ITRON INC /WA/
Form 10-Q
November 04, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from to

Commission file number 000-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1011792**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

2818 North Sullivan Road

Spokane, Washington 99216-1897

(509) 924-9900

(Address and telephone number of registrant s principal executive offices)

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

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

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

As of October 31, 2005, there were outstanding 24,782,504 shares of the registrant s common stock, no par value, which is the only class of common stock of the registrant.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(in thousands, except per share data)			
Revenues				
Sales	$ 128,683	$ 107,327	$ 355,696	$ 230,358
Service	12,462	15,177	37,042	37,390
Total revenues	141,145	122,504	392,738	267,748
Cost of revenues				
Sales	73,179	63,534	203,188	130,993
Service	6,936	9,485	20,783	21,140
Total cost of revenues	80,115	73,019	223,971	152,133
Gross profit	61,030	49,485	168,767	115,615
Operating expenses				
Sales and marketing	13,688	12,045	40,456	31,971
Product development	11,807	11,893	35,135	32,669
General and administrative	11,645	9,201	33,381	24,479
Amortization of intangible assets	9,712	7,217	29,143	11,271
Restructurings		1,571	390	4,005
Total operating expenses	46,852	41,927	138,505	104,395
Operating income	14,178	7,558	30,262	11,220
Other income (expense)				
Interest income	69	24	167	152
Interest expense	(4,328)	(5,147)	(15,280)	(8,162)
Other income (expense), net	(535)	261	20	(474)
Total other income (expense)	(4,794)	(4,862)	(15,093)	(8,484)
Income before income taxes	9,384	2,696	15,169	2,736
Income tax (provision) benefit	(3,382)	(1,026)	963	(986)

Net income	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Earnings per share				
Basic net income per share	$ 0.25	$ 0.08	$ 0.70	$ 0.08
Diluted net income per share	$ 0.23	$ 0.08	$ 0.66	$ 0.08
Weighted average number of shares outstanding				
Basic	24,441	20,978	22,912	20,827
Diluted	25,919	22,050	24,471	22,005

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

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ITRON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	September 30, 2005	December 31, 2004
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,896	$ 11,624
Accounts receivable, net	94,983	90,097
Inventories	50,658	45,459
Deferred income taxes, net	8,018	22,733
Other	9,530	5,477
Total current assets	175,085	175,390
Property, plant and equipment, net	55,411	59,690
Intangible assets, net	132,996	162,137
Goodwill	116,079	117,471
Deferred income taxes, net	58,426	27,252
Other	11,963	15,211
Total assets	$ 549,960	$ 557,151
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 38,000	$ 37,439
Wages and benefits payable	21,569	13,947
Current portion of debt	2,139	35,647
Current portion of warranty	5,323	7,243
Unearned revenue	20,256	22,991
Total current liabilities	87,287	117,267
Long-term debt	150,871	239,361
Project financing debt	2,588	3,227
Warranty	5,928	6,331
Other obligations	5,706	6,535
Total liabilities	252,380	372,721
Commitments and contingencies (Notes 7 and 10)		
Shareholders equity		
Preferred stock		
Common stock	308,841	211,920
Accumulated other comprehensive income, net	1,051	954
Accumulated deficit	(12,312)	(28,444)
Total shareholders equity	297,580	184,430

Total liabilities and shareholders equity	$ 549,960	$ 557,151

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

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ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30,	
	2005	**2004**
	(in thousands)	
Operating activities		
Net income	$ 16,132	$ 1,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,785	19,260
Employee stock plan income tax benefits	14,399	1,366
Amortization of prepaid debt fees	4,330	1,165
Realized currency translation gains	(391)	(279)
Deferred income tax benefit	(16,313)	(1,278)
Other, net	2,178	1,560
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(4,738)	25,711
Inventories	(5,199)	(9,013)
Accounts payable and accrued expenses	360	(860)
Wages and benefits payable	7,605	437
Unearned revenue	(3,085)	(1,130)
Warranty	(194)	(9,211)
Other long-term obligations	(436)	(808)
Other, net	(3,879)	(1,126)
Cash provided by operating activities	49,554	27,544
Investing activities		
Proceeds from the sale of property, plant and equipment	2,627	12
Acquisition of property, plant and equipment	(10,264)	(10,001)
Acquisitions, net of cash and cash equivalents		(251,829)
Payment of contingent purchase price for acquisition		(1,957)
Other, net	(847)	525
Cash used by investing activities	(8,484)	(263,250)
Financing activities		
New borrowings		309,081
Change in short-term borrowings, net		(10,000)
Payments on debt	(122,704)	(49,591)
Issuance of common stock	82,269	4,776
Prepaid debt fees	(391)	(13,470)
Other, net	28	(6)
Cash provided (used) by financing activities	(40,798)	240,790
Increase in cash and cash equivalents	272	5,084
Cash and cash equivalents at beginning of period	11,624	6,240

Cash and cash equivalents at end of period	$ 11,896	$ 11,324
Non-cash transactions:		
Taxes on contingent purchase price payable for acquisition	$	$ 113
Reclassification of prepaid debt fees		485
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 1,536	$ 431
Interest	8,986	4,396

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

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ITRON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

In this Quarterly Report on Form 10-Q, the terms we, us, our, Itron and the Company refer to Itron, Inc.

Note 1: Summary of Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited and reflect entries necessary for the fair presentation of the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004, Condensed Consolidated Balance Sheets as of September 30, 2005 and December 31, 2004 and Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004, of Itron and our wholly owned subsidiaries. All entries required for the fair presentation of the financial statements are of a normal recurring nature. Inter-company transactions and balances are eliminated upon consolidation.

We consolidate all entities in which we have a greater than 50% ownership interest. We also consolidate entities in which we have a 50% or less investment and over which we have control. We account for entities in which we have a 50% or less investment and exercise significant influence under the equity method of accounting. Entities in which we have less than a 20% investment and do not exercise significant influence are accounted for under the cost method. We consider for consolidation any variable interest entity of which we are the primary beneficiary. We are not the primary beneficiary of any variable interest entities.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim results. These condensed consolidated financial statements should be read in conjunction with the 2004 audited financial statements and notes included in our Annual Report on Form 10-K, as filed with the SEC on March 11, 2005. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date. The allowance for doubtful accounts is based on our historical experience of bad debts and is increased if the estimated uncollectible amount is greater. Accounts receivable are written-off against the allowance when we believe an account, or a portion thereof, is no longer collectible.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs. Service inventories consist primarily of sub-assemblies and components necessary to support post-sale maintenance. A large portion of our low-volume manufacturing and all of our repair services for our domestic handheld meter reading units are provided by an outside vendor in which we have a 30% equity interest. Consigned inventory at the outside vendor affiliate was $2.7 million at September 30, 2005 and $1.9 million at December 31, 2004.

Property, Plant and Equipment and Equipment used in Outsourcing

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally thirty years for buildings and three to five years for equipment, computers and furniture, or over the term of the applicable lease, if shorter. Project management costs incurred in connection with installation and equipment used in outsourcing contracts are depreciated using the straight-line method over the shorter of the useful life or the term of the contract. Costs related to internally developed software and software purchased for internal uses are capitalized based on Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. Repair and maintenance costs are expensed as incurred. We have no major planned maintenance activities.

We review long-lived assets for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. There were no significant impairments in the three and nine months ended September 30, 2005 and 2004. If there were an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows were less than the carrying amount of the assets, an impairment loss would be recognized to write down the assets to their estimated fair value.

Debt Issue Costs

Debt issue costs represent direct costs incurred in connection with the issuance of long-term debt and are recorded in other noncurrent assets. These costs are amortized to interest expense over the lives of the respective debt issues using the effective interest method. When debt is repaid early, the portion of unamortized debt issue costs related to the early principal repayment is written-off and included in interest expense in the Condensed Consolidated Statements of Operations.

Acquisitions

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, we utilize the purchase method of accounting for business combinations. Business combinations accounted for under the purchase method include the results of operations of the acquired business from the date of acquisition. Net assets of the company acquired and intangible assets that arise from contractual/legal rights, or are capable of being separated, are recorded at their fair values at the date of acquisition. The balance of the purchase price after fair value allocations represents goodwill. Amounts allocated to in-process research and development (IPR&D) are expensed in the period of acquisition.

Goodwill and Intangible Assets

Goodwill is tested for impairment each year as of October 1 or more frequently if a significant event occurs under the guidance of SFAS No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with a finite life are amortized based on estimated discounted cash flows over estimated useful lives and tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We use estimates in determining the value of goodwill and intangible assets, including estimates of useful lives of intangible assets, discounted future cash flows and fair values of the related operations. We forecast discounted future cash flows at the reporting unit level based on estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts and general market conditions.

