163                    | 4,183                               | 187,795   |
| Investment operations fees                                       | 757              | —                      | —                          | 175,766                | —                                   | 176,523   |
| Investment processing fees - PaaS                                | 88,500           | —                      | —                          | 1,125                  | —                                   | 89,625    |
| Investment processing fees - SaaS                                | 70,055           | —                      | —                          | 4,735                  | —                                   | 74,790    |
| Professional services fees                                       | 9,614            | —                      | —                          | 3,868                  | —                                   | 13,482    |
| Account fees and other   | 3,598            | 8,030                  | 836                        | 8,525                  | 65                                  | 21,054    |
| Total revenues   | \$243,290        | \$199,082              | \$168,925                  | \$194,421              | \$4,710                             | \$810,428 |

**Primary Geographic Markets:**

|                |           |           |           |           |         |           |
|----------------|-----------|-----------|-----------|-----------|---------|-----------|
| United States  | \$153,802 | \$199,082 | \$128,816 | \$184,604 | \$4,710 | \$671,014 |
| United Kingdom | 56,530    | —         | 28,681    | —         | —       | 85,211    |
| Canada         | 23,117    | —         | 4,805     | —         | —       | 27,922    |
| Ireland        | 9,841     | —         | 5,454     | 9,817     | —       | 25,112    |
| Other          | —         | —         | 1,169     | —         | —       | 1,169     |
| Total revenues | \$243,290 | \$199,082 | \$168,925 | \$194,421 | \$4,710 | \$810,428 |

*Investment management fees from pooled investment products* - Revenues associated with clients' assets invested in Company-sponsored pooled investment products. Contractual fees are stated as a percentage of the average market value of assets under management and collected on a monthly basis. Revenues are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.



*Investment management fees from Investment Management agreements* - Revenues based on assets of clients of the Institutional Investors segment primarily invested in Company-sponsored products. Each client is charged an investment management fee that is stated as a percentage of the average market value of all assets under management. The client is billed directly on a quarterly basis. Revenues are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

Revenues associated with the separately managed account program offered through registered investment advisors located throughout the United States. The contractual fee is stated as a percentage of the average market value of all assets invested in the separately managed account and collected on a quarterly basis. Revenues are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

*Investment operations fees* - Revenues earned from accounting and administrative services, distribution support services and regulatory and compliance services to investment management firms and family offices. The Company contracts directly with the investment management firm or family office. The contractual fees are stated as a percentage of net assets under administration and billed when asset valuations are finalized. Revenues are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

*Investment Processing fees - Software as a Service* - Revenues associated with clients that outsource investment processing technology software and computer processing by accessing our proprietary software and data center remotely but retain responsibility for all investment operations, client administration and other back-office trust operations. The contractual fee is based on a monthly fee plus additional fees determined on a per-account or per-transaction basis. The client is billed directly on a monthly basis. Revenues are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations.

*Investment Processing fees - Platform as a Service* - Revenues associated with clients that outsource their entire investment operation and back-office processing functions. Through the use of the Company's proprietary platforms, the Company assumes all back-office investment processing services including investment processing, custody and safekeeping of assets, income collections, securities settlement and other related trust activities. The contractual fee is based on a monthly fee plus additional fees determined on a per-account or per-transaction basis. Contractual fees can also be stated as a percentage of the value of assets processed on the Company's platforms each month as long as the fee is in excess of a monthly contractual minimum. The client is billed directly on a monthly basis. Revenues are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations.

*Professional Services* - Revenues associated with the business services migration for investment processing clients of the Private Banks segment and investment operations clients of the Investment Managers segment. In addition, Professional services include other services such as business transformation consulting. Typically, fees are stated as a contractual fixed fee. The client is billed directly and fees are collected according to the terms of the agreement.

*Other* - Revenues associated with custody account servicing, account terminations, reimbursements received for out-of-pocket expenses, and other fees for the provision of ancillary services.

Revenue is recognized by the Company when the performance obligations are satisfied and transfer of control to the client is completed. The majority of the Company's performance obligations are satisfied and control is transferred to the client continuously. Therefore, revenue is recognized on a monthly basis. The amount of revenue recognized reflects the amount of consideration expected to be received by the Company in exchange for satisfied performance obligations.

#### Deferred Contract Costs

Deferred contract costs, which primarily consist of deferred sales commissions, were \$21,521 as of June 30, 2018. The Company deferred expenses related to contract costs of \$2,267 and \$4,083 during the three and six months ended June 30, 2018, respectively. Amortization expense related to deferred contract costs were \$619 and \$1,201 during the three and six months ended June 30, 2018, respectively. There was no impairment loss in relation to deferred contract costs during the six months ended June 30, 2018.



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

(In thousands, except asset balances and per share data)

This discussion reviews and analyzes the consolidated financial condition, the consolidated results of operations and other key factors that may affect future performance. This discussion should be read in conjunction with the Consolidated Financial Statements, the Notes to the Consolidated Financial Statements and the Annual Report on Form 10-K for the year ended December 31, 2017.

**Overview***Consolidated Summary*

We are a leading global provider of investment processing, investment management and investment operations platforms. We help corporations, financial institutions, financial advisors and ultra-high-net-worth families create and manage wealth by providing comprehensive, innovative, investment and investment-business platforms. Investment processing fees are earned as monthly fees for contracted services, including computer processing services, software licenses and investment operations services, as well as transaction-based fees for providing securities valuation and trade-execution. Investment operations and investment management fees are earned as a percentage of average assets under management, administration or advised assets. As of June 30, 2018, through our subsidiaries and partnerships in which we have a significant interest, we manage, advise or administer \$881.6 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including \$331.1 billion in assets under management and \$545.1 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages \$106.5 billion of assets which are included as assets under management.

Our Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017 were:

|  | Three Months Ended June 30, |           |       | Percent Change* | Six Months Ended June 30, |       |                 |
|--|-----------------------------|-----------|-------|-----------------|---------------------------|-------|-----------------|
|  | 2018                        | 2017      |       |                 | 2018                      | 2017  | Percent Change* |
| Revenues   | \$404,830                   | \$372,331 | 9%    | \$810,428       | \$732,315                 | 11%   |                 |
| Expenses   | 294,540                     | 275,104   | 7%    | 583,822         | 541,571                   | 8%    |                 |
| Income from operations                           | 110,290                     | 97,227    | 13%   | 226,606         | 190,744                   | 19%   |                 |
| Net (loss) gain from investments                 | (139 )                      | 44        | NM    | (549 )          | 391                       | NM    |                 |
| Interest income, net of interest expense         | 3,030                       | 1,572     | 93%   | 5,275           | 2,803                     | 88%   |                 |
| Equity in earnings from unconsolidated affiliate | 41,073                      | 36,315    | 13%   | 81,680          | 69,880                    | 17%   |                 |
| Income before income taxes                       | 154,254                     | 135,158   | 14%   | 313,012         | 263,818                   | 19%   |                 |
| Income taxes                                     | 32,577                      | 43,389    | (25)% | 51,497          | 83,312                    | (38)% |                 |
| Net income                                       | 121,677                     | 91,769    | 33%   | 261,515         | 180,506                   | 45%   |                 |
| Diluted earnings per common share                | \$0.75                      | \$0.57    | 32%   | \$1.61          | \$1.11                    | 45%   |                 |

\* Variances noted "NM" indicate the percent change is not meaningful.

