

SEI INVESTMENTS CO  
Form 10-Q  
July 27, 2016

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

FORM 10-Q

(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, 2016

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)

SEI INVESTMENTS COMPANY  
(Exact name of registrant as specified in its charter)

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

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 21, 2016 was 161,326,155.



SEI Investments Company

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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, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$594,767	\$ 679,661
Restricted cash	5,500	5,500
Receivables from investment products	47,066	48,098
Receivables, net of allowance for doubtful accounts of \$946 and \$649	242,084	223,023
Securities owned	21,290	21,235
Other current assets	30,213	26,207
Total Current Assets	940,920	1,003,724
Property and Equipment, net of accumulated depreciation of \$272,292 and \$259,501	138,696	143,977
Capitalized Software, net of accumulated amortization of \$281,407 and \$259,358	288,070	290,522
Investments Available for Sale	88,372	81,294
Investments in Affiliated Funds, at fair value	4,420	4,039
Investment in Unconsolidated Affiliates	41,996	49,580
Deferred Income Taxes	4,041	—
Other Assets, net	13,856	15,492
Total Assets	\$1,520,371	\$ 1,588,628
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$3,541	\$4,511
Accrued liabilities	145,717	217,587
Deferred revenue	3,479	2,385
Total Current Liabilities	152,737	224,483
Deferred Income Taxes	67,089	63,028
Other Long-term Liabilities	12,262	11,397
Total Liabilities	232,088	298,908
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, \$.01 par value, 750,000 shares authorized; 161,191 and 163,733 shares issued and outstanding	1,612	1,637
Capital in excess of par value	933,434	910,513
Retained earnings	380,664	402,860
Accumulated other comprehensive loss, net	(27,427 )	(25,290 )
Total Shareholders' Equity	1,288,283	1,289,720
Total Liabilities and Shareholders' Equity	\$1,520,371	\$ 1,588,628

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



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SEI Investments Company  
 Consolidated Statements of Operations  
 (unaudited)  
 (In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues:				
Asset management, administration and distribution fees	\$262,275	\$256,748	\$513,712	\$503,516
Information processing and software servicing fees	74,992	73,699	148,391	144,352
Transaction-based and trade execution fees	6,564	7,298	15,991	15,321
Total revenues	343,831	337,745	678,094	663,189
Expenses:				
Subadvisory, distribution and other asset management costs	40,870	40,872	80,065	79,389
Software royalties and other information processing costs	7,677	8,057	15,425	15,566
Brokerage commissions	5,093	5,431	12,201	11,403
Compensation, benefits and other personnel	102,282	98,999	204,213	193,185
Stock-based compensation	4,189	3,859	7,978	7,609
Consulting, outsourcing and professional fees	39,575	36,969	78,081	72,597
Data processing and computer related	15,782	14,527	31,500	27,927
Facilities, supplies and other costs	17,122	16,659	33,119	33,718
Amortization	11,284	10,611	22,296	20,969
Depreciation	6,434	5,843	12,881	11,838
Total expenses	250,308	241,827	497,759	474,201
Income from operations	93,523	95,918	180,335	188,988
Net gain (loss) from investments	250	(38)	) 124	212
Interest and dividend income	1,033	755	2,116	1,724
Interest expense	(187)	) (114)	) (301)	) (227)
Equity in earnings of unconsolidated affiliates	30,285	37,289	59,477	71,322
Gain on sale of subsidiary	—	—	2,791	2,791
Income before income taxes	124,904	133,810	244,542	264,810
Income taxes	43,899	47,570	86,040	93,959
Net income	81,005	86,240	158,502	170,851
Basic earnings per common share	\$0.50	\$0.52	\$0.98	\$1.03
Shares used to compute basic earnings per share	161,795	166,152	162,404	166,423
Diluted earnings per common share	\$0.49	\$0.51	\$0.96	\$1.00
Shares used to compute diluted earnings per share	165,088	169,973	165,616	170,338
Dividends declared per common share	\$0.26	\$0.24	\$0.26	\$0.24

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,	
	2016	2015	2016	2015
Net income	\$81,005	\$86,240	\$158,502	\$170,851
Other comprehensive (loss) gain, net of tax:				
Foreign currency translation adjustments	(5,080 )	4,530	(2,651 )	(4,253 )
Unrealized (loss) gain on investments:				
Unrealized gains (losses) during the period, net of income taxes of \$(49), \$326, \$(240) and \$301	20	(527)	350	(520)
Less: reclassification adjustment for (gains) losses realized in net income, net of income taxes of \$12, (23) \$(39), \$(91) and \$13	(3 )	70	164	514
Total other comprehensive (loss) gain, net of tax	(5,083 )	4,073	(2,137 )	(4,797 )
Comprehensive income	\$75,922	\$90,313	\$156,365	\$166,054