Warranty

We offer industry standard warranties on our hardware products and large application software products. Standard warranty accruals represent the estimated cost of projected warranty claims and are based on historical and projected product performance trends, business volume assumptions, supplier information and other business and economic projections. Thorough testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Continuing quality control efforts during manufacturing limit our exposure to warranty claims. If our quality control efforts fail to detect a fault in one of our products, we could experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated. Management continually evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to changes in estimates for material, labor and other costs we may incur to replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established product. The long-term warranty balance includes estimated warranty claims beyond one year.

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A summary of the warranty accrual account activity is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Beginning balance	$ 11,264	$ 11,763	$ 13,574	$ 17,475
SEM acquisition - opening balance adjustment		5,022	(2,128)	5,022
New warranty accruals	1,570	267	3,038	1,261
Adjustments to pre-existing items	914	1,839	2,403	2,336
Claims activity	(2,497)	(5,605)	(5,636)	(12,808)
Ending balance	11,251	13,286	11,251	13,286
Less: current portion of warranty	5,323	6,950	5,323	6,950
Long-term warranty	$ 5,928	$ 6,336	$ 5,928	$ 6,336

Total warranty expense, which consists of new warranty accruals for product warranties issued and adjustments to pre-existing items, totaled approximately $2.5 million and $2.1 million for the three months ended September 30, 2005 and 2004 and approximately $5.4 million and $3.6 million for the nine months ended September 30, 2005 and 2004, respectively. Warranty expense is classified within cost of sales.

In 2003, we established a warranty accrual for the product replacement of an electric automatic meter reading (AMR) module due to the failure of a specific component from a supplier. Product replacement work was substantially completed for this specific AMR module during 2004, resulting in a decline in claims activity for the 2005 periods. The increase in new warranty accruals in 2005, compared with 2004, is primarily due to our Electricity Metering business.

Health Benefits

We are self insured for a substantial portion of the cost of employee group health insurance. We purchase insurance from a third party, which provides individual and aggregate stop loss protection for these costs. Each reporting period, we record the costs of our health insurance plan including paid claims, the change in the estimate of incurred but not reported (IBNR) claims, taxes and administrative fees (collectively the Plan Costs). Plan Costs were approximately $1.7 million and $2.4 million in the three months ended September 30, 2005 and 2004, respectively. Plan Costs were approximately $5.3 million and $6.5 million in the nine months ended September 30, 2005 and 2004, respectively. The IBNR accrual, which is included in wages and benefits payable, was $1.1 million and $1.8 million at September 30, 2005 and December 31, 2004, respectively.

Contingencies

An estimated loss for a contingency is charged to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially affect our financial position, results of operations and cash flows.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of our assets and liabilities. These deferred taxes are measured using the tax rates expected to be in effect when the temporary differences reverse. We establish a valuation allowance for a portion of the deferred tax asset when we believe it is more likely than not the deferred tax asset will not be utilized.

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Deferred tax liabilities have been recorded on undistributed earnings of foreign subsidiaries. The American Jobs Creation Act of 2004 introduced a special one-time dividends-received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. We do not expect to repatriate foreign earnings under the provision of this Act.

Foreign Exchange

Our condensed consolidated financial statements are prepared in U.S. dollars. Assets and liabilities of foreign subsidiaries are denominated in foreign currencies and are translated to U.S. dollars at the exchange rates in effect on the balance sheet date. Revenues, costs of revenues and expenses for these subsidiaries are translated using a weighted average rate for the relevant reporting period. Translation adjustments resulting from this process are included, net of tax, in other comprehensive income (loss) in shareholders equity. Gains and losses that arise from exchange rate fluctuations for balances that are not denominated in the local currency are included in results of operations unless those balances arose from intercompany transactions deemed to be long-term in nature. Currency gains and losses for this exception are included, net of tax, in other comprehensive income (loss) in shareholders equity.

Revenue Recognition

Sales consist of hardware, software license fees, custom software development, field and project management service and engineering, consulting and installation service revenues. Service revenues include post-sale maintenance support and outsourcing services. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers.

Revenue arrangements with multiple deliverables are divided into separate units of accounting if the delivered item(s) have value to the customer on a standalone basis, there is objective and reliable evidence of fair value of the undelivered item(s) and delivery/performance of the undelivered item(s) is probable. The total arrangement consideration is allocated among the separate units of accounting based on their relative fair values and the applicable revenue recognition criteria considered for each unit of accounting. For our standard contract arrangements that combine deliverables such as hardware, meter reading system software, installation and maintenance services, each deliverable is generally considered a single unit of accounting. The amount allocable to a delivered item is limited to the amount that we are entitled to bill and collect and is not contingent upon the delivery/performance of additional items.

Revenues are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable and (4) collectibility is reasonably assured. Hardware revenues are generally recognized at the time of shipment, receipt by customer, or, if applicable, upon completion of customer acceptance provisions. For software arrangements with multiple elements, the timing of revenue recognition is dependent upon vendor-specific objective evidence (VSOE) of fair value for each of the elements. The availability of VSOE affects the timing of revenue recognition, which can vary from recognizing revenue at the time of delivery of each element, to the percentage of completion method or ratably over the performance period. If the implementation services are essential to the software arrangement, revenue is recognized using the percentage of completion methodology. Hardware and software post-sale maintenance support fees are recognized ratably over the life of the related service contract. Under outsourcing arrangements, revenue is recognized as services are provided.

Unearned revenue is recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but the criteria for revenue recognition have not been met.

Product and Software Development Expenses

Product and software development expenses primarily include payroll and other employee benefit costs. For software to be marketed or sold, financial accounting standards require the capitalization of development costs after technological feasibility is established. Due to the relatively short period between technological feasibility and the completion of product development, the insignificance of related costs and the immaterial nature of these costs, we do not capitalize software development costs. All product and software development costs are expensed when incurred.

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Earnings Per Share

Basic earnings per share (EPS) is calculated using net income divided by the weighted average common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average common shares outstanding are increased to include the number of additional common shares that would have been outstanding if dilutive stock-based awards had been exercised. Diluted EPS assumes that common shares were issued upon the exercise of stock-based awards for which the market price exceeded the exercise price, less shares that could have been repurchased with the related proceeds (treasury stock method). In periods when we report a net loss, diluted net loss per share is the same as basic net loss per share. In such circumstances, we exclude all outstanding stock-based awards from the calculation of diluted net loss per common share because including such awards among the weighted average shares outstanding would be anti-dilutive.

Stock-Based Compensation

We have granted stock-based awards to purchase shares of our common stock to directors and employees at fair market value on the date of grant. SFAS No. 123, *Accounting for Stock-Based Compensation,* allows companies to either expense the estimated fair value of stock-based awards or to continue to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, but disclose the pro forma effects on net income (loss) had the fair value of the awards been expensed. We elected to continue to apply APB Opinion No. 25 in accounting for our stock-based compensation plans and disclose the pro forma effects of applying the fair value provisions of SFAS No. 123.

Had the compensation cost for our stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, our net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(in thousands, except per share data)			
Net income (loss)				
As reported	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Deduct: Stock-based compensation, net of tax	(1,009)	(1,803)	(4,078)	(4,038)
Pro forma net income (loss)	$ 4,993	$ (133)	$ 12,054	$ (2,288)
Basic net income (loss) per share				
As reported	$ 0.25	$ 0.08	$ 0.70	$ 0.08
Pro forma	$ 0.20	$ (0.01)	$ 0.53	$ (0.11)
Diluted net income (loss) per share				
As reported	$ 0.23	$ 0.08	$ 0.66	$ 0.08
Pro forma	$ 0.19	$ (0.01)	$ 0.50	$ (0.11)

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The weighted average fair value of awards granted was $50.29 and $22.64 during the three months ended September 30, 2005 and 2004, respectively. The weighted average fair value of awards granted was $36.59 and $21.00 during the nine months ended September 30, 2005 and 2004, respectively. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Dividend yield				
Expected volatility	58.0%	71.1%	59.0%	72.4%
Risk-free interest rate	4.1%	4.3%	3.7%	4.1%
Expected life (years)	3.4	4.5	3.4	4.5

Volatility measures the amount that a stock price has fluctuated or is expected to fluctuate during a period. The risk-free interest rate is the rate available as of the option date on zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. The expected life is the weighted average expected life for the entire award based on the fixed period of time between the date the option is granted and the date the award is fully exercised. Factors to be considered in estimating the expected life are the vesting period of the award and the average period of time similar awards have remained outstanding in the past. The decreases in the expected life and volatility assumptions are the result of increased option activity in 2005.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of various factors affecting future costs and operations, actual results could differ from estimates.

