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SEI INVESTMENTS CO

Form 10-Q

July 24, 2018

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

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

FORM 10-Q

(Mark One)*

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

for the quarterly period ended June 30, 2018

or

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

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

(Commission File Number)

SEI INVESTMENTS COMPANY

(Exact name of registrant as specified in its charter)

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

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100

(Address of principal executive offices)

(Zip Code)

(610) 676-1000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer Accelerated filer

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

Emerging growth company

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

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

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

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

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

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

SEI Investments Company
Consolidated Balance Sheets

(unaudited)

(In thousands, except par value)

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

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

SEI Investments Company
Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

Note 1. Summary of Significant Accounting Policies

Nature of Operations

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

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

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

Basis of Presentation

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

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

Revenue Recognition

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

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

the adoption of ASC 606:

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

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

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

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

Cash and Cash Equivalents

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

Restricted Cash

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

Capitalized Software

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

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

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

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Earnings per Share

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

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

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

Reclassifications

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

New Accounting Pronouncements

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

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

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

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

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

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

Statements of Cash Flows

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

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

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

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

Note 2. Investment in Unconsolidated Affiliate

LSV Asset Management

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

reflected in Investment in unconsolidated

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

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

These tables contain condensed financial information of LSV:

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

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

Note 3. Variable Interest Entities – Investment Products

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

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

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

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

Receivables on the accompanying Consolidated Balance Sheets consist of:

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

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

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

Property and Equipment

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

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

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

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

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

Note 5. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments in Affiliated Funds

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

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

Securities Owned

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

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

Note 7. Line of Credit

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

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

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

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

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

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

Six Months Ended June 30,

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

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

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

Common Stock Buyback

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

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

Cash Dividend

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

Note 9. Accumulated Other Comprehensive Loss

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

	Foreign 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	(6,826)	(1,325)	(8,151)
Amounts reclassified from accumulated other comprehensive loss	—	(162)	(162)
Net current-period other comprehensive gain	(6,826)	(1,487)	(8,313)
Balance, June 30, 2018	\$(26,348)	\$ (1,873)	\$ (28,221)

Note 10. Business Segment Information

The Company's reportable business segments are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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