The following items had a significant impact on our financial results for the three and six months ended June 30, 2018 and 2017:

Revenue growth was primarily driven by higher Asset management, administration and distribution fees from market appreciation and positive cash flows from new and existing clients. Our average assets under management, excluding LSV, increased \$25.0 billion, or 12 percent, to \$230.3 billion in the first six months of 2018 as compared to \$205.3 billion during the first six months of 2017. Our average assets under administration increased \$54.9 billion, or 11 percent, to \$537.8 billion in the first six months of 2018 as compared to \$482.9 billion during the first six months of 2017.

Information processing and software servicing fees in our Private Banks segment increased \$9.7 million during the first six months of 2018 primarily due to increased assets from new and existing clients processed on the SEI Wealth Platform.

Revenues from our acquisition of SEI Archway were \$11.1 million during the first six months of 2018. SEI Archway was acquired during the third quarter 2017 and is reported in our Investment Managers segment.



Our proportionate share in the earnings of LSV increased to \$81.7 million in the first six months of 2018 as compared to \$69.9 million in the first six months of 2017 primarily due to increased assets under management from LSV's existing clients due to market appreciation and cash inflows from new clients.

Our operating expenses, primarily personnel costs, increased across all of our business segments. These expenses primarily consist of operational, technology and marketing costs and are mainly related to servicing existing clients

and acquiring new clients. In addition, our Investment Managers segment includes personnel costs related to SEI Archway. These operating expenses are included in Compensation, benefits and other personnel costs on the accompanying Consolidated Statements of Operations.

The direct costs associated with our investment management programs increased in our Private Banks, Investment Advisors and Institutional Investors segments. These costs primarily relate to fees charged by investment advisory firms for day-to-day portfolio management of SEI-sponsored investment products. These costs are included in Sub-advisory, distribution and other asset management costs on the accompanying Consolidated Statements of Operations.

We capitalized \$23.8 million in the first six months of 2018 for the SEI Wealth Platform as compared to \$28.0 million in the first six months of 2017. Amortization expense related to the Platform decreased to \$19.6 million during the first six months of 2018 as compared to \$24.5 million during the first six months of 2017 due to the adjustment to the estimated useful life of the Platform effective in the fourth quarter 2017.

During the first six months of 2018, we placed into service an application developed for the Investment Managers segment. This new offering includes components that leverage upon the current infrastructure and add significant enhancements designed to aggregate, transact and process data. Amortization expense related to the application was \$2.6 million during the first six months of 2018.

As we continue the development of new elements of the Platform, our expenses related to maintenance and support have increased. These costs are primarily recognized in personnel and consulting costs and are not eligible for capitalization. These increased costs primarily impacted the Private Banks and Investment Advisors business segments.

Our effective tax rate during the second quarter of 2018 was 21.1 percent as compared to 32.1 percent during the second quarter of 2017. Our effective tax rate was 16.5 percent during the first six months of 2018 as compared to 31.6 percent during the first six months of 2017. The decline in our effective tax rate was primarily due to the tax changes enacted in the 2017 Tax Cut and Jobs Act (The Tax Act). In addition, the rate for both periods were favorably impacted by tax benefits from stock option exercise activity (See the caption "Income Taxes" later in this discussion for more information).

We continued our stock repurchase program during 2018 and purchased 2.8 million shares for \$186.9 million in the six month period.

#### *Impact of Adopting Revenue Recognition Guidance*

On January 1, 2018, we adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (Accounting Standards Codification 606 (ASC 606)), which provides accounting guidance on the recognition of revenues from contracts with customers and impacts the presentation of certain revenues and expenses in our consolidated financial statements. ASC 606 is applied prospectively from January 1, 2018 and reported financial results from the prior comparable period have not been revised.

ASC 606 did not change the accounting for the majority of our revenue arrangements and did not have a material impact to our consolidated financial statements. The impact from the adoption of ASC 606 to our financial results during the three and six months ended June 30, 2018 is primarily related to research services provided to customers in soft-dollar arrangements by SIDCO, our broker-dealer subsidiary, and the deferral of incremental contract acquisition costs. Under the new revenue standard, fees received for research services by SIDCO are recorded net of amounts paid for the soft dollar arrangement. The amounts we paid under these arrangements were previously recorded as an expense. The impact of this change in presentation was a decline in both revenues and expenses of \$3.3 million and \$7.2 million during the three and six months ended June 30, 2018, respectively. There was no impact to our net income as a result of this change. Also under the new revenue standard, costs incurred to acquire client contracts are deferred and recognized over the expected client life. During the three and six months ended June 30, 2018, we deferred \$2.3 million and \$4.1 million, respectively, in expenses related to contract acquisition costs (See Note 1 to the Notes to Consolidated Financial Statements).



**Ending Asset Balances**

(In millions)

|  | As of June 30, |           | Percent Change |
|--|----------------|-----------|----------------|
|  | 2018           | 2017      |                |
| <b>Private Banks:</b>  |                |           |                |
| Equity and fixed-income programs                             | \$22,448       | \$20,185  | 11%            |
| Collective trust fund programs                               | 4              | 4         | —%             |
| Liquidity funds  | 3,471          | 3,589     | (3)%           |
| Total assets under management                                | \$25,923       | \$23,778  | 9%             |
| Client assets under administration                           | 22,435         | 20,951    | 7%             |
| Total assets   | \$48,358       | \$44,729  | 8%             |
| <b>Investment Advisors:</b>                                  |                |           |                |
| Equity and fixed-income programs                             | 62,227         | 57,358    | 8%             |
| Collective trust fund programs                               | 5              | 5         | —%             |
| Liquidity funds  | 3,101          | 2,451     | 27%            |
| Total assets under management                                | \$65,333       | \$59,814  | 9%             |
| <b>Institutional Investors:</b>                              |                |           |                |
| Equity and fixed-income programs                             | 83,687         | 81,723    | 2%             |
| Collective trust fund programs                               | 73             | 80        | (9)%           |
| Liquidity funds  | 2,594          | 2,468     | 5%             |
| Total assets under management                                | \$86,354       | \$84,271  | 2%             |
| Advised assets   | 4,544          | 4,255     | 7%             |
| Total assets   | 90,898         | 88,526    | 3%             |
| <b>Investment Managers:</b>                                  |                |           |                |
| Equity and fixed-income programs                             | 95             | 92        | 3%             |
| Collective trust fund programs                               | 45,213         | 42,662    | 6%             |
| Liquidity funds  | 496            | 999       | (50)%          |
| Total assets under management                                | \$45,804       | \$43,753  | 5%             |
| Client assets under administration (A)                       | 522,700        | 476,543   | 10%            |
| Total assets   | \$568,504      | \$520,296 | 9%             |
| <b>Investments in New Businesses:</b>                        |                |           |                |
| Equity and fixed-income programs                             | 1,120          | 997       | 12%            |
| Liquidity funds  | 106            | 46        | 130%           |
| Total assets under management                                | \$1,226        | \$1,043   | 18%            |
| Advised assets (B)   | 807            | 69        | NM             |
| Total assets   | 2,033          | 1,112     | 83%            |
| <b>LSV:</b>  |                |           |                |
| Equity and fixed-income programs (C)                         | \$106,505      | \$95,700  | 11%            |
| <b>Total:</b>  |                |           |                |
| Equity and fixed-income programs (D)                         | 276,082        | 256,055   | 8%             |
| Collective trust fund programs                               | 45,295         | 42,751    | 6%             |
| Liquidity funds  | 9,768          | 9,553     | 2%             |
| Total assets under management                                | \$331,145      | \$308,359 | 7%             |
| Advised assets   | 5,351          | 4,324     | 24%            |
| Client assets under administration (E)                       | 545,135        | 497,494   | 10%            |
| Total assets under management, advisement and administration | \$881,631      | \$810,177 | 9%             |