Reclassifications

Certain amounts in 2004 have been reclassified to conform to the 2005 presentation.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 151, *Inventory Costs an amendment of ARB No. 43, Chapter 4*, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that an allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement are effective for inventory costs incurred on or after January 1, 2006. While we believe this Statement is not likely to have a material effect on our financial statements, the impact of adopting the new rule is

dependent on events in future periods, and as such, an estimate of the impact cannot be determined.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires companies to expense the fair value of equity awards over the required service period. We have not yet quantified the effects of the adoption of SFAS 123R, but the adoption of SFAS 123R will decrease gross profit, increase operating expenses, affect the tax rate and materially affect net income. The pro forma effects on net income (loss) and EPS if we had applied the fair value recognition provisions of the original SFAS No. 123 on stock compensation awards are disclosed above. Such pro forma effects of applying the original SFAS No. 123 may not be indicative of the effects of adopting SFAS 123R, since the provisions of the two statements differ.

SFAS 123R will be effective for our fiscal year beginning January 1, 2006. The Statement will be implemented on a prospective basis for new awards, awards modified, repurchased or cancelled after January 1, 2006 and unvested options previously granted.

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Note 2: Earnings Per Share and Capital Structure

The following table sets forth the computation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands, except per share data)			
Basic earnings per share:				
Net income available to common shareholders	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Weighted average number of shares outstanding	24,441	20,978	22,912	20,827
Basic net income per share	$ 0.25	$ 0.08	$ 0.70	$ 0.08
Diluted earnings per share:				
Net income available to common shareholders	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Weighted average number of shares outstanding	24,441	20,978	22,912	20,827
Effect of dilutive securities:				
Employee stock-based awards	1,478	1,072	1,559	1,178
Adjusted weighted average number of shares outstanding	25,919	22,050	24,471	22,005
Diluted net income per share	$ 0.23	$ 0.08	$ 0.66	$ 0.08

The dilutive effect of stock-based awards is calculated using the treasury stock method. Under this method, EPS is computed as if the awards were exercised at the beginning of the period (or at time of issuance, if later) and as if the funds obtained thereby were used to repurchase common stock at the average market price during the period. Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock-based awards. At September 30, 2005 and 2004, we had stock-based awards outstanding of approximately 2.5 million and 4.1 million at average option exercise prices of $20.88 and $12.73, respectively. Approximately 11,000 and 1.6 million stock-based awards were excluded from the calculation of diluted EPS for the three months ended September 30, 2005 and 2004, respectively, because they were anti-dilutive. Approximately 316,000 and 1.2 million stock-based awards were excluded from the calculation of diluted EPS for the nine months ended September 30, 2005 and 2004, respectively, because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

During May 2005, we sold 1.7 million shares of common stock at a price of $36.50 per share in an underwritten public offering. Proceeds to the Company totaled approximately $59.6 million after payment of the underwriting discount and approximately $200,000 in other expenses. The proceeds of the public offering were used to pay down borrowings under our senior secured term loan.

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Note 3: Certain Balance Sheet Components

	At September 30, 2005	At December 31, 2004
	(in thousands)	
Accounts receivable, net		
Trade (net of allowance for doubtful accounts of $627 and $1,312)	$ 88,154	$ 83,977
Unbilled revenue	6,829	6,120
Total accounts receivable, net	$ 94,983	$ 90,097
Inventories		
Materials	$ 23,168	$ 20,574
Work in process	5,303	5,150
Finished goods	20,524	17,904
Total manufacturing inventories	48,995	43,628
Service inventories	1,663	1,831
Total inventories	$ 50,658	$ 45,459
Property, plant and equipment, net		
Machinery and equipment	$ 45,994	$ 43,551
Equipment used in outsourcing	16,042	16,094
Computers and purchased software	33,201	36,529
Buildings, furniture and improvements	27,984	28,979
Land	2,255	3,460
Total cost	125,476	128,613
Accumulated depreciation	(70,065)	(68,923)
Property, plant and equipment, net	$ 55,411	$ 59,690

Depreciation expense was $3.0 million and $3.3 million during the three months ended September 30, 2005 and 2004, respectively. Depreciation expense was $9.7 million and $8.0 million during the nine months ended September 30, 2005 and 2004, respectively.

A summary of the allowance for doubtful accounts activity is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			

Beginning balance	$ 711	$ 693	$ 1,312	$ 695
Provision (benefit) for doubtful accounts	(79)	(196)	(236)	(34)
Recoveries			30	
Accounts charged off	(5)	44	(479)	(120)
Ending balance	$ 627	$ 541	$ 627	$ 541

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Note 4: Business Combinations

On July 1, 2004, we completed the acquisition of our Electricity Metering business. This acquisition added electricity meter manufacturing and sales to our operations, and now represents our Hardware Solutions Electricity Metering operating segment.

During the fourth quarter of 2004, we expensed $6.4 million of IPR&D, which consisted primarily of next generation technology, valued at $5.7 million. At September 30, 2005, we estimate the research and development to be approximately 85% complete with a cost to complete the development of approximately $400,000 over the next three to six months.

In 2004, we accrued approximately $800,000 as an adjustment to goodwill for the employee severance costs associated with the relocation of our Quebec, Canada facility acquired with the acquisition of our Electricity Metering business. As of September 30, 2005, approximately $700,000 had been paid to employees, leaving a remaining accrual of approximately $100,000, which will be completely paid by the end of the second quarter of 2006.

Note 5: Identified Intangible Assets

The gross carrying amount and accumulated amortization of our intangible assets, other than goodwill, were as follows:

	At September 30, 2005			At December 31, 2004		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
	(in thousands)					
Core-developed technology	$ 154,330	$ (46,644)	$ 107,686	$ 154,330	$ (24,386)	$ 129,944
Patents	7,088	(4,598)	2,490	7,088	(4,321)	2,767
Capitalized software	5,065	(5,065)		5,065	(5,065)	
Distribution and production rights	3,935	(3,172)	763	3,935	(2,992)	943
Customer contracts	8,750	(6,193)	2,557	8,750	(3,688)	5,062
Trademarks and tradenames	25,710	(6,412)	19,298	25,710	(2,748)	22,962
Other	6,450	(6,248)	202	6,450	(5,991)	459
Total identified intangible assets	$ 211,328	$ (78,332)	$ 132,996	$ 211,328	$ (49,191)	$ 162,137

Intangible asset amortization expense was approximately $9.7 million and $7.2 million for the three months ended September 30, 2005 and 2004 and approximately $29.1 million and $11.3 million for the nine months ended September 30, 2005 and 2004, respectively. Estimated annual amortization expense is as follows:

	Estimated Annual Amortization
	(in thousands)
2005	$ 38,846
2006	29,251
2007	24,363
2008	20,904
2009	17,323
Beyond 2009	31,450

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Note 6: Goodwill

We test goodwill for impairment as of October 1 of each year. On July 1, 2004, we completed the acquisition of our Electricity Metering business and recorded a preliminary allocation of the purchase price based on estimated fair values of assets and liabilities at September 30, 2004. Goodwill decreased in the fourth quarter of 2004 after a more comprehensive valuation analysis was completed, resulting in a significantly higher amount allocated to identifiable intangible assets, with a significantly lower amount allocated to goodwill. We continued to make adjustments to the purchase price through June 2005 as the valuations of assets and liabilities were finalized. Goodwill decreased in 2005 primarily due to $2.1 million specifically related to changes in the estimated warranty liability at July 1, 2004. Goodwill balances can also increase or decrease, with a corresponding change in other comprehensive income (loss), as a result of changes in foreign currency exchange rates. The change in goodwill for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine Months Ended September 30,	
	2005	2004
	(in thousands)	
Goodwill balance, January 1	$ 117,471	$ 90,385
Goodwill adjustments	(1,758)	101,148
Effect of change in exchange rates	366	179
Goodwill balance, September 30	$ 116,079	$ 191,712

The following table reflects changes in goodwill for each reporting segment during the first nine months of 2005:

	Hardware Solutions			
	Meter Data Collection	Electricity Metering	Software Solutions	Total Company
	(in thousands)			
Goodwill balance, January 1, 2005	$ 73,337	$ 26,236	$ 17,898	$ 117,471
Goodwill adjustments		(1,758)		(1,758)
Effect of change in exchange rates	221	91	54	366
Goodwill balance, September 30, 2005	$ 73,558	$ 24,569	$ 17,952	$ 116,079

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Note 7: Debt

The components of our borrowings are as follows:

	At September 30, 2005	At December 31, 2004
	(in thousands)	
Senior Secured Credit Facility		
Term Loan	$ 27,964	$ 150,075
Revolving Credit Line		
Senior Subordinated Notes	124,203	124,136
Project Financing	3,431	4,024
	155,598	278,235
Current Portion of Debt	(2,139)	(35,647)
Total Long-term Debt	$ 153,459	$ 242,588

Senior Secured Credit Facility

Our senior secured credit facility (credit facility) consists of an original $185 million seven-year senior secured term loan (term loan or term debt) and a $55 million five-year senior secured revolving credit line (revolver). The outstanding term loan balance at September 30, 2005 was $28.0 million while the revolver had no outstanding borrowings. The credit facility is guaranteed by all of our operating subsidiaries (except our foreign subsidiaries and an outsourcing project financing subsidiary), all of which are wholly owned. Debt issuance costs are amortized over the life of the credit facility using the effective interest method. Unamortized debt issuance costs were approximately $9.6 million and $13.5 million at September 30, 2005 and December 31, 2004, respectively.