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,	
	2016	2015
Cash flows from operating activities:		
Net income	\$158,502	\$170,851
Adjustments to reconcile net income to net cash provided by operating activities (See Note 1)	948	(14,067 )
Net cash provided by operating activities	159,450	156,784
Cash flows from investing activities:		
Additions to restricted cash	—	(834 )
Additions to property and equipment	(9,049 )	(15,727 )
Additions to capitalized software	(19,597 )	(16,069 )
Purchases of marketable securities	(32,648 )	(26,854 )
Prepayments and maturities of marketable securities	26,148	16,772
Sales of marketable securities	185	6,862
Receipt of contingent payment from sale of SEI AK	2,791	2,791
Other investing activities	200	(1,000 )
Net cash used in investing activities	(31,970 )	(34,059 )
Cash flows from financing activities:		
Purchase and retirement of common stock	(155,730 )	(133,429 )
Proceeds from issuance of common stock	26,336	42,661
Tax benefit on stock options exercised	4,004	8,233
Payment of dividends	(84,626 )	(80,030 )
Net cash used in financing activities	(210,016 )	(162,565 )
Effect of exchange rate changes on cash and cash equivalents	(2,358 )	(2,765 )
Net decrease in cash and cash equivalents	(84,894 )	(42,605 )
Cash and cash equivalents, beginning of period	679,661	667,446
Cash and cash equivalents, end of period	\$594,767	\$624,841
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 solutions 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 solutions consist of application and business process outsourcing services, professional services and transaction-based services. Revenues from investment processing solutions are recognized in Information processing and software servicing fees on the accompanying Consolidated Statements of Operations, except for fees earned associated with trade execution services which are recognized in Transaction-based and trade execution fees.

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 solutions offer investment managers support for traditional investment products such as mutual funds, collective investment trusts, exchange-traded funds, and institutional and separate accounts, by providing outsourcing services including fund and investment accounting, administration, reconciliation, investor servicing and client reporting. These solutions also provide support to managers focused on alternative investments who manage hedge funds, funds of hedge funds, private equity funds and real estate funds, across registered, partnership and separate account structures domiciled in the United States and overseas. Revenues from investment operations solutions 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, 2016, the results of operations for the three and six months ended June 30, 2016 and 2015, and cash flows for the six-month periods ended June 30, 2016 and 2015. 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, 2015.

There have been no significant changes in significant accounting policies during the six months ended June 30, 2016 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 with the exception of the adoption of Accounting Standards Update (ASU) No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis (See Note 3) and ASU No. 2015-07, Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (See Note 5).

Cash and Cash Equivalents

Cash and cash equivalents includes \$311,152 and \$448,957 at June 30, 2016 and December 31, 2015, 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 \$5,000 at June 30, 2016 and December 31, 2015 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited. Restricted cash also includes \$500 at

June 30, 2016 and December 31, 2015, 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 for broker-dealers.

Capitalized Software

The Company capitalized \$19,597 and \$16,069 of software development costs during the six months ended June 30, 2016 and 2015, 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 \$16,120 and \$13,649 of software development costs for

significant enhancements to the Platform during the six months ended June 30, 2016 and 2015, respectively. As of June 30, 2016, the net book value of the Platform was \$279,692. The Platform has an estimated useful life of 15 years and a weighted average remaining life of 6.0 years. Amortization expense for the Platform was \$22,049 and \$20,855 during the six months ended June 30, 2016 and 2015, respectively. The Company also capitalized \$3,477 and \$2,420 of software development costs during the six months ended June 30, 2016 and 2015, respectively, related to a new application for the Investment Managers segment.

#### Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended June 30, 2016 and 2015 are:

	For the Three Months Ended June 30, 2016		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
Basic earnings per common share	\$81,005	161,795,000	\$ 0.50
Dilutive effect of stock options	—	3,293,000	
Diluted earnings per common share	\$81,005	165,088,000	\$ 0.49

	For the Three Months Ended June 30, 2015		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
Basic earnings per common share	\$86,240	166,152,000	\$ 0.52
Dilutive effect of stock options	—	3,821,000	
Diluted earnings per common share	\$86,240	169,973,000	\$ 0.51

Employee stock options to purchase 10,388,000 and 10,007,000 shares of common stock, with an average exercise price of \$34.06 and \$30.02, were outstanding during the three months ended June 30, 2016 and 2015, respectively, but 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.

The calculations of basic and diluted earnings per share for the six months ended June 30, 2016 and 2015 are:

	For the Six Months Ended June 30, 2016		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
Basic earnings per common share	\$158,502	162,404,000	\$ 0.98
Dilutive effect of stock options	—	3,212,000	
Diluted earnings per common share	\$158,502	165,616,000	\$ 0.96

	For the Six Months Ended June 30, 2015		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
Basic earnings per common share	\$170,851	166,423,000	\$ 1.03
Dilutive effect of stock options	—	3,915,000	
Diluted earnings per common share	\$170,851	170,338,000	\$ 1.00

Employee stock options to purchase 10,447,000 and 10,029,000 shares of common stock, with an average exercise price of \$34.05 and \$30.02, were outstanding during the six months ended June 30, 2016 and 2015, respectively, but 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.