Client assets under administration in the Investment Managers segment include \$42.7 billion of assets that require limited services and therefore are at fee levels below our normal full service assets (as of June 30, 2018). In addition, these assets as of June 30, 2018 also include approximately \$14.2 billion administered by SEI Archway that were not included in prior periods.

Advised assets in the Investments in New Businesses segment as of June 30, 2018 include assets of approximately \$800 million from the acquisition of Huntington Steele (See Note 13 to the Notes to Consolidated Financial Statements).

Equity and fixed-income programs include assets managed by LSV in which fees are based on performance only. A portion of these assets were not included in prior period reported assets. The ending asset balance for LSV as of June 30, 2017 was revised from \$94.8 billion to include managed assets in which fees are based on performance only. The ending value of these assets as of June 30, 2018 and 2017 was \$2.3 billion and \$2.0 billion, respectively.

Equity and fixed-income programs include \$5.7 billion of assets invested in asset allocation funds at June 30, 2018.

In addition to the numbers presented, SEI also administers an additional \$11.6 billion in Funds of Funds assets (as of June 30, 2018) on which SEI does not earn an administration fee.

**Average Asset Balances**

(In millions)

|  | Three Months Ended June 30, |           |                | Six Months Ended June 30, |           |                |
|--|-----------------------------|-----------|----------------|---------------------------|-----------|----------------|
|  | 2018                        | 2017      | Percent Change | 2018                      | 2017      | Percent Change |
| <b>Private Banks:</b>  |                             |           |                |                           |           |                |
| Equity and fixed-income programs                             | \$22,870                    | \$19,610  | 17%            | \$23,141                  | \$19,054  | 21%            |
| Collective trust fund programs                               | 4                           | 5         | (20)%          | 4                         | 5         | (20)%          |
| Liquidity funds  | 3,516                       | 3,677     | (4)%           | 3,618                     | 3,864     | (6)%           |
| Total assets under management                                | \$26,390                    | \$23,292  | 13%            | \$26,763                  | \$22,923  | 17%            |
| Client assets under administration                           | 22,605                      | 21,166    | 7%             | 23,002                    | 20,695    | 11%            |
| Total assets   | \$48,995                    | \$44,458  | 10%            | \$49,765                  | \$43,618  | 14%            |
| <b>Investment Advisors:</b>                                  |                             |           |                |                           |           |                |
| Equity and fixed-income programs                             | 62,890                      | 56,319    | 12%            | 62,770                    | 55,383    | 13%            |
| Collective trust fund programs                               | 5                           | 5         | —%             | 5                         | 5         | —%             |
| Liquidity funds  | 2,429                       | 2,390     | 2%             | 2,360                     | 2,475     | (5)%           |
| Total assets under management                                | \$65,324                    | \$58,714  | 11%            | \$65,135                  | \$57,863  | 13%            |
| <b>Institutional Investors:</b>                              |                             |           |                |                           |           |                |
| Equity and fixed-income programs                             | 85,045                      | 80,561    | 6%             | 86,126                    | 79,207    | 9%             |
| Collective trust fund programs                               | 72                          | 85        | (15)%          | 75                        | 88        | (15)%          |
| Liquidity funds  | 2,621                       | 2,861     | (8)%           | 2,763                     | 2,876     | (4)%           |
| Total assets under management                                | \$87,738                    | \$83,507  | 5%             | \$88,964                  | \$82,171  | 8%             |
| Advised assets   | 4,301                       | 3,687     | 17%            | 4,342                     | 3,406     | 27%            |
| Total assets   | 92,039                      | 87,194    | 6%             | 93,306                    | 85,577    | 9%             |
| <b>Investment Managers:</b>                                  |                             |           |                |                           |           |                |
| Equity and fixed-income programs                             | 109                         | 84        | 30%            | 103                       | 80        | 29%            |
| Collective trust fund programs                               | 45,646                      | 41,615    | 10%            | 47,445                    | 40,348    | 18%            |
| Liquidity funds  | 649                         | 937       | (31)%          | 742                       | 899       | (17)%          |
| Total assets under management                                | \$46,404                    | \$42,636  | 9%             | \$48,290                  | \$41,327  | 17%            |
| Client assets under administration (A)                       | 522,679                     | 470,701   | 11%            | 514,815                   | 462,234   | 11%            |
| Total assets   | \$569,083                   | \$513,337 | 11%            | \$563,105                 | \$503,561 | 12%            |
| <b>Investments in New Businesses:</b>                        |                             |           |                |                           |           |                |
| Equity and fixed-income programs                             | 1,090                       | 954       | 14%            | 1,098                     | 932       | 18%            |
| Liquidity funds  | 95                          | 64        | 48%            | 83                        | 64        | 30%            |
| Total assets under management                                | \$1,185                     | \$1,018   | 16%            | \$1,181                   | \$996     | 19%            |
| Advised assets (B)   | 813                         | 73        | NM             | 432                       | 78        | NM             |
| Total assets   | 1,998                       | 1,091     | 83%            | 1,613                     | 1,074     | 50%            |
| <b>LSV:</b>  |                             |           |                |                           |           |                |
| Equity and fixed-income programs (C)                         | \$108,380                   | \$94,010  | 15%            | \$109,142                 | \$92,580  | 18%            |
| <b>Total:</b>  |                             |           |                |                           |           |                |
| Equity and fixed-income programs                             | 280,384                     | 251,538   | 11%            | 282,380                   | 247,236   | 14%            |
| Collective trust fund programs                               | 45,727                      | 41,710    | 10%            | 47,529                    | 40,446    | 18%            |
| Liquidity funds  | 9,310                       | 9,929     | (6)%           | 9,566                     | 10,178    | (6)%           |
| Total assets under management                                | \$335,421                   | \$303,177 | 11%            | \$339,475                 | \$297,860 | 14%            |
| Advised assets   | 5,114                       | 3,760     | 36%            | 4,774                     | 3,484     | 37%            |
| Client assets under administration                           | 545,284                     | 491,867   | 11%            | 537,817                   | 482,929   | 11%            |
| Total assets under management, advisement and administration | \$885,819                   | \$798,804 | 11%            | \$882,066                 | \$784,273 | 12%            |





(A) Client assets under administration in the Investment Managers segment in the second quarter 2018 include approximately \$13.9 billion of average asset balances administered by SEI Archway that were not included in prior periods.