In April 2005, we completed two amendments to our credit facility. The amendments included a 50 basis point reduction in the term loan interest rate and increases to our maximum consolidated leverage and senior debt ratios. In addition, we obtained the ability to increase our revolver commitment from $55 million to $75 million at a future date, as defined in the April 2005 amendment. We also increased our letter of credit limit to $55 million and added the ability to increase it to $65 million at a future date. Our required minimum quarterly principal payments are $324,000 for the next 17 quarters ($1.3 million annually) with the remaining balance to be paid in four installments over the last six quarters, maturing in 2011. Optional repayments of the term loan are permitted without penalty or premium. Additional mandatory prepayments, based on 75% of defined excess cash flows, the issuance of capital stock or the sale of assets as defined by the borrowing agreement, would all decrease the minimum payments at maturity. Interest rates on the term loan are based on the London InterBank Offering Rate (LIBOR) plus 1.75% or the Wells Fargo Bank, National Association s prime rate (Prime) plus 0.75%. We had no mandatory prepayment requirement during 2004. We made optional prepayments on the term loan of $121.0 million during the first nine months of 2005 and $34.0 million during the second half of 2004.

At September 30, 2005, $1.3 million of the $28.0 million in term debt was classified as current, based on the mandatory principal payments defined in the amended borrowing agreement. At December 31, 2004, $34.9 million of the $150.1 million outstanding balance on the term loan was classified as current and $115.2 million was classified as long-term. The classification between current and long-term debt at December 31, 2004 was based on the mandatory principal payments defined in the borrowing agreement, as well as an additional $33.0 million of optional

prepayments we expected to make during the first six months of 2005 in order to remain in compliance with our debt covenants. We were in compliance with all of our debt covenants at September 30, 2005, which require us to maintain certain consolidated leverage and coverage ratios on a quarterly basis, as well as customary covenants that place restrictions on the incurrence of debt, the payment of dividends, certain investments and mergers.

Interest rates on the revolver vary depending on our consolidated leverage ratio and are based on LIBOR plus 2.0% to 3.0%, or Prime plus 1.0% to 2.0%, payable at various intervals depending on the term of the borrowing. The annual commitment fee on the unused portion of the revolver varies from 0.375% to 0.50%. We incur annual letter of credit fees based on (a) a fronting fee of 0.125% and (b) a letter of credit fee that varies from 2.0% to 3.0%. Revolver borrowings can be made at any time through June 2009, at which time any borrowings outstanding must be repaid. At September 30, 2005 there were no borrowings outstanding under the revolver and $22.7 million was utilized by outstanding standby letters of credit resulting in $32.3 million available for additional borrowings.

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In June 2005, we terminated an interest rate swap and cap that we placed in the fourth quarter of 2004 for approximately $416,000 and $48,000, respectively, compared with fair market values of approximately $224,000 and $69,000, respectively at December 31, 2004. The derivative instruments were initially designated as cash flow hedges; however, as a result of the optional prepayments on our term loan in the fourth quarter of 2004, we determined the cash flow hedges were ineffective in the same quarter as they were purchased, resulting in the recognition through interest expense of the changes in fair value. At September 30, 2005, we held no derivative instruments.

Senior Subordinated Notes

On May 10, 2004, we completed a private placement of $125 million aggregate principal amount of 7.75% notes, due in 2012. The notes are discounted to a price of 99.265 to yield 7.875%, with a balance of $124.2 million at September 30, 2005. On February 17, 2005, we completed an exchange of the notes for substantially identical registered notes, except that the new notes are generally transferable and do not contain certain terms with respect to registration rights and liquidation damages. The discount on the notes will be accreted and the debt issuance costs will be amortized over the life of the notes. Fixed interest payments of approximately $4.8 million are required every six months, in May and November. The notes are subordinated to our senior secured credit facility and are guaranteed by all of our operating subsidiaries (except our foreign subsidiaries and an outsourcing project financing subsidiary), all of which are wholly owned. The notes contain covenants, which place restrictions on the incurrence of debt, the payment of dividends, certain investments and mergers. Some or all of the notes may be redeemed at our option at any time on or after May 15, 2008, at certain specified premium prices. At any time prior to May 15, 2007, we may, at our option, redeem up to 35% of the notes with the proceeds of certain sales of our common stock.

Project Financing

In conjunction with project financing for one of our outsourcing contracts, we issued a note secured by the assets of the project with monthly interest payments at an annual interest rate of 7.6%, maturing May 31, 2009. The project financing loan had an outstanding balance of $3.4 million at September 30, 2005.

Minimum Payments on Debt

The senior secured credit facility, notes and project financing agreements stipulate a minimum repayment schedule at September 30, 2005 as follows:

	Minimum Payments
	(in thousands)
2005	$ 528
2006	2,156
2007	2,223
2008	2,296
2009	1,736
Beyond 2009	146,659
	$ 155,598

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Note 8: Restructurings

During 2004, we implemented a new internal organizational structure, which resulted in several actions to reduce spending and eliminate certain unprofitable activities. As a result, we reduced our staffing by approximately 260 employees and incurred restructuring expenses of $7.7 million. Approximately $13,000 in severance costs remained to be paid to employees at September 30, 2005. Accrued liabilities associated with restructuring efforts were approximately $79,000 and $2.5 million at September 30, 2005 and December 31, 2004, respectively, and consisted of the following:

	Severance and Related Costs	Lease Termination and Related Costs
	(in thousands)	
Accrual balance at December 31, 2004	$ 2,317	$ 175
Addition/adjustments to accruals	390	(109)
Cash payments	(2,694)	
Accrual balance at September 30, 2005	$ 13	$ 66
Accrual balance at December 31, 2003	$ 28	$ 125
Addition/adjustments to accruals	3,977	73
Cash payments	(3,870)	(10)
Accrual balance at September 30, 2004	$ 135	$ 188

The liability for lease terminations is recorded within accrued expenses and the liability for employee severance is recorded within wages and benefits payable. Lease termination and related costs are dependent on our ability to sublease vacant space and are reported as general and administrative. Severance and lease termination costs are not allocated to the reporting segments.

Note 9: Income Taxes

We estimate our 2005 annual effective income tax rate will be approximately 34%. Our effective income tax rate differs from the federal statutory rate of 35% and can vary from period to period due to fluctuations in operating results, new or revised tax legislation, changes in the level of business performed in domestic and international jurisdictions, research credits, expirations of research credits and loss carryforwards, IPR&D charges, state income taxes and extraterritorial income exclusion tax benefits. In the second quarter of 2005, we completed a study of federal research tax credits for the years 1997 through 2004, recognizing a $5.9 million net tax benefit. The Working Families Tax Relief Act of 2004 and the American Jobs Creation Act of 2004 were signed into law in October 2004. The only provision that had a significant income tax effect on the Company was the extension of research credits through December 31, 2005. We estimate the 2005 net benefit will be approximately $1.2 million. Due primarily to these credits, we had a net tax benefit of $963,000 for the nine months ended September 30, 2005

Our effective income tax rate of 38% for the three months ended September 30, 2004 was higher than the full year 2004 effective income tax rate of 36%, as a result of changes in estimated taxes due in future periods, partially offset by tax credit adjustments in the third quarter.

Note 10: Commitments and Contingencies

Guarantees and Indemnifications

Under FASB Interpretation 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we will record a liability for certain types of guarantees and indemnifications for agreements entered into or amended subsequent to December 31, 2002. No liabilities were required to be recorded as of September 30, 2005 and December 31, 2004.

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We maintain bid and performance bonds for certain customers. Bonds in force were $8.0 million and $7.3 million at September 30, 2005 and December 31, 2004, respectively. Bid bonds guarantee that we will enter into a contract consistent with the terms of the bid. Performance bonds provide a guarantee to the customer for future performance, which usually covers the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts.

We also have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were $22.7 million and $23.3 million at September 30, 2005 and December 31, 2004, respectively.

We generally provide an indemnification related to the infringement of any patent, copyright, trademark or other intellectual property right on software or equipment within our sales contracts, which indemnifies the customer from and pays the resulting costs, damages and attorneys fees awarded against a customer with respect to such a claim provided that (a) the customer promptly notifies us in writing of the claim and (b) we have the sole control of the defense and all related settlement negotiations. The terms of the indemnification normally do not limit the maximum potential future payments. We also provide an indemnification for third party claims resulting from damages caused by the negligence or willful misconduct of our employees/agents in connection with the performance of certain contracts. The terms of the indemnification generally do not limit the maximum potential payments.