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## 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 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:

	2016	2015
Net income	\$ 158,502	\$ 170,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,881	11,838
Amortization	22,296	20,969
Equity in earnings of unconsolidated affiliates	(59,477 )	(71,322 )
Distributions received from unconsolidated affiliate	67,061	74,847
Stock-based compensation	7,978	7,609
Provision for losses on receivables	297	(128 )
Deferred income tax expense	(311 )	482
Gain from sale of SEI AK	(2,791 )	(2,791 )
Net gain from investments	(124 )	(212 )
Change in other long-term liabilities	865	914
Change in other assets	1,084	(643 )
Other	1,030	(1,269 )
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from investment products	1,032	1,473
Receivables	(19,357 )	(21,502 )
Other current assets	(4,006 )	(6,745 )
Increase (decrease) in		
Accounts payable	(970 )	(3,813 )
Accrued liabilities	(27,634 )	(27,412 )
Deferred revenue	1,094	3,638
Total adjustments	948	(14,067 )
Net cash provided by operating activities	\$ 159,450	\$ 156,784

## New Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The updated standard permits the use of either the retrospective or cumulative effect transition method. ASU 2014-09 currently becomes effective for the Company during the first quarter 2018. The Company is currently evaluating the transition method that will be elected and the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08), that amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. ASU 2016-08 also provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing (ASU 2016-10) that amends the revenue guidance in ASU 2014-09 on identifying performance obligations and accounting for licenses of

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intellectual property. ASU 2016-10 changed the FASB's previous proposals on renewals of right-to-use licenses and contractual restrictions. The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) that will significantly change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. ASU 2016-01 becomes effective for the Company during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

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 new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The updated standard is effective for the Company beginning in the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the transition method that will be elected and the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09) requiring an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. ASU 2016-09 becomes effective for the Company during the first quarter 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

#### Reclassifications

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

#### Note 2. Investment in Unconsolidated Affiliates

##### 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 mutual funds. 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 affiliates on the accompanying Consolidated Balance Sheets and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliates on the accompanying Consolidated Statements of Operations.

At June 30, 2016, the Company's total investment in LSV was \$41,996. The Company receives partnership distributions from LSV on a quarterly basis. The Company received partnership distributions from LSV of \$67,061 and \$74,847 in the six months ended June 30, 2016 and 2015, respectively.

The Company's proportionate share in the earnings of LSV was \$30,285 and \$38,327 during the three months ended June 30, 2016 and 2015, respectively. During the six months ended June 30, 2016 and 2015, the Company's proportionate share in the earnings of LSV was \$59,477 and \$72,672, respectively.

The following table contains the condensed financial operations of LSV for the three and six months ended June 30, 2016 and 2015:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Revenues	\$95,825	\$117,543	\$188,478	\$223,438



Net income 77,790 97,757 152,247 185,182

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In April 2016, LSV provided an interest in the partnership to select key employees which reduced the ownership percentage of each existing partner on a pro-rata basis. As a result, the Company's total partnership interest in LSV was reduced from approximately 39.2 percent to approximately 38.9 percent.

#### Guaranty Agreement with LSV Employee Group III

In October 2012, LSV Employee Group III purchased a portion of the partnership interest of three existing LSV employees for \$77,700, of which \$69,930 was financed through two syndicated term loan facilities contained in a credit agreement with The PrivateBank and Trust Company. The Company provided an unsecured guaranty for \$45,000 of the obligations of LSV Employee Group III to the lenders through a guaranty agreement. The lenders have the right to seek payment from the Company in the event of a default by LSV Employee Group III. LSV agreed to provide an unsecured guaranty for \$24,930 of the obligations of LSV Employee Group III to the lenders through a separate guaranty agreement.

The Company's direct interest in LSV was unchanged as a result of this transaction. The Company has determined that LSV Employee Group III is a VIE; however, the Company is not considered the primary beneficiary because it does not have the power to direct the activities that most significantly impact the economic performance of LSV Employee Group III either directly or through any financial responsibility from the guaranty.

In September 2014, LSV Employee Group III made the final principal payment related to the term loan guaranteed by LSV. As of July 21, 2016, the remaining unpaid principal balance of the term loan guaranteed by the Company was \$12,700. LSV Employee Group III has met all financial obligations to date regarding the scheduled repayment of the term loans since origination. The Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group III and, furthermore, fully expects that LSV Employee Group III will meet all of their future obligations regarding the term loan.

#### 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 adopted the amendments contained in ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis (ASU 2015-02) during the first quarter 2016. ASU 2015-02 amends the current guidance for both the VIE and the voting interest entity (VOE) consolidation models. This guidance rescinds the indefinite deferral of the VIE guidance for investment companies that permitted application of the risks and rewards based approach.

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 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 \$9,891 and \$12,467 in fees during the three months ended June 30, 2016 and 2015, respectively. During the six months ended June 30, 2016 and 2015, the Company waived \$22,368 and

\$23,186, respectively, in fees.

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## Note 4. Composition of Certain Financial Statement Captions

## Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	June 30, 2016	December 31, 2015
Trade receivables	\$58,291	\$ 47,179
Fees earned, not billed	166,338	154,919
Other receivables	18,401	21,574
	243,030	223,672
Less: Allowance for doubtful accounts (946 ) (649 )		
	\$242,084	\$ 223,023

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, 2016	December 31, 2015
Buildings	\$151,642	\$ 151,604
Equipment	92,608	86,941
Land	10,030	10,003
Purchased software	123,876	122,433
Furniture and fixtures	17,147	16,143
Leasehold improvements	14,910	15,393
Construction in progress	775	961
	410,988	403,478
Less: Accumulated depreciation (272,292 ) (259,501 )		
Property and Equipment, net	\$138,696	\$ 143,977

The Company recognized \$12,881 and \$11,838 in depreciation expense related to property and equipment for the six months ended June 30, 2016 and 2015, respectively.

## Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	June 30, 2016	December 31, 2015
Accrued employee compensation	\$43,460	\$ 74,687
Accrued consulting, outsourcing and professional fees	23,108	21,575
Accrued sub-advisory, distribution and other asset management fees	33,919	32,674
Accrued brokerage fees	9,135	9,058
Accrued dividend payable	—	42,625
Other accrued liabilities	36,095	36,968
Total accrued liabilities	\$145,717	\$ 217,587

## 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 and investment grade commercial paper 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 2020 to 2041.