(B) Advised assets in the Investments in New Businesses segment for the three and six months ended June 30, 2018 include assets from the acquisition of Huntington Steele (See Note 13 to the Notes to Consolidated Financial Statements).

(C) Equity and fixed-income programs include assets managed by LSV in which fees are based on performance only. A portion of these assets were not included in prior period reported assets. The average asset balances for LSV for the three and six months ended June 30, 2017 were revised from \$93.1 billion and \$91.7 billion, respectively, to include managed assets in which fees are based on performance only. The average value of these assets for the three months ended June 30, 2018 and 2017 was \$2.3 billion and \$2.0 billion, respectively. The average value of these assets for the six months ended June 30, 2018 and 2017 was \$2.3 billion and \$1.9 billion, respectively.

In the preceding tables, assets under management are total assets of our clients or their customers invested in our equity and fixed-income investment programs, collective trust fund programs, and liquidity funds for which we provide asset management services through our subsidiaries and partnerships in which we have a significant interest. Advised assets include assets for which we provide advisory services through a subsidiary to the accounts but do not manage the underlying assets. Assets under administration include total assets of our clients or their customers for which we provide administrative services, including client fund balances for which we provide administration and/or distribution services through our subsidiaries and partnerships in which we have a significant interest. The assets presented in the preceding tables do not include assets processed on the SEI Wealth Platform and are not included in the accompanying Consolidated Balance Sheets because we do not own them.

### **Business Segments**

Revenues, Expenses and Operating Profit (Loss) for our business segments for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 were as follows:

|                                       | Three Months Ended June 30, |            | Percent | Six Months Ended June 30, |            | Percent |
|---------------------------------------|-----------------------------|------------|---------|---------------------------|------------|---------|
|                                       | 2018                        | 2017       | Change  | 2018                      | 2017       | Change  |
| <b>Private Banks:</b>                 |                             |            |         |                           |            |         |
| Revenues                              | \$ 121,126                  | \$ 116,184 | 4%      | \$ 243,290                | \$ 228,818 | 6%      |
| Expenses                              | 114,842                     | 112,353    | 2%      | 227,044                   | 220,903    | 3%      |
| Operating Profit                      | \$ 6,284                    | \$ 3,831   | 64%     | \$ 16,246                 | \$ 7,915   | 105%    |
| Operating Margin                      | 5                           | % 3        | %       | 7                         | % 3        | %       |
| <b>Investment Advisors:</b>           |                             |            |         |                           |            |         |
| Revenues                              | \$ 99,890                   | \$ 92,746  | 8%      | \$ 199,082                | \$ 180,984 | 10%     |
| Expenses                              | 53,052                      | 49,380     | 7%      | 105,505                   | 96,919     | 9%      |
| Operating Profit                      | \$ 46,838                   | \$ 43,366  | 8%      | \$ 93,577                 | \$ 84,065  | 11%     |
| Operating Margin                      | 47                          | % 47       | %       | 47                        | % 46       | %       |
| <b>Institutional Investors:</b>       |                             |            |         |                           |            |         |
| Revenues                              | \$ 83,434                   | \$ 78,068  | 7%      | \$ 168,925                | \$ 155,072 | 9%      |
| Expenses                              | 40,871                      | 38,668     | 6%      | 82,120                    | 77,496     | 6%      |
| Operating Profit                      | \$ 42,563                   | \$ 39,400  | 8%      | \$ 86,805                 | \$ 77,576  | 12%     |
| Operating Margin                      | 51                          | % 50       | %       | 51                        | % 50       | %       |
| <b>Investment Managers:</b>           |                             |            |         |                           |            |         |
| Revenues                              | \$ 97,566                   | \$ 83,616  | 17%     | \$ 194,421                | \$ 164,103 | 18%     |
| Expenses                              | 63,321                      | 53,847     | 18%     | 126,659                   | 105,912    | 20%     |
| Operating Profit                      | \$ 34,245                   | \$ 29,769  | 15%     | \$ 67,762                 | \$ 58,191  | 16%     |
| Operating Margin                      | 35                          | % 36       | %       | 35                        | % 35       | %       |
| <b>Investments in New Businesses:</b> |                             |            |         |                           |            |         |

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|                |            |            |     |            |            |     |
|----------------|------------|------------|-----|------------|------------|-----|
| Revenues       | \$2,814    | \$1,717    | 64% | \$4,710    | \$3,338    | 41% |
| Expenses       | 5,940      | 5,124      | 16% | 11,038     | 10,004     | 10% |
| Operating Loss | \$(3,126 ) | \$(3,407 ) | NM  | \$(6,328 ) | \$(6,666 ) | NM  |

For additional information pertaining to our business segments, see Note 10 to the Consolidated Financial Statements.

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Private Banks

|  | Three Months Ended June 30, |           | Percent Change | Six Months Ended June 30, |           | Percent Change |
|--|-----------------------------|-----------|----------------|---------------------------|-----------|----------------|
|  | 2018                        | 2017      |                | 2018                      | 2017      |                |
| Revenues:  |                             |           |                |                           |           |                |
| Information processing and software servicing fees   | \$85,398                    | \$82,148  | 4%             | \$171,843                 | \$162,180 | 6%             |
| Asset management, administration & distribution fees | 35,728                      | 34,036    | 5%             | 71,447                    | 66,638    | 7%             |
| Total revenues                                       | \$121,126                   | \$116,184 | 4%             | \$243,290                 | \$228,818 | 6%             |

Revenues increased \$4.9 million, or four percent, in the three month period and increased \$14.5 million, or six percent, in the six month period ended June 30, 2018 and were primarily affected by:

- Increased recurring investment processing fees from the growth in new and existing client assets processed on the SEI Wealth Platform;

- Increased investment management fees from existing U.S. and international clients due to increased net cash flows and higher average assets under management due to market appreciation; and

- The positive impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations; partially offset by

- The reclassification of direct expenses related to trade execution fees of \$3.3 million and \$7.2 million during the second quarter and six month period ended June 30, 2018, respectively, due to the adoption of ASC 606; and

- Decreased investment processing fees from the loss of TRUST 3000® clients.

Operating margins increased to five percent compared to three percent in the three month period and increased to seven percent compared to three percent in the six month period. Operating income increased by \$2.5 million, or 64 percent, in the three month period and increased \$8.3 million, or 105 percent, in the six month period and was primarily affected by:

- An increase in revenues;

- Decreased amortization expense related to the SEI Wealth Platform due to the adjustment to the estimated useful life effective in the fourth quarter 2017;

- Decreased sales compensation expense from the deferral of sales commissions costs due to the adoption of ASC 606; and

- The net positive impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations; partially offset by

- Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance, support and client migrations to the SEI Wealth Platform; and

- Increased salary and incentive compensation costs.