Legal Matters

We are subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. Our policy is to assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the liability required, if any, for these contingencies is made after an analysis of each known issue in accordance with SFAS No. 5, *Accounting for Contingencies*, and related pronouncements. In accordance with SFAS No. 5, a liability is recorded when we determine that a loss is probable and the amount can be reasonably estimated. Additionally, we disclose contingencies for which a material loss is reasonably possible, but not probable. At September 30, 2005, there were no contingencies requiring accrual or disclosure.

Note 11: Segment Information

We have two operating groups (Hardware Solutions and Software Solutions) and three operating segments. Software Solutions is a single segment, whereas Hardware Solutions is comprised of two segments, Meter Data Collection and Electricity Metering. For these three operating segments, management has three primary measures of segment performance: revenue, gross profit (margin) and operating income (loss). Revenues for each operating segment are reported according to product lines. There are no inter-operating segment revenues. Within Hardware Solutions, costs of sales are based on standard costs, which include materials, direct labor, warranty expense and an overhead allocation, as well as variances from standard costs. Software cost of sales include distribution and documentation costs for applications sold, along with other labor and operating costs for custom software development, project management, consulting and systems support. Hardware and software cost of services include materials, labor and overhead. Operating expenses directly associated with each operating segment may include sales, marketing, product development or administrative expenses.

Corporate operating expenses, interest revenue, interest expense, equity in the income (loss) of investees accounted for by the equity method, amortization expense and income tax expense (benefit) are not allocated to the operating segments, nor included in the measure of segment profit or loss. Assets and liabilities are not allocated to the operating segments, except for the Electricity Metering operating segment, which is individually maintained and reviewed. At September 30, 2005, Electricity Metering had total assets of $263.6 million. Approximately 60% of depreciation expense was allocated to the operating segments, with the remaining portion unallocated at September 30, 2005 and 2004.

We classify sales in the United States and Canada as domestic revenues. International revenues were $10.3 million and $5.8 million for the three months ended September 30, 2005 and 2004 and $28.2 million and $13.5 million for the nine months ended September 30, 2005 and 2004, respectively. The increase in international revenues for the third quarter of 2005 was due to higher handheld system sales.

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Operating Segment Products

Operating Segment	Major Products
Hardware Solutions Meter Data Collection:	Residential and commercial AMR standalone and OEM (original equipment manufacturer) modules, contract manufacturing of our AMR technology for other electricity meter vendors, mobile and network AMR data collection technologies, SmartSynch meter systems, handheld computers for meter data collection or mobile workforce applications and related installation and implementation services.
Hardware Solutions Electricity Metering:	Residential solid-state and electromechanical electricity meters, AMR enabled meters, commercial and industrial solid-state electricity meters and generation, SmartSynch meter systems, transmission and distribution meters and related installation and implementation services.
Software Solutions:	Software applications for commercial, industrial and residential meter data collection and management, distribution systems design and optimization, energy and water management, asset optimization, mobile workforce solutions, forecasting and related implementation consulting services.

Operating Segment Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(in thousands)			
Revenues				
Hardware Solutions				
Meter Data Collection	$ 70,638	$ 56,798	$ 182,506	$ 178,714
Electricity Metering	58,598	54,195	173,326	54,195
Total Hardware Solutions	129,236	110,993	355,832	232,909
Software Solutions	11,909	11,511	36,906	34,839
Total Company	$ 141,145	$ 122,504	$ 392,738	$ 267,748
Gross profit				
Hardware Solutions				
Meter Data Collection	$ 32,091	$ 24,129	$ 80,418	$ 82,215
Electricity Metering	24,236	21,183	73,223	21,183
Total Hardware Solutions	56,327	45,312	153,641	103,398
Software Solutions	4,703	4,173	15,126	12,217
Total Company	$ 61,030	$ 49,485	$ 168,767	$ 115,615
Operating income (loss)				
Hardware Solutions				
Meter Data Collection	$ 26,667	$ 18,878	$ 64,607	$ 66,605
Electricity Metering	20,178	17,322	60,504	17,322

Other unallocated costs	(5,938)	(5,291)	(18,143)	(12,696)
Total Hardware Solutions	40,907	30,909	106,968	71,231
Software Solutions	(3,007)	(5,119)	(8,576)	(17,011)
Corporate unallocated	(23,722)	(18,232)	(68,130)	(43,000)
Total Company	14,178	7,558	30,262	11,220
Total other income (expense)	(4,794)	(4,862)	(15,093)	(8,484)
Income before income taxes	$ 9,384	$ 2,696	$ 15,169	$ 2,736

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No customer represented more than 10% of total Company revenues for the three and nine months ended September 30, 2005 and 2004. One customer accounted for approximately 13% of Electricity Metering revenues and 6% of total Company revenues for the third quarter of 2005. A different customer accounted for approximately 11% of Meter Data Collection revenues and 7% of total Company revenues for the nine months ended September 30, 2004.

Note 12: Comprehensive Income (Loss)

Comprehensive income (loss) adjustments are reflected as an increase (decrease) to shareholders equity and are not reflected in results of operations. Operating results adjusted to reflect comprehensive income (loss) items during the period, net of tax, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Net income	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Change in foreign currency translation adjustments, net of tax	559	558	97	230
Total comprehensive income, net	$ 6,561	$ 2,228	$ 16,229	$ 1,980

Accumulated other comprehensive income, net of tax, was approximately $1.1 million and $954,000 at September 30, 2005 and December 31, 2004, respectively, and consisted of adjustments for foreign currency translation only.

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Note 13: Condensed Consolidating Financial Information

The senior secured credit facility and the notes are guaranteed by all of our operating subsidiaries (except for our foreign subsidiaries and an outsourcing project financing subsidiary), all of which are wholly owned. The guarantees are joint and several, full, complete and unconditional. There are currently no restrictions on the ability of the subsidiary guarantors to transfer funds to the parent company. The following condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

Condensed Consolidating Statement of Operations

Three Months Ended September 30, 2005

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 75,517	$ 56,505	$ 9,342	$ (12,681)	$ 128,683
Service	11,305	408	1,790	(1,041)	12,462
Total revenues	86,822	56,913	11,132	(13,722)	141,145
Cost of revenues					
Sales	43,502	35,413	6,823	(12,559)	73,179
Service	6,114	322	1,245	(745)	6,936
Total cost of revenues	49,616	35,735	8,068	(13,304)	80,115
Gross profit	37,206	21,178	3,064	(418)	61,030
Operating expenses					
Sales and marketing	10,770	1,354	1,559	5	13,688
Product development	9,298	2,431	517	(439)	11,807
General and administrative	10,343	825	477		11,645
Amortization of intangible assets	1,445	8,267			9,712
Restructurings					
Total operating expenses	31,856	12,877	2,553	(434)	46,852
Operating income	5,350	8,301	511	16	14,178
Other income (expense)					
Interest income	276		98	(305)	69
Interest expense	(1,054)	(3,295)	(284)	305	(4,328)
Other income (expense), net	(175)	(157)	(187)	(16)	(535)
Total other income (expense)	(953)	(3,452)	(373)	(16)	(4,794)
Income before income taxes	4,397	4,849	138		9,384
Income tax provision	(1,083)	(2,067)	(232)		(3,382)

Equity in earnings of guarantor and non-guarantor subsidiaries	2,688	29		(2,717)	
Net income (loss)	$ 6,002	$ 2,811	$ (94)	$ (2,717)	$ 6,002

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Condensed Consolidating Statement of Operations

Three Months Ended September 30, 2004

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 57,648	$ 48,286	$ 6,652	$ (5,259)	$ 107,327
Service	9,890	4,150	1,895	(758)	15,177
Total revenues	67,538	52,436	8,547	(6,017)	122,504
Cost of revenues					
Sales	34,033	29,563	5,324	(5,386)	63,534
Service	4,894	3,903	1,287	(599)	9,485
Total cost of revenues	38,927	33,466	6,611	(5,985)	73,019
Gross profit	28,611	18,970	1,936	(32)	49,485
Operating expenses					
Sales and marketing	8,568	2,396	704	377	12,045
Product development	9,989	1,937	481	(514)	11,893
General and administrative	7,802	1,038	256	105	9,201
Amortization of intangible assets	2,361	4,856			7,217
Restructurings	1,558		13		1,571
Total operating expenses	30,278	10,227	1,454	(32)	41,927
Operating income (loss)	(1,667)	8,743	482		7,558
Other income (expense)					
Interest income	126		3	(105)	24
Interest expense	(1,215)	(3,844)	(193)	105	(5,147)
Other income (expense), net	133	(38)	166		261
Total other income (expense)	(956)	(3,882)	(24)		(4,862)
Income (loss) before income taxes	(2,623)	4,861	458		2,696
Income tax (provision) benefit	1,143	(1,926)	(243)		(1,026)
Equity in earnings (losses) of non-guarantor subsidiaries	3,150	(24)		(3,126)	
Net income	$ 1,670	$ 2,911	$ 215	$ (3,126)	$ 1,670