The Company has retrospectively adopted ASU No. 2015-07, Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (ASU 2015-07) during the first quarter 2016 for all periods presented. 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. In accordance with ASU 2015-07, this investment has not been classified in the fair value hierarchy.

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 during the six months ended June 30, 2016 were consistent with those as described in our Annual Report on Form 10-K at December 31, 2015. The Company had no Level 3 financial assets or liabilities at June 30, 2016 or December 31, 2015. There were no transfers of financial assets between levels within the fair value hierarchy during the six months ended June 30, 2016.

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

		Fair Value Measurements at the End of the Reporting Period Using Quoted Prices in Active Significant Markets Other for Observable Identical Inputs Assets (Level 2) (Level 1)	
Assets	June 30, 2016		
Equity available-for-sale securities	\$24,411	\$24,411	\$ —
Fixed-income available-for-sale securities	63,961	—	63,961
Fixed-income securities owned	21,290	—	21,290
Investment funds sponsored by LSV (1)	4,420		
	\$114,082	\$24,411	\$ 85,251

Fair Value  
Measurements at the  
End of the Reporting  
Period Using

Assets	December 31, 2015	Quoted Prices in	
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity available-for-sale securities	\$ 10,657	\$10,657	\$ —
Fixed-income available-for-sale securities	70,637	—	70,637
Fixed-income securities owned	21,235	—	21,235
Investment funds sponsored by LSV (1)	4,039		
	\$ 106,568	\$10,657	\$ 91,872

(1) The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the amounts presented on the accompanying Consolidated Balance Sheets.

## Note 6. Marketable Securities

## Investments Available for Sale

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

	At June 30, 2016			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SEI-sponsored mutual funds	\$22,263	\$ 55	\$ (923 )	\$21,395
Equities and other mutual funds	2,964	52	—	3,016
Debt securities	62,645	1,316	—	63,961
	\$87,872	\$ 1,423	\$ (923 )	\$88,372
	At December 31, 2015			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SEI-sponsored mutual funds	\$8,474	\$ —	\$ (742 )	\$7,732
Equities and other mutual funds	2,857	68	—	2,925
Debt securities	70,308	329	—	70,637
	\$81,639	\$ 397	\$ (742 )	\$81,294

Net unrealized gains (losses) at June 30, 2016 and December 31, 2015 were \$212 (net of income tax expense of \$288) and \$(302) (net of income tax benefit of \$43), respectively. These net unrealized gains and losses are reported as a separate component of Accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets. There were gross realized gains of \$237 and gross realized losses of \$492 from available-for-sale securities during the six months ended June 30, 2016. There were gross realized gains of \$357 and gross realized losses of \$320 from available-for-sale securities during the six months ended June 30, 2015. Gains and losses from available-for-sale securities, including amounts reclassified from accumulated comprehensive income, are reflected in Net gain (loss) 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 gain (loss) 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 \$4,420 and \$4,039 at June 30, 2016 and December 31, 2015, respectively. The Company recognized gross realized gains of \$237 and \$381 during the three and six months ended June 30, 2016, respectively, from the change in fair value of the funds. There were no material net gains or losses from the change in fair value of the securities during the three and six months ended June 30, 2015.

## Securities Owned

The Company's broker-dealer subsidiary, SIDCO, has investments in U.S. government agency and commercial paper 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 \$21,290 and \$21,235 at June 30, 2016 and December 31, 2015, respectively. There were no material net gains or losses from the change in fair value of the securities during the three and six months ended June 30, 2016 and 2015.

## Note 7. Line of Credit

On June 13, 2016 (the Closing Date), the Company entered into a new five-year \$300,000 Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association (Wells Fargo) and a syndicate of other lenders. The Credit Facility became available on the Closing Date and replaced the former credit facility agreement (the 2012 Credit Facility), also with Wells Fargo, that was scheduled to expire in February 2017. 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

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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. The Company had no borrowings under the Credit Facility at June 30, 2016. The Company was in compliance with all covenants of the Credit Facility and 2012 Credit Facility during the six months ended June 30, 2016.

#### 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. The amount of stock-based compensation expense is based upon management's estimate of when the earnings per share targets may be achieved.

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the three and six months ended June 30, 2016 and 2015, respectively, as follows:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Stock-based compensation expense	\$4,189	\$3,859	\$7,978	\$7,609
Less: Deferred tax benefit	(1,469 )	(1,352 )	(2,768 )	(2,659 )
Stock-based compensation expense, net of tax	\$2,720	\$2,507	\$5,210	\$4,950

As of June 30, 2016, there was approximately \$49,100 of unrecognized compensation cost remaining, adjusted for estimated forfeitures, related to unvested employee stock options that management expects will vest and is being amortized.

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, 2016 was \$22,592. The total options exercisable as of June 30, 2016 had an intrinsic value of \$198,296. 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, 2016 and the weighted average exercise price of the shares. The market value of the Company's common stock as of June 30, 2016 was \$48.11 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of June 30, 2016 was \$21.70. Total options that were outstanding and exercisable as of June 30, 2016 were 17,897,000 and 7,509,000,

respectively.