Investment Advisors

|  | Three Months Ended June 30, |          | Percent Change | Six Months Ended June 30, |           | Percent Change |
|--|-----------------------------|----------|----------------|---------------------------|-----------|----------------|
|  | 2018                        | 2017     |                | 2018                      | 2017      |                |
| Revenues:                                    |                             |          |                |                           |           |                |
| Investment management fees-SEI fund programs | \$73,451                    | \$68,969 | 6%             | \$146,786                 | \$134,969 | 9%             |
| Separately managed account fees              | 22,419                      | 19,650   | 14%            | 44,267                    | 37,908    | 17%            |
| Other fees                                   | 4,020                       | 4,127    | (3)%           | 8,029                     | 8,107     | (1)%           |
| Total revenues                               | \$99,890                    | \$92,746 | 8%             | \$199,082                 | \$180,984 | 10%            |

Revenues increased \$7.1 million, or eight percent, in the three month period and increased \$18.1 million, or ten percent, in the six month period ended June 30, 2018 and were primarily affected by:

- Increased investment management fees and separately managed account program fees due to higher assets under management caused by market appreciation and positive cash flows from new and existing advisors.



Operating margin remained at 47 percent in the three month period and increased to 47 percent compared to 46 percent in the six month period. Operating income increased \$3.5 million, or eight percent, in the three month period and increased \$9.5 million, or 11 percent, in the six month period and was primarily affected by:

▲ An increase in revenues; and

● Decreased amortization expense related to the SEI Wealth Platform due to the adjustment to the estimated useful life effective in the fourth quarter 2017; partially offset by

▮ Increased direct expenses associated with increased assets in our investment management programs;

▮ Increased personnel costs for marketing to and servicing new advisors; and

● Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance, support and client migrations to the SEI Wealth Platform.

#### Institutional Investors

Revenues increased \$5.4 million, or seven percent, in the three month period and increased \$13.9 million, or nine percent, in the six month period ended June 30, 2018 and were primarily affected by:

▲ Asset funding from new sales of our investment management platforms;

● Increased investment management fees from existing clients due to higher assets under management caused by market appreciation; and

● The positive impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations; partially offset by

● Client losses.

Operating margins increased to 51 percent compared to 50 percent in the three and six month periods. Operating income increased \$3.2 million, or eight percent, in the three month period and increased \$9.2 million, or 12 percent, in the six month period and was primarily affected by:

▲ An increase in revenues; and

● The positive impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations; partially offset by

▮ Increased direct expenses associated with investment management fees; and

▮ Increased salary and incentive compensation costs.

#### Investment Managers

Revenues increased \$14.0 million, or 17 percent, in the three month period and increased \$30.3 million, or 18 percent, in the six month period ended June 30, 2018 and were primarily affected by:

● Positive cash flows into alternative, traditional and separately managed account offerings from new and existing clients;

▮ Higher valuations of existing client assets from improved capital markets; and

● Added revenues of \$5.6 million and \$11.1 million during the second quarter and six month period ended June 30, 2018, respectively, from the acquisition of Archway during the third quarter 2017; partially offset by

● Client losses and fund closures.

Operating margin decreased to 35 percent compared to 36 percent in the three month period and remained at 35 percent in the six month period. Operating income increased \$4.5 million, or 15 percent, in the three month period and increased \$9.6 million, or 16 percent, in the six month period and was primarily affected by:

▲ An increase in revenues;

● Decreased sales compensation expense from the deferral of sales commissions costs due to the adoption of ASC 606; partially offset by

▮ Increased personnel expenses, technology and other operational costs to service new and existing clients;

▮ Increased personnel and amortization expense related to the Archway acquisition;

▮ Increased non-capitalized investment spending, mainly consulting costs; and

● Increased amortization expense related to the Investment Manager platform placed into service during the first quarter 2018.



**Other***Corporate overhead expenses*

Corporate overhead expenses primarily consist of general and administrative expenses and other costs not directly attributable to a reportable business segment. Corporate overhead expenses were \$16.5 million and \$15.7 million in the three months ended June 30, 2018 and 2017, respectively, and \$31.5 million and \$30.3 million in the six months ended June 30, 2018 and 2017, respectively.

*Other income and expense*

Other income and expense items on the accompanying Consolidated Statements of Operations consists of:

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2018                        | 2017     | 2018                      | 2017     |
| Net (loss) gain from investments               | \$(139 )                    | \$44     | \$(549 )                  | \$391    |
| Interest and dividend income                   | 3,162                       | 1,686    | 5,664                     | 3,029    |
| Interest expense                               | (132 )                      | (114 )   | (389 )                    | (226 )   |
| Equity in earnings of unconsolidated affiliate | 41,073                      | 36,315   | 81,680                    | 69,880   |
| Total other income and expense items, net      | \$43,964                    | \$37,931 | \$86,406                  | \$73,074 |

*Interest and dividend income*

Interest and dividend income is earned based upon the amount of cash that is invested daily. The increase in interest and dividend income in the three and six months ended June 30, 2018 was due to higher cash balances and an overall increase in interest rates.

*Equity in earnings of unconsolidated affiliate*

Equity in earnings of unconsolidated affiliate reflects our less than 50 percent ownership in LSV. As of June 30, 2018, our total partnership interest in LSV was 38.9 percent. The table below presents the revenues and net income of LSV and our proportionate share in LSV's earnings.

|                   | Three Months Ended June 30, |           |                | Six Months Ended June 30, |           |                |
|-------------------|-----------------------------|-----------|----------------|---------------------------|-----------|----------------|
|                   | 2018                        | 2017      | Percent Change | 2018                      | 2017      | Percent Change |
| Revenues of LSV   | \$132,111                   | \$119,320 | 11%            | \$263,829                 | \$229,273 | 15%            |
| Net income of LSV | 105,605                     | 93,372    | 13%            | 210,011                   | 179,587   | 17%            |

SEI's proportionate share in earnings of LSV \$41,073 \$36,315 13% \$81,680 \$69,880 17%

The increase in our earnings from LSV in the three and six months ended June 30, 2018 was primarily due to increased assets under management from LSV's existing clients due to market appreciation and cash inflows from new clients. Average assets under management by LSV increased \$16.6 billion to \$109.1 billion during the six months ended June 30, 2018 as compared to \$92.6 billion during the six months ended June 30, 2017, an increase of 18 percent.

**Income Taxes**

Our effective income tax rates for the three and six months ended June 30, 2018 and 2017 differs from the federal income tax statutory rate due to the following:

|   | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|---|-----------------------------|--------|---------------------------|--------|
|   | 2018                        | 2017   | 2018                      | 2017   |
| Statutory rate                                | 21.0 %                      | 35.0 % | 21.0 %                    | 35.0 % |
| State taxes, net of federal tax benefit       | 2.3                         | 1.7    | 2.3                       | 1.7    |
| Foreign tax expense and tax rate differential | (0.1 )                      | (1.0 ) | (0.1 )                    | (1.0 ) |
| Tax benefit from stock option exercises       | (2.0 )                      | (3.0 ) | (6.5 )                    | (3.6 ) |
| Other, net                                    | (0.1 )                      | (0.6 ) | (0.2 )                    | (0.5 ) |
|   | 21.1 %                      | 32.1 % | 16.5 %                    | 31.6 % |

The decrease in our effective tax rates for the three and six months ended June 30, 2018 was primarily due to the tax changes enacted in The Tax Act. The Tax Act was enacted in December 2017 and included a permanent reduction in the corporate tax





rate from 35.0 percent to 21.0 percent. In addition, our rates in both periods of 2018 and 2017 were favorably impacted by tax benefits due to stock option exercise activity.