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Condensed Consolidating Statement of Operations

Nine Months Ended September 30, 2005

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 189,728	$ 166,207	$ 29,676	$ (29,915)	$ 355,696
Service	33,517	523	5,733	(2,731)	37,042
Total revenues	223,245	166,730	35,409	(32,646)	392,738
Cost of revenues					
Sales	109,265	100,859	23,088	(30,024)	203,188
Service	18,337	433	3,194	(1,181)	20,783
Total cost of revenues	127,602	101,292	26,282	(31,205)	223,971
Gross profit	95,643	65,438	9,127	(1,441)	168,767
Operating expenses					
Sales and marketing	32,259	4,241	3,951	5	40,456
Product development	27,710	7,265	1,622	(1,462)	35,135
General and administrative	29,152	2,909	1,320		33,381
Amortization of intangible assets	4,344	24,799			29,143
Restructurings	89	108	193		390
Total operating expenses	93,554	39,322	7,086	(1,457)	138,505
Operating income	2,089	26,116	2,041	16	30,262
Other income (expense)					
Interest income	774		104	(711)	167
Interest expense	(3,242)	(11,904)	(845)	711	(15,280)
Other income (expense), net	435	(316)	(83)	(16)	20
Total other income (expense)	(2,033)	(12,220)	(824)	(16)	(15,093)
Income before income taxes	56	13,896	1,217		15,169
Income tax (provision) benefit	6,714	(5,210)	(541)		963
Equity in earnings of guarantor and non-guarantor subsidiaries	9,362	163		(9,525)	
Net income	$ 16,132	$ 8,849	$ 676	$ (9,525)	$ 16,132

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Condensed Consolidating Statement of Operations

Nine Months Ended September 30, 2004

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 179,309	$ 48,286	$ 8,365	$ (5,602)	$ 230,358
Service	30,031	4,150	5,557	(2,348)	37,390
Total revenues	209,340	52,436	13,922	(7,950)	267,748
Cost of revenues					
Sales	101,156	29,563	6,003	(5,729)	130,993
Service	15,243	3,903	4,128	(2,134)	21,140
Total cost of revenues	116,399	33,466	10,131	(7,863)	152,133
Gross profit	92,941	18,970	3,791	(87)	115,615
Operating expenses					
Sales and marketing	27,088	2,396	2,110	377	31,971
Product development	30,964	1,937	337	(569)	32,669
General and administrative	22,657	1,038	679	105	24,479
Amortization of intangible assets	6,415	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 March 31, 2018 and December 31, 2017 of the Company's available-for-sale debt securities were $2,016 (net of income tax benefit of $642) 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 three months ended March 31, 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 $5,534 and $6,034 at March 31, 2018 and December 31, 2017, respectively. The Company recognized losses of $500 and gains of $298 during the three months ended March 31, 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 $21,600 and $21,526 at March 31, 2018 and December 31, 2017, respectively. There were no material net gains or losses related to the securities during the three months ended March 31, 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. As of March 31, 2018, the outstanding balance of the Credit Facility was $20,000 and is included in Borrowings Under Revolving Credit Facility on the accompanying Consolidated Balance Sheet. The Company was in compliance with all covenants of the Credit Facility during the three months ended March 31, 2018.
In April 2018, the Company made a principal payment of $20,000 to fully repay the outstanding balance of the Credit Facility. As of April 19, 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 exclude the impact of stock-based compensation and are established at time of grant. 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 months ended March 31, 2018 and 2017, respectively, as follows:

	Three Months Ended March 31,	
	2018	2017
Stock-based compensation expense	$5,195	$6,180
Less: Deferred tax benefit	(1,103)	(2,153)
Stock-based compensation expense, net of tax	$4,092	$4,027

As of March 31, 2018, there was approximately $56,579 of unrecognized compensation cost remaining 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 three months ended March 31, 2018 was $93,668. The total options exercisable as of March 31, 2018 had an intrinsic value of $393,003. The total intrinsic value for options exercisable is calculated as the difference between the market value of the Company's common stock as of March 31, 2018 and the weighted average exercise price of the shares. The market value of the Company's common stock as of March 31, 2018 was $74.91 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of March 31, 2018 was $29.20. Total options that were outstanding as of March 31, 2018 were 14,652,000. Total options that were exercisable as of March 31, 2018 were 8,598,000.

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 1,122,000 shares at a total cost of $82,257 during the three months ended March 31, 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 March 31, 2018, the Company had approximately $88,380 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.

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, 2018	$(19,522)	$(386)	$(19,908)
Other comprehensive gain before reclassifications	3,377	(1,357)	2,020
Amounts reclassified from accumulated other comprehensive loss	—	(273)	(273)
Net current-period other comprehensive gain	3,377	(1,630)	1,747
Balance, March 31, 2018	$(16,145)	$(2,016)	$(18,161)

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 advisors 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 months ended March 31, 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 March 31, 2018 and 2017.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Three Months Ended March 31, 2018					
Revenues	$122,164	$99,192	$85,491	$96,855	$1,896	$405,598
Expenses	112,202	52,453	41,249	63,338	5,098	274,340
Operating profit (loss)	$9,962	$46,739	$44,242	$33,517	$(3,202)	$131,258

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
	For the Three Months Ended March 31, 2017					
Revenues	$112,634	$88,238	$77,004	$80,487	$1,621	$359,984
Expenses	108,550	47,539	38,828	52,065	4,880	251,862
Operating profit (loss)	$4,084	$40,699	$38,176	$28,422	$(3,259)	$108,122

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 March 31, 2018 and 2017 is as follows:

	2018	2017
Total operating profit from segments	$131,258	$108,122
Corporate overhead expenses	(14,942)	(14,605)
Income from operations	$116,316	$93,517

The following tables provide additional information for the three months ended March 31, 2018 and 2017 pertaining to our business segments:

	Capital Expenditures (1)		Depreciation	
	2018	2017	2018	2017
Private Banks	$10,239	$12,850	$3,319	$4,410
Investment Advisors	4,260	4,532	1,105	733
Institutional Investors	967	811	448	227
Investment Managers	2,520	1,615	1,809	916
Investments in New Businesses	204	106	150	368
Total from business segments	$18,190	$19,914	$6,831	$6,654
Corporate overhead	308	152	291	146
	$18,498	$20,066	$7,122	$6,800

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

	Amortization	
	2018	2017
Private Banks	$6,627	$8,464
Investment Advisors	2,357	2,850
Institutional Investors	427	323
Investment Managers	2,345	216
Investments in New Businesses	40	119
Total from business segments	$11,796	$11,972
Corporate overhead	58	50
	$11,854	$12,022

Note 11. Income Taxes

The gross liability for unrecognized tax benefits at March 31, 2018 and December 31, 2017 was $14,685 and $14,480, respectively, exclusive of interest and penalties, of which $13,986 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 March 31, 2018 and December 31, 2017, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was $1,218 and $1,175, respectively.

	March 31, 2018	December 31, 2017
Gross liability for unrecognized tax benefits, exclusive of interest and penalties	$14,685	$ 14,480
Interest and penalties on unrecognized benefits	1,218	1,175
Total gross uncertain tax positions	$15,903	$ 15,655
Amount included in Current liabilities	$2,944	$ 3,275
Amount included in Other long-term liabilities	12,959	12,380
	$15,903	$ 15,655

The Company's effective income tax rate for the three months ended March 31, 2018 and 2017 differs from the federal income tax statutory rate due to the following:

	Three Months Ended March 31,	
	2018	2017
Statutory rate	21.0 %	35.0 %
State taxes, net of federal tax benefit	2.2	1.5
Foreign tax expense and tax rate differential	(0.2)	(0.8)
Tax benefit from stock option exercises	(10.8)	(4.2)
Other, net	(0.3)	(0.5)
	11.9 %	31.0 %

The decrease in the tax rate for the three months ended March 31, 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. In addition, the rate was favorably impacted by an increase in the excess tax benefits recognized on stock-based compensation expense due to a higher volume of stock option exercise activity.

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 March 31, 2018 was $11,544, of which $915 is expected to be paid within one year and $10,629 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.