#### 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 3,587,000 shares at a total cost of \$154,118 during the six months ended June 30, 2016. The cost of stock purchases during the period includes the cost of certain transactions that settled in the following quarter. As of June 30, 2016, the Company had approximately \$159,008 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

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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 25, 2016, the Board of Directors declared a cash dividend of \$0.26 per share on the Company's common stock, which was paid on June 22, 2016, to shareholders of record on June 14, 2016. Cash dividends declared during the six months ended June 30, 2016 and 2015 were \$42,001 and \$39,852, respectively.

#### Note 9. Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Loss
Balance, January 1, 2016	\$ (24,988 )	\$ (302 )	\$ (25,290 )
Other comprehensive loss (gain) before reclassifications	(2,651 )	350	(2,301 )
Amounts reclassified from accumulated other comprehensive income	—	164	164
Net current-period other comprehensive (loss) gain	(2,651 )	514	(2,137 )
Balance, June 30, 2016	\$ (27,639 )	\$ 212	\$ (27,427 )

#### Note 10. Business Segment Information

The Company's reportable business segments are:

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

Investment Advisors – provides investment management programs 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 programs and administrative outsourcing solutions to retirement plan sponsors, hospitals and not-for-profit organizations worldwide;

Investment Managers – provides investment operations outsourcing solutions 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 solutions; 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, 2016 and 2015. 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, 2015.

The following tables highlight certain financial information about each of the Company's business segments for the three months ended June 30, 2016 and 2015.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Three Months Ended June 30, 2016					
Revenues	\$114,836	\$ 81,883	\$ 74,674	\$ 70,938	\$ 1,500	\$343,831
Expenses	102,862	44,721	36,550	46,968	5,355	236,456
Operating profit (loss)	\$11,974	\$ 37,162	\$ 38,124	\$ 23,970	\$ (3,855 )	\$107,375



	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
For the Three Months Ended June 30, 2015						
Revenues	\$ 115,333	\$ 77,753	\$ 75,980	\$ 67,280	\$ 1,399	\$ 337,745
Expenses	104,727	40,857	36,528	42,141	4,803	229,056
Operating profit (loss)	\$ 10,606	\$ 36,896	\$ 39,452	\$ 25,139	\$ (3,404 )	\$ 108,689

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, 2016 and 2015 is as follows:

	2016	2015
Total operating profit from segments	\$ 107,375	\$ 108,689
Corporate overhead expenses	(13,852 )	(12,771 )
Income from operations	\$ 93,523	\$ 95,918

The following tables provide additional information for the three months ended June 30, 2016 and 2015 pertaining to our business segments:

	Capital Expenditures (1)		Depreciation	
	2016	2015	2016	2015
Private Banks	\$ 8,454	\$ 10,108	\$ 3,199	\$ 2,976
Investment Advisors	3,267	2,843	964	825
Institutional Investors	696	1,068	339	298
Investment Managers	1,743	1,794	1,172	991
Investments in New Businesses	121	132	547	571
Total from business segments	\$ 14,281	\$ 15,945	\$ 6,221	\$ 5,661
Corporate overhead	279	476	213	182
	\$ 14,560	\$ 16,421	\$ 6,434	\$ 5,843

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

	Amortization	
	2016	2015
Private Banks	\$ 7,769	\$ 7,445
Investment Advisors	2,585	2,459
Institutional Investors	425	375
Investment Managers	275	250
Investments in New Businesses	40	25
Total from business segments	\$ 11,094	\$ 10,554
Corporate overhead	190	57
	\$ 11,284	\$ 10,611

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The following tables highlight certain financial information about each of the Company's business segments for the six months ended June 30, 2016 and 2015.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
For the Six Months Ended June 30, 2016						
Revenues	\$228,197	\$158,562	\$147,571	\$140,856	\$2,908	\$678,094
Expenses	206,603	89,495	71,932	92,243	10,587	470,860
Operating profit (loss)	\$21,594	\$69,067	\$75,639	\$48,613	\$(7,679)	\$207,234
Gain on sale of subsidiary	2,791	—	—	—	—	2,791
Segment profit (loss)	\$24,385	\$69,067	\$75,639	\$48,613	\$(7,679)	\$210,025
	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
For the Six Months Ended June 30, 2015						
Revenues	\$226,546	\$151,768	\$149,528	\$132,647	\$2,700	\$663,189
Expenses	203,983	79,916	71,739	82,764	9,669	448,071
Operating profit (loss)	\$22,563	\$71,852	\$77,789	\$49,883	\$(6,969)	\$215,118
Gain on sale of subsidiary	2,791	—	—	—	—	2,791
Segment profit (loss)	\$25,354	\$71,852	\$77,789	\$49,883	\$(6,969)	\$217,909

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, 2016 and 2015 is as follows:

	2016	2015
Total operating profit from segments	\$207,234	\$215,118
Corporate overhead expenses	(26,899)	(26,130)
Income from operations	\$180,335	\$188,988

The following tables provide additional information for the six months ended June 30, 2016 and 2015 pertaining to our business segments:

	Capital Expenditures		Depreciation	
	2016	2015	2016	2015
Private Banks	\$17,166	\$18,610	\$6,380	\$6,073
Investment Advisors	6,119	6,161	1,940	1,663
Institutional Investors	1,492	2,015	673	601
Investment Managers	3,065	3,842	2,362	1,990
Investments in New Businesses	215	283	1,095	1,134
Total from business segments	\$28,057	\$30,911	\$12,450	\$11,461
Corporate Overhead	589	885	431	377
	\$28,646	\$31,796	\$12,881	\$11,838

	Amortization	
	2016	2015
Private Banks	\$15,480	\$14,696
Investment Advisors	5,138	4,859
Institutional Investors	824	750
Investment Managers	541	500
Investments in New Businesses	66	50
Total from business segments	\$22,049	\$20,855
Corporate Overhead	247	114
	\$22,296	\$20,969

#### Note 11. Income Taxes

The gross liability for unrecognized tax benefits at June 30, 2016 and December 31, 2015 was \$15,328 and \$14,517, respectively, exclusive of interest and penalties, of which \$13,674 and \$12,898 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, 2016 and December 31, 2015, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was \$1,437 and \$1,391, respectively.