#### **Fair Value Measurements**

The fair value of our financial assets and liabilities, except for the investment funds sponsored by LSV, is determined in accordance with the fair value hierarchy. The fair value of the investment funds sponsored by LSV is measured using the net asset value per share (NAV) as a practical expedient. The fair value of all other financial assets are determined using Level 1 or Level 2 inputs and consist mainly of investments in equity or fixed-income mutual funds that are quoted daily and Government National Mortgage Association (GNMA) and other U.S. government agency securities that are single issuer pools that are valued based on current market data of similar assets. We did not have any financial liabilities at June 30, 2018 or December 31, 2017 that were required to be measured at fair value on a recurring basis (See Note 5 to the Notes to Consolidated Financial Statements).

#### **Regulatory Matters**

Like many firms operating within the financial services industry, we are experiencing a difficult regulatory environment across our markets. Our current scale and reach as a provider to the financial services industry, the introduction and implementation of new platforms for our financial services industry clients, the increased regulatory oversight of the financial services industry generally, new laws and regulations affecting the financial services industry and ever-changing regulatory interpretations of existing laws and regulations, and a greater propensity of regulators to pursue enforcement actions and other sanctions against regulated entities, have made this an increasingly challenging and costly regulatory environment in which to operate.

SEI and some of our regulated subsidiaries have undergone or been scheduled to undergo a range of periodic or thematic reviews, examinations or investigations by numerous regulatory authorities around the world, including the Office of the Comptroller of the Currency, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, Inc., the Financial Conduct Authority of the United Kingdom, the Central Bank of Ireland and others. These regulatory activities typically result in the identification of matters or practices to be addressed by us or our subsidiaries and, in certain circumstances, the regulatory authorities require remediation activities or pursue enforcement proceedings against us or our subsidiaries. As described under the caption "Regulatory Considerations" in our Annual Report on Form 10-K, the range of possible sanctions that are available to regulatory authorities include limitations on our ability to engage in business for specified periods of time, the revocation of registration, censures and fines. The direct and indirect costs of responding to these regulatory activities, implementation of any remediation actions, and of complying with new or modified regulations, as well as the potential financial costs and potential reputational impact against us of any enforcement proceedings that might result, is uncertain but could have a material adverse impact on our operating results or financial position.

#### **Liquidity and Capital Resources**

|   | Six Months Ended June 30, |         |          |         |
|---|---------------------------|---------|----------|---------|
|   | 2018                      |         | 2017     |         |
| Net cash provided by operating activities                                     | \$                        | 262,876 | \$       | 184,857 |
| Net cash used in investing activities   | (63,909                   | )       | (46,881  | )       |
| Net cash used in financing activities   | (243,732                  | )       | (181,801 | )       |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (6,036                    | )       | 8,488    |         |
| Net decrease in cash, cash  | (50,801                   | )       | (35,337  | )       |

|  |            |            |
|--|------------|------------|
| equivalents and<br>restricted cash                         |            |            |
| Cash, cash   |            |            |
| equivalents and<br>restricted cash,<br>beginning of period | 747,752    | 699,201    |
| Cash, cash   |            |            |
| equivalents and<br>restricted cash, end<br>of period       | \$ 696,951 | \$ 663,864 |

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing. At June 30, 2018, our unused sources of liquidity consisted of cash and cash equivalents and the amount available under our credit facility. We adopted ASU No. 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230) (ASU 2016-18) on January 1, 2018 which requires the statement of cash flows to explain the change during the period for the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The prior period was retrospectively adjusted to conform to the current period's presentation. There was no material impact to net cash flows for the six months ended June 30, 2017 as a result of including restricted cash with cash and cash equivalents.

Our credit facility provides for borrowings of up to \$300.0 million and is scheduled to expire in June 2021 (See Note 7 to the Consolidated Financial Statements). The availability of the credit facility is subject to compliance with certain covenants set forth in the agreement. The credit facility contains covenants which restrict our ability to engage in mergers, consolidations,

asset sales, investments, transactions with affiliates, or to incur liens, as defined in the agreement. In the event of a default under the credit facility, we would also be restricted from paying dividends on, or repurchasing, our common stock. Currently, our ability to borrow from the credit facility is not limited by any covenant of the agreement. As of July 16, 2018, the full amount of \$300.0 million of the credit facility was available for corporate purposes.

The majority of our excess cash reserves are primarily placed in accounts located in the United States that invest entirely in SEI-sponsored money market mutual funds denominated in the U.S. dollar. We also utilize demand deposit accounts or money market accounts at several well-established financial institutions located in the United States. Accounts used to manage these excess cash reserves do not impose any restrictions or limitations that would prevent us from being able to access such cash amounts immediately. As of July 16, 2018, the amount of cash and cash equivalents considered free and immediately accessible for other general corporate purposes was \$315.1 million. Our cash and cash equivalents include accounts managed by our subsidiaries that are used in their operations or to cover specific business and regulatory requirements. The availability of this cash for other purposes beyond the operations of these subsidiaries may be limited. We therefore do not include accounts of our foreign subsidiaries in our calculation of free and immediately accessible cash for other general corporate purposes. With the enactment of the Tax Act, a portion of the undistributed earnings of our foreign subsidiaries are deemed repatriated. Any subsequent transfer of available cash related to the repatriated earnings of our foreign subsidiaries could significantly increase our free and immediately accessible cash.

Cash flows from operations increased \$78.0 million in the first six months of 2018 compared to the first six months of 2017 primarily from the increase in our net income and higher distribution payments received from our unconsolidated affiliate, LSV.

Net cash used in investing activities includes:

• *Purchases, sales and maturities of marketable securities.* Our purchases, sales and maturities of marketable securities in the first six months of 2018 and 2017 were as follows:

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2018                      | 2017       |
| Purchases   | \$(74,957)                | \$(28,703) |
| Sales and maturities                                | 64,626                    | 26,811     |
| Net investing activities from marketable securities | \$(10,331)                | \$(1,892)  |

• *The capitalization of costs incurred in developing computer software.* We capitalized \$24.6 million of software development costs in the first six months of 2018 as compared to \$33.3 million in the first six months of 2017. The majority of our software development costs are related to significant enhancements for the expanded functionality of the SEI Wealth Platform.

• *Capital expenditures.* Our capital expenditures in the first six months of 2018 were \$12.7 million as compared to \$10.2 million in the first six months of 2017. Our expenditures in 2018 and 2017 primarily include purchased software, equipment for our data center operations and the expansion of our corporate headquarters.