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 subjection 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. Goodwill and Intangible Assets

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 Company identified intangible assets related to Archway that met the contractual-legal criterion for recognition apart from goodwill. The identifiable intangible assets included on the accompanying Consolidated Balance Sheets consist of:

	March 31, 2018	December 31, 2017
Acquired technology	$13,510	$13,510
Client relationships	10,760	10,760
Non-competition agreements	3,470	3,470
Trade name	2,390	2,390
	30,130	30,130
Less: Accumulated amortization	(2,328)	(1,552)
Intangible assets, net	$27,802	$28,578

The Company recognized $776 of amortization expense related to the intangible assets during the three months ended March 31, 2018. Goodwill and the identifiable intangible assets related to Archway have been allocated to the Investment Managers segment.

Note 14. 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 months ended March 31, 2018:

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
Major Product Lines:	For the Three Months Ended March 31, 2018					
Investment management fees from pooled investment products	$35,190	$72,418	$15,858	$—	$ 225	$123,691
Investment management fees from investment management agreements	198	22,764	69,276	83	1,634	93,955
Investment operations fees	382	—	—	87,455	—	87,837
Investment processing fees - PaaS	44,585	—	—	483	—	45,068
Investment processing fees - SaaS	34,602	—	—	2,365	—	36,967
Professional services fees	5,419	—	—	1,887	—	7,306
Account fees and other	1,788	4,010	357	4,582	37	10,774
Total revenues	$122,164	$99,192	$85,491	$96,855	$ 1,896	$405,598
Primary Geographic Markets:						
United States	$78,133	$99,192	$64,768	$91,759	$ 1,896	$335,748
United Kingdom	27,525	—	14,787	—	—	42,312
Canada	11,601	—	2,671	—	—	14,272
Ireland	4,905	—	2,427	5,096	—	12,428
Other	—	—	838	—	—	838
Total revenues	$122,164	$99,192	$85,491	$96,855	$ 1,896	$405,598

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 that offer traditional and alternative products. The Company contracts directly with the investment management firm. 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.
<u>Deferred Contract Costs</u>
Deferred contract costs, which primarily consist of deferred sales commissions, were $19,875 as of March 31, 2018. The expense related to the deferred contract costs during the three months ended March 31, 2018 was immaterial. There was no impairment loss in relation to the costs capitalized during the three months ended March 31, 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 March 31, 2018, through our subsidiaries and partnerships in which we have a significant interest, we manage, advise or administer $869.0 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including $334.7 billion in assets under management and $530.1 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages $108.2 billion of assets which are included as assets under management.

Our Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017 were:

	Three Months Ended March 31,		Percent Change*
	2018	2017	
Revenues	$405,598	$359,984	13%
Expenses	289,282	266,467	9%
Income from operations	116,316	93,517	24%
Net (loss) gain from investments	(410)	347	NM
Interest income, net of interest expense	2,245	1,231	82%
Equity in earnings from unconsolidated affiliate	40,607	33,565	21%
Income before income taxes	158,758	128,660	23%
Income taxes	18,920	39,923	(53)%
Net income	139,838	88,737	58%
Diluted earnings per common share	$0.86	$0.55	56%

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

The following items had a significant impact on our financial results for the three months ended March 31, 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 $32.2 billion, or 16 percent, to $233.6 billion in the first three months of 2018 as compared to $201.4 billion during the first three months of 2017. Our average assets under administration increased $56.4 billion, or 12 percent, to $530.3 billion in the first three months of 2018 as compared to $474.0 billion during the first three months of 2017.
- Information processing and software servicing fees in our Private Banks segment increased $6.4 million during the first three 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 $5.5 million during the first three 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 $40.6 million in the first three months of 2018 as compared to $33.6 million in the first three months of 2017 primarily due to increased assets under management from

LSV's existing clients due to market appreciation.

- Our operating expenses, primarily personnel costs, in our Investment Advisors and Investment Managers segments increased. 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 $12.0 million in the first three months of 2018 for the SEI Wealth Platform as compared to $15.2 million in the first three months of 2017. Amortization expense related to the Platform decreased to $9.7 million during the first three months of 2018 as compared to $12.0 million during the first three months of 2017 due to the adjustment to the estimated useful life of the Platform effective in the fourth quarter 2017.
- During the first three 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 $1.3 million during the first three 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 was 11.9 percent during the first three months of 2018 as compared to 31.0 percent during the first three 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 was favorably impacted by increased tax benefits due to a higher volume of 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 1.1 million shares for $82.3 million in the three 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 Statements of Operations. 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 months ended March 31, 2018 is primarily related to research services provided to customers in soft-dollar arrangements by SIDCO, our broker-dealer subsidiary. 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 $3.7 million during the three months ended March 31, 2018. There was no impact to our net income as a result of this change (See Note 1 to the Notes to Consolidated Financial Statements).

Ending Asset Balances
(In millions)

	As of March 31,		Percent Change
	2018	2017	
Private Banks:			
Equity and fixed-income programs	$22,917	$19,034	20%
Collective trust fund programs	4	5	(20)%
Liquidity funds	3,537	3,903	(9)%
Total assets under management	$26,458	$22,942	15%
Client assets under administration	22,411	20,760	8%
Total assets	$48,869	$43,702	12%
Investment Advisors:			
Equity and fixed-income programs	62,176	55,311	12%
Collective trust fund programs	5	5	—%
Liquidity funds	2,399	2,645	(9)%
Total assets under management	$64,580	$57,961	11%
Institutional Investors:			
Equity and fixed-income programs	85,607	78,954	8%
Collective trust fund programs	72	89	(19)%
Liquidity funds	2,727	2,759	(1)%
Total assets under management	$88,406	$81,802	8%
Advised assets	4,185	3,228	30%
Total assets	92,591	85,030	9%
Investment Managers:			
Equity and fixed-income programs	97	84	15%
Collective trust fund programs	45,062	40,646	11%
Liquidity funds	732	911	(20)%
Total assets under management	$45,891	$41,641	10%
Client assets under administration (A)	507,694	457,356	11%
Total assets	$553,585	$498,997	11%
Investments in New Businesses:			
Equity and fixed-income programs	1,114	931	20%
Liquidity funds	72	79	(9)%
Total assets under management	$1,186	$1,010	17%
Advised assets	49	85	NM
Total assets	1,235	1,095	13%
LSV:			
Equity and fixed-income programs (B)	$108,186	$91,514	18%
Total:			
Equity and fixed-income programs (C)	280,097	245,828	14%
Collective trust fund programs	45,143	40,745	11%
Liquidity funds	9,467	10,297	(8)%
Total assets under management	$334,707	$296,870	13%
Advised assets	4,234	3,313	28%
Client assets under administration (D)	530,105	478,116	11%
Total assets under management, advisement and administration	$869,046	$778,299	12%

(A) Client assets under administration in the Investment Managers segment include $42.4 billion of assets that require limited services and therefore are at fee levels below our normal full service assets (as of March 31, 2018).

(B) The ending asset balance for LSV as of March 31, 2017 was revised from $90.6 billion to $91.5 billion to include managed assets in which fees are based on performance only. The ending value of these assets as of March 31, 2018 and 2017 was $2.4 billion and $1.8 billion, respectively.

(C) Equity and fixed-income programs include $5.7 billion of assets invested in asset allocation funds at March 31, 2018.

(D) In addition to the numbers presented, SEI also administers an additional $9.7 billion in Funds of Funds assets (as of March 31, 2018) on which SEI does not earn an administration fee.

Average Asset Balances
(In millions)

	Three Months Ended March 31,		Percent Change
	2018	2017	
Private Banks:			
Equity and fixed-income programs	$23,412	$18,498	27%
Collective trust fund programs	4	4	—%
Liquidity funds	3,720	4,051	(8)%
Total assets under management	$27,136	$22,553	20%
Client assets under administration	23,398	20,223	16%
Total assets	$50,534	$42,776	18%
Investment Advisors:			
Equity and fixed-income programs	62,650	54,446	15%
Collective trust fund programs	5	5	—%
Liquidity funds	2,290	2,559	(11)%
Total assets under management	$64,945	$57,010	14%
Institutional Investors:			
Equity and fixed-income programs	87,207	77,852	12%
Collective trust fund programs	77	90	(14)%
Liquidity funds	2,905	2,891	—%
Total assets under management	$90,189	$80,833	12%
Advised assets	4,383	3,125	40%
Total assets	94,572	83,958	13%
Investment Managers:			
Equity and fixed-income programs	96	75	28%
Collective trust fund programs	49,243	39,081	26%
Liquidity funds	834	860	(3)%
Total assets under management	$50,173	$40,016	25%
Client assets under administration	506,951	453,766	12%
Total assets	$557,124	$493,782	13%
Investments in New Businesses:			
Equity and fixed-income programs	1,105	909	22%
Liquidity funds	70	63	11%
Total assets under management	$1,175	$972	21%
Advised assets	50	82	(39)%
Total assets	1,225	1,054	16%
LSV:			
Equity and fixed-income programs (A)	$109,904	$91,150	21%
Total:			
Equity and fixed-income programs	284,374	242,930	17%
Collective trust fund programs	49,329	39,180	26%
Liquidity funds	9,819	10,424	(6)%
Total assets under management	$343,522	$292,534	17%
Advised assets	4,433	3,207	38%
Client assets under administration	530,349	473,989	12%
Total assets under management, advisement and administration	$878,304	$769,730	14%