	June 30, December 31,	
	2016	2015
Gross liability for unrecognized tax benefits, exclusive of interest and penalties	\$15,328	\$ 14,517
Interest and penalties on unrecognized benefits	1,437	1,391
Total gross uncertain tax positions	\$16,765	\$ 15,908
Amount included in Current liabilities	\$4,503	\$ 4,511
Amount included in Other long-term liabilities	12,262	11,397
	\$16,765	\$ 15,908

The Company's effective tax rate was 35.2 percent and 35.6 percent for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, the Company's tax rate was 35.2 percent and 35.5 percent, respectively.

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 2012 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2008.

The Company estimates it will recognize \$4,503 of gross unrecognized tax benefits which is expected to be paid within one year due to 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 six lawsuits filed in Louisiana. Five lawsuits were filed in the 19th Judicial District Court for the Parish of East Baton Rouge. One of the five actions purports to set forth claims on behalf of a class and also names SPTC as a defendant. Two of the other actions also name SPTC as a defendant. All five actions name various

defendants in addition to SEI, and, in all five actions, the plaintiffs purport to bring a cause of action against SEI and/or SPTC under the Louisiana Securities Act. Two of the five actions include claims for violations of the Louisiana Racketeering Act and possibly conspiracy. In addition, another group of plaintiffs filed a lawsuit in the 23rd Judicial District Court for the Parish of Ascension against SEI

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and SPTC and other defendants, asserting claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Securities Act and Louisiana Racketeering Act, and conspiracy. The underlying allegations in all actions relate to the purported role of SPTC in providing back-office services to Stanford Trust Company. The petitions allege that SEI and SPTC aided and abetted or otherwise participated in the sale of "certificates of deposit" issued by Stanford International Bank.

The case filed in Ascension Parish was removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the United States District Court for the Northern District of Texas. The schedule for responding to that petition has not yet been established.

The plaintiffs in two of the cases filed in East Baton Rouge have granted SEI and SPTC an indefinite extension to respond to the petitions.

In a third East Baton Rouge action, brought as a class action, SEI and SPTC filed exceptions, which the Court granted in part, dismissing the claims under the Louisiana Unfair Trade Practices Act. Plaintiffs then filed a motion for class certification, and SEI and SPTC also filed a motion for summary judgment. The Court deferred the motion for summary judgment, stating that the motion would not be set for hearing until after the hearing on class certification. After the Court held a hearing on class certification, it certified a class composed of persons who purchased or renewed any Stanford International Bank certificates of deposit (SIB CDs) in Louisiana between January 1, 2007 and February 13, 2009 or any person for whom the Stanford Trust Company purchased SIB CDs in Louisiana between January 1, 2007 and February 13, 2009. SEI and SPTC filed motions for appeal from the class certification judgments. On February 1, 2013, plaintiffs filed a motion for Leave to File a First Amended and Restated Class Action Petition in which they asked the Court to allow them to amend the petition and add claims against certain of SEI's insurance carriers. On February 5, 2013, the Court granted two of the motions for appeal and the motion for leave to amend. On February 28, 2013, SEI responded to the First Amended and Restated Class Action Petition by seeking dismissal of the action. On March 11, 2013, the newly-added insurance carrier defendants removed the case to the Middle District of Louisiana. SEI notified the Judicial Panel on Multidistrict Litigation (MDL) of this case as a potential tag-along action. Plaintiffs filed a motion to remand the action to state court. On March 25, 2013, SEI filed a motion requesting that the federal court decline to adopt the state court's order regarding class certification, which the court dismissed without prejudice to renew upon a determination of the jurisdictional issue. On August 7, 2013, the MDL Panel transferred the matter against SEI to the Northern District of Texas. On October 1, 2014, SEI filed a renewed motion to dismiss in the Northern District of Texas, and on October 6, 2014, the District Court denied plaintiffs' motion to remand. On June 17, 2015, the Court denied the motion to dismiss, and on June 24, 2015 set a briefing schedule for SEI and SPTC's motion challenging the Louisiana court's decision to certify a class, which motion was filed on July 15, 2015. SEI and SPTC filed their answer on July 1, 2015, and this case is now pending in the Northern District of Texas. On July 15, 2015, SEI and SPTC also filed motions seeking reconsideration of the District Court's June 17 denial of the motion to dismiss or, in the alternative, seeking leave to pursue an interlocutory appeal of certain elements of the denial, as well as a motion seeking partial judgment on the pleadings pursuant to Federal Rule of Civil Procedure 12(c) with respect to claims brought under Section 712(D) of the Louisiana Securities Law. On September 22, 2015, the District Court granted SEI and SPTC's motion for reconsideration of the June 17 denial of the motion to dismiss and dismissed plaintiffs' claims under Section 714(A) of the Louisiana Securities Law, but declined to dismiss, or certify for interlocutory appeal, plaintiffs' claims under Section 714(B) of the Louisiana Securities Law. 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 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". SEI has asked the Court to clarify the class definition because the one remaining claim in the action - secondary liability under the Louisiana Securities Law -requires proof that Stanford Trust Company sold or offered to sell securities.