• *Cash paid for acquisition, net of cash received.* We completed the acquisition of Huntington Steele on April 2, 2018. The purchase price paid included \$5.9 million in cash consideration; however, we acquired \$125 thousand in cash during the transaction for a net cash payment of \$5.8 million (See Note 13 to the Consolidated Financial Statements).

Net cash used in financing activities includes:

• *Principal repayments on revolving credit facility.* In July 2017, we borrowed \$40.0 million for the funding of an acquisition. We made a principal payment of \$10.0 million in October 2017 and additional payments of \$30.0 million during 2018 to repay the entire outstanding balance (See Note 7 to the Consolidated Financial Statements).

• *The repurchase of our common stock.* Our Board of Directors has authorized the repurchase of our common stock through multiple authorizations. Currently, there is no expiration date for our common stock repurchase program. We had total capital outlays of \$189.4 million during the first six months of 2018 and \$122.1 million during the first six months of 2017 for the repurchase of our common stock.

• *Proceeds from the issuance of our common stock.* We received \$70.0 million in proceeds from the issuance of our common stock during the first six months of 2018 as compared to \$29.1 million during the first six months of 2017. The increase in proceeds is primarily attributable to a higher level of stock option exercise activity.

*Dividend payments.* Cash dividends paid were \$94.3 million in the first six months of 2018 as compared to \$88.9 million in the first six months of 2017.

We believe our operating cash flow, available borrowing capacity, and existing cash and cash equivalents should provide adequate funds for ongoing operations; continued investment in new products and equipment; our common stock repurchase program and future dividend payments.

**Forward-Looking Information and Risk Factors**

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information contained in this discussion is or may be considered forward-looking. Forward-looking statements relate to future operations, strategies, financial results or other developments. Forward-looking statements are based upon estimates and assumptions that involve certain risks and uncertainties, many of which are beyond our control or are subject to change. Although we believe our assumptions are reasonable, they could be inaccurate. Our actual future revenues and income could differ materially from our expected results. We have no obligation to publicly update or revise any forward-looking statements.

Among the risks and uncertainties which may affect our future operations, strategies, financial results or other developments are those risks described in our latest Annual Report on Form 10-K in Part I, Item 1A. These risks include the following:

- changes in capital markets that may affect our revenues and earnings;
- product development risk;
- risk of failure by a third-party service provider;
- data and cyber security risks;
- operational risks associated with the processing of investment transactions;
- systems and technology risks;
- pricing pressure from increased competition, disruptive technology and poor investment performance;
- the affect on our earnings and cashflows from the performance of LSV Asset Management;
- third party pricing services for the valuation of securities invested in our investment products;
- the affect of extensive governmental regulation;
- litigation and regulatory examinations and investigations;
- increased costs and regulatory risks from the growth of our business;
- consolidation within our target markets, including consolidations between banks and other financial institutions;
- the exit by the United Kingdom from the European Union;
- third party approval of our investment products with advisors affiliated with independent broker-dealers or other networks;
- financial and non-financial covenants which may restrict our ability to manage liquidity needs;
- changes in, or interpretation of, accounting principles or tax rules and regulations;
- fluctuations in foreign currency exchange rates;
- fluctuations in interest rates affecting the value of our fixed-income investment securities; and
- retention of executive officers and senior management personnel.

Our regulated wholly-owned subsidiaries include SEI Investments Distribution Co., or SIDCO, SEI Investments Management Corporation, or SIMC, SEI Private Trust Company, or SPTC, SEI Trust Company, or STC, SEI Investments (Europe) Limited, or SIEL, SEI Investments Canada Company, or SEI Canada, SEI Investments Global, Limited, or SIGL, SEI Investments - Global Fund Services, Ltd., or GFSL, and SEI Investments - Depositary and Custodial Services (Ireland) Limited, or D&C. SIDCO is a broker-dealer registered with the SEC under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA). SIMC is an investment advisor registered with the SEC under the Investment Advisers Act of 1940 and with the Commodity Futures Trading Commission (CFTC) under the Commodity Exchange Act. SPTC is a limited purpose federal thrift chartered and regulated by the Office of the Comptroller of the Currency. STC is a Pennsylvania trust company, regulated by the Pennsylvania Department of Banking and Securities. SIEL is an investment manager and financial institution subject to regulation by the Financial Conduct Authority of the United Kingdom. SEI Canada is regulated by the Ontario Securities Commission and various provincial authorities as an investment fund manager and in various other capacities. SIGL is primarily regulated by the Central Bank of Ireland (CBI) as a management company for Undertakings for Collective Investment in Transferable Securities, or UCITS, and for Alternative Investment

Funds, or AIFs. GFSL is regulated by the CBI and authorized to provide administration services for Irish and non-Irish collective investment schemes. D&C is regulated by the CBI and authorized to provide depositary and custodial services. In addition, various SEI subsidiaries are subject to the jurisdiction of regulatory authorities in other foreign countries. The Company has a minority ownership interest in LSV, which is also an investment advisor registered with the SEC.

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The Company, its regulated subsidiaries, their regulated services and platforms and their customers are all subject to extensive legislation, regulation and supervision that recently has been subject to, and continues to experience, significant change and increased regulatory activity. These changes and regulatory activities could have a material adverse effect on us and our clients.

The various governmental agencies and self-regulatory authorities that regulate or supervise the Company and its subsidiaries have broad administrative powers. In the event of a failure to comply with laws, regulations and requirements of these agencies and authorities, the possible sanctions that may be imposed include the suspension of individual employees, limitations on our ability to engage in business for specified periods of time, the revocation of applicable registration as a broker-dealer, investment advisor or other regulated entity, and, as the case may be, censures and fines. Additionally, certain securities and banking laws applicable to us and our subsidiaries provide for certain private rights of action that could give rise to civil litigation. Any litigation could have significant financial and non-financial consequences including monetary judgments and the requirement to take action or limit activities that could ultimately affect our business.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to our regulated subsidiaries and their activities, services and platforms, our business practices, our past actions and other matters has increased dramatically in the past several years. Responding to these examinations, investigations, actions and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. We continue to be subject to inquiries from examinations and investigations by supervisory and enforcement divisions of regulatory authorities and expect this to continue in the future. We believe this is also the case with many of our regulated clients. Governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation, our relationship with clients and prospective clients, and on the morale and performance of our employees, which could adversely affect our businesses and results of operations. We are subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires implementation of regulations applicable to financial services companies, including standards for verifying client identification and monitoring client transactions and detecting and reporting suspicious activities. Anti-money laundering laws outside the United States contain similar requirements. We offer investment and banking platforms that also are subject to regulation by the federal and state securities and banking authorities, as well as foreign regulatory authorities, where applicable. Existing or future regulations that affect these platforms could lead to a reduction in sales of these platforms or require modifications of these platforms.