(A) The average asset balance for LSV for the three months ended March 31, 2017 was revised from $90.3 billion to $91.2 billion to include managed assets in which fees are based on performance only. The average value of these assets for the three months ended March 31, 2018 and 2017 was $2.3 billion and $1.7 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 months ended March 31, 2018 compared to the three months ended March 31, 2017 were as follows:

	Three Months Ended March 31,		Percent Change
	2018	2017	
Private Banks:			
Revenues	$122,164	$112,634	8%
Expenses	112,202	108,550	3%
Operating Profit	$9,962	$4,084	144%
Operating Margin	8 %	4 %	
Investment Advisors:			
Revenues	$99,192	$88,238	12%
Expenses	52,453	47,539	10%
Operating Profit	$46,739	$40,699	15%
Operating Margin	47 %	46 %	
Institutional Investors:			
Revenues	$85,491	$77,004	11%
Expenses	41,249	38,828	6%
Operating Profit	$44,242	$38,176	16%
Operating Margin	52 %	50 %	
Investment Managers:			
Revenues	$96,855	$80,487	20%
Expenses	63,338	52,065	22%
Operating Profit	$33,517	$28,422	18%
Operating Margin	35 %	35 %	
Investments in New Businesses:			
Revenues	$1,896	$1,621	17%
Expenses	5,098	4,880	4%
Operating Loss	$(3,202)	$(3,259)	NM

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

Private Banks

	Three Months Ended March 31,		Percent Change
	2018	2017	
Revenues:			
Information processing and software servicing fees	$86,445	$80,032	8%
Asset management, administration & distribution fees	35,719	32,602	10%
Total revenues	$122,164	$112,634	8%

Revenues increased $9.5 million, or eight percent, in the three month period ended March 31, 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 international clients due to increased net cash flows and higher average assets under management due to market appreciation;
- The positive impact from foreign currency exchange rate fluctuations between the U.S. dollar and the British pound on our foreign operations; and
- Increased investment processing fees earned on our mutual fund trading solution; partially offset by
- The reclassification of direct expenses related to trade execution fees due to the adoption of ASC 606.

Operating margins increased to eight percent compared to four percent in the three month period. Operating income increased by $5.9 million, or 144 percent, in the three 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; 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 direct expenses associated with increased investment management fees from existing international clients;
- Increased non-capitalized costs, mainly personnel and consulting costs, related to maintenance and support of the SEI Wealth Platform; and
- Increased salary and incentive compensation costs.

Investment Advisors

	Three Months Ended March 31,		Percent Change
	2018	2017	
Revenues:			
Investment management fees-SEI fund programs	$73,335	$66,000	11%
Separately managed account fees	21,848	18,258	20%
Other fees	4,009	3,980	1%
Total revenues	$99,192	$88,238	12%

Revenues increased $11.0 million, or 12 percent, in the three month period ended March 31, 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 increased to 47 percent compared to 46 percent in the three month period. Operating income increased $6.0 million, or 15 percent, in the three 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 $8.5 million, or 11 percent, in the three month period ended March 31, 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 52 percent compared to 50 percent in the three month period. Operating income increased $6.1 million, or 16 percent, in the three 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 personnel compensation costs.

Investment Managers

Revenues increased $16.4 million, or 20 percent, in the three month period ended March 31, 2018 and were primarily affected by:

- Higher valuations of existing client assets from improved capital markets:
- Positive cash flows into alternative, traditional and separately managed account offerings from new and existing clients; and
- Added revenues of $5.5 million from the acquisition of Archway during the third quarter 2017; partially offset by
- Client losses and fund closures.

Operating margin remained at 35 percent in the three month period. Operating income increased $5.1 million, or 18 percent, in the three month period and was primarily affected by:

- An increase in revenues; partially offset by
- Increased personnel expenses, technology and other operational costs to service new and existing clients;
- Increased incentive compensation costs;
- Increased personnel and amortization expense related to the Archway acquisition; and
- Increased non-capitalized investment spending, mainly consulting costs.

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 $14.9 million and $14.6 million in the three months ended March 31, 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 March 31,	
	2018	2017
Net (loss) gain from investments	$(410)	$347
Interest and dividend income	2,502	1,343
Interest expense	(257)	(112)
Equity in earnings of unconsolidated affiliate	40,607	33,565
Total other income and expense items, net	$42,442	$35,143

Equity in earnings of unconsolidated affiliate

Equity in earnings of unconsolidated affiliate reflects our less than 50 percent ownership in LSV. As of March 31, 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 March 31,		Percent Change
	2018	2017	
Revenues of LSV	$131,718	$109,953	20%
Net income of LSV	104,406	86,215	21%
SEI's proportionate share in earnings of LSV	$40,607	$33,565	21%

The increase in our earnings from LSV was primarily due to increased assets under management from LSV's existing clients due to market appreciation; however, our earnings were negatively impacted by increased personnel expenses of LSV. Average assets under management by LSV increased $18.8 billion to $109.9 billion during the three months ended March 31, 2018 as compared to $91.2 billion during the three months ended March 31, 2017, an increase of 21 percent.

Income Taxes

Our effective income tax rates for the three months ended March 31, 2018 and 2017 differs from the federal income tax statutory rate due to the following:

	Three Months Ended March 31,	
	2018	2017
Statutory rate	21.0 %	35.0 %
State taxes, net of federal tax benefit	2.2	1.5
Foreign tax expense and tax rate differential	(0.2)	(0.8)
Tax benefit from stock option exercises	(10.8)	(4.2)
Other, net	(0.3)	(0.5)
	11.9 %	31.0 %

The decrease in our effective tax rate for the three months ended March 31, 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 rate was favorably impacted by increased tax benefits due to a higher volume of stock option exercise activity during the first quarter of 2018 as compared to the first quarter of 2017.

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 March 31, 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 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

	Three Months Ended March 31,					
	2018			2017		
Net cash provided by operating activities	$	104,174		$	73,012	
Net cash used in investing activities	(15,376		)	(25,345		)
Net cash used in financing activities	(87,285		)	(84,303		)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,541			2,307		
Net increase (decrease) in cash, cash equivalents and restricted cash	4,054			(34,329		)
Cash, cash equivalents and restricted cash, beginning of period	747,752			699,201		
Cash, cash equivalents and restricted cash, end	$	751,806		$	664,872	

of period

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing. At March 31, 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 impact to net cash flows for the three months ended March 31, 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. In July 2017, we borrowed $40.0 million under the credit facility for the funding of an acquisition. We made a principal payment of $20.0 million during April 2018 to fully repay the outstanding balance of the facility. As of April 19, 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 April 19, 2018, the amount of cash and cash equivalents considered free and immediately accessible for other general corporate purposes was $315.9 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 $31.2 million in the first three months of 2018 compared to the first three months of 2017 primarily from the increase in our net income and higher distribution payments received from our unconsolidated affiliate, LSV. The increase was partially offset by the negative impact from the change in our working capital accounts.
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 three months of 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
Purchases	$(15,466)	$(20,445)
Sales and maturities	18,588	15,166
Net investing activities from marketable securities	$3,122	$(5,279)

- *The capitalization of costs incurred in developing computer software.* We capitalized $12.9 million of software development costs in the first three months of 2018 as compared to $16.9 million in the first three 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 three months of 2018 were $5.6 million as compared to $3.2 million in the first three 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.

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 principal payments of $10.0 million each during October 2017 and January 2018 and a final payment of $20.0 million during April 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 $88.0 million during the first three months of 2018 and $56.6 million during the first three months of 2017 for the repurchase of our common stock.
- *Proceeds from the issuance of our common stock.* We received $57.9 million in proceeds from the issuance of our common stock during the first three months of 2018 as compared to $16.8 million during the first three 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 $47.2 million in the first three months of 2018 as compared to $44.6 million in the first three 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, and 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.
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 pending 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-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 March 31, 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 subjection 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 $3.478 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 March 31, 2018 is as follows:

Period	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
January 2018	—	$—	—	$ 170,638,000
February 2018	602,000	72.20	602,000	127,172,000
March 2018	520,000	74.60	520,000	88,380,000
Total	1,122,000	$ 73.31	1,122,000	

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 April 25, 2018 of SEI Investments Company related to the Company's financial and operating results for the first quarter ended March 31, 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: April 26, 2018	By:	/s/ Dennis J. McGonigle Dennis J. McGonigle Chief Financial Officer