In the two other cases filed in East Baton Rouge, brought by the same counsel who filed the class 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 is uncertain given its early phase, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously. Because of the uncertainty of the make-up of the classes, the specific theories of liability that may survive a motion for summary judgment or other dispositive motion, the 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.

A lawsuit entitled *Steven Curd and Rebel Curd v. SEI Investments Management Corporation* was filed against SIMC in the United States District Court for the Eastern District of Pennsylvania on December 11, 2013. On August 28, 2014, the Court granted SIMC's motion to dismiss the initial complaint in the lawsuit, but also granted plaintiffs leave to amend the complaint.

On October 2, 2014, plaintiffs filed an amended complaint. In the amended complaint, SEI Investments Global Funds Services (SGFS) was added as a defendant. The plaintiffs bring the case as a shareholder derivative action against SIMC and SGFS on behalf of certain SEI funds. The claims are based on Section 36(b) of the Investment Company Act of 1940, as amended, which allows shareholders of a mutual fund to sue the investment adviser of the fund or its affiliates for an alleged breach of fiduciary duty with respect to compensation received by the adviser or its affiliates. The plaintiffs have brought the suit against SIMC and SGFS with respect to five specific SEI Funds: the High Yield Bond, Tax-Managed Large Cap, and Tax-Managed Small/Mid Cap Funds, each of which is a series of the SEI Institutional Managed Trust, the Intermediate Term Municipal Fund, which is a series of the SEI Tax Exempt Trust, and the International Equity Fund, which is a series of the SEI Institutional International Trust (the SEI Funds). The plaintiffs seek: (1) damages for the SEI Funds in the amount of the alleged "excessive" fees earned by SIMC and SGFS beginning from the one year period prior to the filing of the lawsuit, plus interest, costs, and fees; (2) orders declaring that SIMC and SGFS allegedly violated Section 36(b) and enjoining SIMC and SGFS from further alleged violations; and (3) rescission of SIMC's and SGFS's contracts with the funds, and restitution of all allegedly excessive fees paid beginning from the one year period prior to the filing of the lawsuit, plus interest, costs, and fees. On November 24, 2014, SIMC and SGFS filed a motion to dismiss the amended complaint. On July 13, 2015, the Court denied the motion to dismiss with respect to SIMC, and granted the motion to dismiss with respect to SGFS. On September 18, 2015, plaintiffs filed a second amended complaint reinstating SGFS as a defendant in the case. The parties are currently engaged in discovery, which is expected to be completed in early 2017. While the outcome of this litigation is uncertain given its early phase, SIMC and SGFS believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuit vigorously, and SIMC and SGFS are not reasonably able to provide an estimate of the ultimate loss, if any, with respect to this lawsuit.

On November 26, 2014, a Writ of Summons was issued to two of our subsidiaries, SEI Investments - Global Fund Services Limited (GFSL) and SEI Investments - Trustee & Custodial Services (Ireland) Limited (T&C), to appear before the Court of First Instance Antwerp, Belgium. The plaintiffs in this case allege that through their initial investments in collective investment funds domiciled in Netherlands and subsequent transfer of claim rights to a Belgium domiciled partnership, they are beneficial owners of a portfolio of life settlement policies (the Portfolio) which lapsed due to a failure to make premium payments. The plaintiffs seek to recover jointly and severally from nine defendants including GFSL and T&C, damages of approximately \$84 million. GFSL and T&C's involvement in the litigation appears to arise out of their historical provision of administration and custody services, respectively, to the Strategic Life Settlement Fund PLC, who, together with its managers, appear to be the principal defendants in this claim. On December 4, 2015, the Belgium Court dismissed plaintiff's claims for a lack of jurisdiction. On December 22, 2015, the plaintiffs appealed the dismissal.

While the outcome of this action is uncertain given its early phase and the lack of specific theories of liability asserted against GFSL and T&C, each of GFSL and T&C believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuit vigorously, and GFSL and T&C are not reasonably able to provide an estimate of the ultimate loss, if any, with respect to this lawsuit.

#### Note 13. Sale of SEI Asset Korea

On July 31, 2012, the Company, MetLife International Holdings, Inc. (MetLife) and International Finance Corporation (IFC) entered into a definitive agreement with Baring Asset Management Limited (Barings) to sell all ownership interest in SEI Asset Korea (SEI AK). SEI AK was located in South Korea and provided domestic equity and fixed-income investment management services to financial institutions and pension funds.

On March 28, 2013, all conditions subject to closing the transaction were satisfied and all ownership interests in SEI AK were transferred to Barings. Under the terms of the agreement, a portion of the purchase price was paid upon closing with up to an additional \$11,220 payable to the Company as a contingent purchase price with respect to three

one-year periods ending on December 31, 2013, 2014, and 2015 depending upon whether SEI AK achieves specified revenue measures during such periods. The Company recognized pre-tax gains of \$2,791, or \$0.01 diluted earnings per share, during the six months ended June 30, 2016 and 2015 representing the final annual payments under the terms of the agreement. The Company's gains from the sale of SEI AK are included in Gain on sale of subsidiary on the accompanying Consolidated Statement of Operations.