Compliance with existing and future regulations and responding to and complying with recent increased regulatory activity affecting broker-dealers, investment advisors, investment companies, financial institutions and their service providers could have a significant impact on us. We periodically undergo regulatory examinations and respond to regulatory inquiries and document requests. In addition, recent and continuing legislative activity in the United States and in other jurisdictions (including the European Union and the United Kingdom) have made and continue to make extensive changes to the laws regulating financial services firms. Recent changes include the effectiveness of the Markets in Financial Instruments Directive (MiFID II) and effectiveness of the General Data Protection Regulation in the European Union and the U.S. Department of Labor's Fiduciary Rule. As a result of these examinations, inquiries and requests, as a result of increased civil litigation activity, and as a result of these new laws and regulations, we engage legal counsel, review our compliance procedures, platform and service offerings, and business operations, and make changes as we deem necessary. These additional activities and required changes may result in increased expense or may reduce revenues.

Our bank clients are subject to supervision by federal, state and foreign banking and financial services authorities concerning the manner in which such clients purchase and receive our products and services. Our plan sponsor clients and our subsidiaries providing services to those clients are subject to supervision by the Department of Labor and compliance with employee benefit regulations. Investment advisor and broker-dealer clients are regulated by the SEC, state securities authorities, or FINRA. Existing or future regulations applicable to our clients may affect our clients'

purchase of our products and services.

In addition, see the discussion of governmental regulations in Item 1A "Risk Factors" in our latest Annual Report on Form 10-K for a description of the risks that proposed regulatory changes may present for our business.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Information required by this item is set forth under the captions "Our revenues and earnings are affected by changes in capital markets" and "Changes in interest rates may affect the value of our fixed-income investment securities" in Item 1A "Risk Factors" and under the caption "Sensitivity of our revenues and earnings to capital market fluctuations" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-

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K for the year ended December 31, 2017. There have been no material changes to this information as it is disclosed in our Annual Report on Form 10-K for 2017.

**Item 4. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective in ensuring that information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

SEI has been named in seven lawsuits filed in Louisiana courts; four of the cases also name SPTC as a defendant. The underlying allegations in all actions relate to the purported role of SPTC in providing back-office services to Stanford Trust Company. The complaints allege that SEI and SPTC participated in some manner in the sale of “certificates of deposit” issued by Stanford International Bank so as to be a “seller” of the certificates of deposit for purposes of primary liability under the Louisiana Securities Law or so as to be secondarily liable under that statute for sales of certificates of deposit made by Stanford Trust Company. Two of the actions also include claims for violations of the Louisiana Racketeering Act and possibly conspiracy, and a third also asserts claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Racketeering Act, and conspiracy.

The procedural status of the seven cases varies. The *Lillie* case, filed originally in the 19th Judicial District Court for the Parish of East Baton Rouge, was brought as a class action and is procedurally the most advanced of the cases. SEI and SPTC filed exceptions, which the Court granted in part, dismissing claims under the Louisiana Unfair Trade Practices Act and permitting the claims under the Louisiana Securities Law to go forward. On March 11, 2013, newly-added insurance carrier defendants removed the case to the United States District Court for the Middle District of Louisiana. On August 7, 2013, the Judicial Panel on Multidistrict Litigation transferred the matter to the Northern District of Texas where MDL 2099, *In re: Stanford Entities Securities Litigation* (“the Stanford MDL”), is pending. On September 22, 2015, the District Court on the motion of SEI and SPTC dismissed plaintiffs’ claims for primary liability under Section 714(A) of the Louisiana Securities Law, but declined to dismiss plaintiffs’ claims for secondary liability under Section 714(B) of the Louisiana Securities Law based on the allegations pled by plaintiffs. On November 4, 2015, the District Court granted SEI and SPTC's motion to dismiss plaintiffs' claims under Section 712(D) of the Louisiana Securities Law. Consequently, the only claims of plaintiffs still pending before the District Court in *Lillie* are plaintiffs' claims for secondary liability against SEI and SPTC under Section 714(B) of the Louisiana Securities Law. On May 2, 2016, the District Court certified the class as being "all persons for whom Stanford Trust Company purchased or renewed Stanford Investment Bank Limited certificates of deposit in Louisiana between January 1, 2007 and February 13, 2009". Notice of the pendency of the class action was mailed to potential class members on October 4, 2016.

On December 1, 2016, a group of plaintiffs who opted out of the *Lillie* class filed a complaint against SEI and SPTC in the United States District Court in the Middle District of Louisiana, alleging claims essentially the same as those in *Lillie*. In January 2017, the Judicial Panel on Multidistrict Litigation transferred the proceeding to the Northern District of Texas and the Stanford MDL. During February 2017, SEI filed its response to the Complaint and in March 2017 the District Court for the Northern District of Texas approved the stipulated dismissal of all claims in this complaint predicated on Section 712(D) or Section 714(A) of the Louisiana Securities Law.

Another one of the cases, filed in the 23rd Judicial District Court for the Parish of Ascension, also was removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas and the Stanford MDL. The schedule for responding to that Complaint has not yet been established.

The plaintiffs in two of the cases remaining in the Parish of East Baton Rouge have granted SEI and SPTC indefinite extensions to respond to the petitions.

In the two additional cases, filed in East Baton Rouge and brought by the same counsel who filed the *Lillie* action, virtually all of the litigation to date has involved motions practice and appellate litigation regarding the existence of federal subject matter jurisdiction under the federal Securities Litigation Uniform Standards Act (SLUSA). After the matter was removed to the United States District Court for the Northern District of Texas, that court dismissed the action under SLUSA. The Court of Appeals for the Fifth Circuit reversed that order, and the Supreme Court of the United States affirmed the Court of Appeals judgment on February 26, 2014. The matter was remanded to state court and no material activity has taken place since that date.

While the outcome of this litigation remains uncertain, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously. Because of uncertainty in the make-up of the *Lillie*

class, the specific theories of liability that may survive a motion for summary judgment or other dispositive motion, the relative lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

**Item 1A. Risk Factors.**

Information regarding risk factors appears in Part I – Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for 2017.

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

(e) Our Board of Directors has authorized the repurchase of up to \$3.678 billion worth of our common stock through multiple authorizations. Currently, there is no expiration date for our common stock repurchase program.

Information regarding the repurchase of common stock during the three months ended June 30, 2018 is as follows:

| <u>Period</u> | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---------------|----------------------------------|------------------------------|--|--|
| April 2018    | 250,000                          | \$ 63.43                     | 250,000  | \$ 72,522,000  |
| May 2018      | 825,000                          | 63.85                        | 825,000  | 219,845,000  |
| June 2018     | 554,000                          | 65.14                        | 554,000  | 183,738,000  |
| Total         | 1,629,000                        | \$ 64.23                     | 1,629,000  |  |

**Item 6. Exhibits.**

The following is a list of exhibits filed as part of the Form 10-Q.

31.1 Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.

31.2 Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.

32 Section 1350 Certifications.

99.1 Press release dated July 19, 2018 of SEI Investments Company related to the Company's financial and operating results for the second quarter ended June 30, 2018.

101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

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

SEI INVESTMENTS  
COMPANY

Date: July 24, 2018 By: /s/ Dennis J. McGonigle  
Dennis J. McGonigle  
Chief Financial Officer

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