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## 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 at June 30, 2016 and 2015, the consolidated results of operations for the three and six months ended June 30, 2016 and 2015 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, 2015.

## Overview

## Consolidated Summary

We are a leading global provider of investment processing, investment management and investment operations solutions. 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 solutions. 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 or administration. As of June 30, 2016, through our subsidiaries and partnerships in which we have a significant interest, we manage or administer \$707.0 billion in mutual fund and pooled or separately managed assets, including \$269.3 billion in assets under management and \$437.7 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages \$78.4 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, 2016 and 2015 were:

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	June 30, 2016	2015		June 30, 2016	2015	
Revenues	\$343,831	\$337,745	2 %	\$678,094	\$663,189	2 %
Expenses	250,308	241,827	4 %	497,759	474,201	5 %
Income from operations	93,523	95,918	(2) %	180,335	188,988	(5) %
Net gain (loss) from investments	250	(38)	NM	124	212	NM
Interest income, net of interest expense	846	641	32 %	1,815	1,497	21 %
Equity in earnings from unconsolidated affiliates	30,285	37,289	(19) %	59,477	71,322	(17) %
Gain on sale of subsidiary	—	—	— %	2,791	2,791	— %
Income before income taxes	124,904	133,810	(7) %	244,542	264,810	(8) %
Income taxes	43,899	47,570	(8) %	86,040	93,959	(8) %
Net income	81,005	86,240	(6) %	158,502	170,851	(7) %
Diluted earnings per common share	\$0.49	\$0.51	(4) %	\$0.96	\$1.00	(4) %

The following items had a significant impact on our financial results for the three and six months ended June 30, 2016 and 2015:

Revenue growth was primarily driven by higher Asset management, administration and distribution fees from improved cash flows from new and existing clients. The market volatility occurring during the course of the preceding 12 months negatively impacted our asset-based fee revenues and partially offset our revenue growth. Despite the volatile market conditions, our average assets under management, excluding LSV, increased \$10.1 billion, or six percent, to \$184.9 billion in the first six months of 2016 as compared to \$174.8 billion during the first six months of 2015. Our average assets under administration increased \$28.7 billion, or seven percent, to \$419.2 billion in the first six months of 2016 as compared to \$390.4 billion during the first six months of 2015.

Information processing and software servicing fees in our Private Banks segment increased \$4.0 million in the first six months of 2016 compared to the prior year period primarily due to increased assets from new and existing clients

processed on the SEI Wealth Platform.

Our proportionate share in the earnings of LSV decreased to \$59.5 million in the first six months of 2016 as compared to \$72.7 million in the first six months of 2015 primarily due to the decrease in assets under management from LSV's existing clients from volatile market conditions and a reduction in performance fees.

We capitalized \$16.1 million in the first six months of 2016 for the SEI Wealth Platform as compared to \$13.6 million in the first six months of 2015. Amortization expense related to the Platform increased to \$22.0 million during the first

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six months of 2016 as compared to \$20.9 million during the first six months of 2015 due to continued enhancements to the Platform.

As we continue the development of new elements of the Platform, our expenses related to maintenance, improvements 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. We expect these costs to continue to increase through the remainder of 2016 and into 2017.

We also capitalized \$3.5 million in the first six months of 2016 for a new application being 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.

Our operating expenses, primarily personnel costs, in our Investment Advisors and Investment Managers segments increased. These expenses primarily consist of operational and marketing costs and are mainly related to servicing existing clients and acquiring new clients. Additionally, sales compensation expense in our Private Banks and Investment Managers segments increased due to new business activity. These operating expenses are included in Compensation, benefits and other personnel costs on the accompanying Consolidated Statements of Operations. The strengthening of the U.S. dollar against the British pound and Canadian dollar during 2016 negatively impacted our revenues and operating income of our Private Banks and Institutional Investors segments. A prolonged period of a strengthening U.S. dollar against these currencies could have a further negative impact to our revenues and operating profits of these segments.

We recorded our final pre-tax gains of \$2.8 million, or \$.01 diluted earnings per share, from the sale of SEI Asset Korea (SEI AK) in the first six months of 2016 and 2015. The gains from the sale are included in Gain on sale of subsidiary on the accompanying Consolidated Statement of Operations (See Note 13 to the Consolidated Financial Statements for more information).

Our effective tax rate was 35.2 percent during the first six months of 2016 as compared to 35.5 percent during the first six months of 2015.

We continued our stock repurchase program during 2016 and purchased 3.6 million shares for \$154.1 million in the six month period.

## Ending Asset Balances

(In millions)

This table presents ending assets of our clients, or of our clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest.

	As of June 30,		Percent
	2016	2015	Change
Private Banks:			
Equity and fixed-income programs	\$18,328	\$19,686	(7 )%
Collective trust fund programs	3	13	(77 )%
Liquidity funds	4,848	5,280	(8 )%
Total assets under management	\$23,179	\$24,979	(7 )%
Client proprietary assets under administration	18,537	17,485	6 %
Total assets	\$41,716	\$42,464	(2 )%
Investment Advisors:			
Equity and fixed-income programs	50,016	46,951	7 %
Collective trust fund programs	5	8	