

SEI INVESTMENTS CO  
Form 10-Q  
November 04, 2010

**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 September 30, 2010**

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)

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

**Pennsylvania**  
(State or other jurisdiction of

**23-1707341**  
(IRS Employer

incorporation or organization)

Identification Number)

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

(Address of principal executive offices)

(Zip Code)

**(610) 676-1000**

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of October 28, 2010 was 187,023,745.

(Cover page 1 of 1)

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

	September 30, 2010	December 31, 2009
<b><u>Assets</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 451,778	\$ 590,877
Restricted cash	19,000	20,000
Receivables from regulated investment companies	27,089	28,134
Receivables, net of allowance for doubtful accounts of \$1,553 and \$3,348 (Note 4)	144,620	184,317
Deferred income taxes	1,196	2,283
Other current assets	18,734	15,792
<b>Total Current Assets</b>	<b>662,417</b>	<b>841,403</b>
Property and Equipment, net of accumulated depreciation and amortization of \$162,989 and \$158,113 (Note 4)	144,026	146,053
Capitalized Software, net of accumulated amortization of \$85,043 and \$67,894	289,604	278,656
Investments Available for Sale (Note 6)	71,651	55,701
Trading Securities (Note 6)	106,238	126,196
Investment in Unconsolidated Affiliate (Note 2)	63,096	0
Goodwill (Note 2)	0	22,842
Intangible Assets, net of accumulated amortization of \$31,182 (Note 2)	0	44,859
Other Assets	16,993	18,098
<b>Total Assets</b>	<b>\$ 1,354,025</b>	<b>\$ 1,533,808</b>

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



**SEI Investments Company****Consolidated Balance Sheets***(unaudited)**(In thousands, except par value)*

	September 30, 2010	December 31, 2009
<b><u>Liabilities and Shareholders' Equity</u></b>		
Current Liabilities:		
Current portion of long-term debt	\$ 0	\$ 6,400
Accounts payable	5,226	2,851
Accrued liabilities (Note 4)	111,049	152,944
Deferred revenue	65	860
<b>Total Current Liabilities</b>	<b>116,340</b>	<b>163,055</b>
Long-term Debt (Note 7)	120,000	247,152
Deferred Income Taxes	91,108	86,257
Other Long-term Liabilities (Note 11)	5,836	5,726
<b>Commitments and Contingencies (Note 12)</b>		
Equity:		
<b>SEI Investments Company shareholders' equity:</b>		
Common stock, \$.01 par value, 750,000 shares authorized; 186,803 and 190,208 shares issued and outstanding	1,868	1,902
Capital in excess of par value	545,072	522,080
Retained earnings	456,775	384,483
Accumulated other comprehensive income, net	2,676	1,258
<b>Total SEI Investments Company shareholders' equity</b>	<b>1,006,391</b>	<b>909,723</b>
Noncontrolling interest	14,350	121,895
<b>Total Equity</b>	<b>1,020,741</b>	<b>1,031,618</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,354,025</b>	<b>\$ 1,533,808</b>

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

Page 3 of 58

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

	Three Months Ended September 30,	
	2010	2009
<b>Revenues:</b>		
Asset management, administration and distribution fees	\$ 155,799	\$ 206,235
Information processing and software servicing fees	55,226	56,241
Transaction-based and trade execution fees	8,488	13,457
<b>Total revenues</b>	<b>219,513</b>	<b>275,933</b>
<b>Expenses:</b>		
Subadvisory, distribution and other asset management costs	21,900	21,998
Brokerage commissions and royalties	12,402	14,421
Compensation, benefits and other personnel	64,694	70,204
Stock-based compensation	3,468	3,418
Consulting, outsourcing and professional fees	21,841	20,173
Data processing and computer related	10,167	11,235
Facilities, supplies and other costs	18,302	18,817
Amortization	5,998	15,042
Depreciation	5,602	5,322
<b>Total expenses</b>	<b>164,374</b>	<b>180,630</b>
<b>Income from operations</b>	<b>55,139</b>	<b>95,303</b>
Net gain from investments	9,362	15,616
Interest and dividend income	1,621	1,897
Interest expense	(336)	(1,034)
Equity in earnings of unconsolidated affiliate	25,246	0
<b>Income before income taxes</b>	<b>91,032</b>	<b>111,782</b>
<b>Income taxes</b>	<b>34,311</b>	<b>31,109</b>
<b>Net income</b>	<b>56,721</b>	<b>80,673</b>
<b>Less: Net income attributable to noncontrolling interest</b>	<b>(332)</b>	<b>(27,946)</b>
<b>Net income attributable to SEI Investments Company</b>	<b>\$ 56,389</b>	<b>\$ 52,727</b>
<b>Basic earnings per common share</b>	<b>\$ .30</b>	<b>\$ .28</b>

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Diluted earnings per common share \$ .30 \$ .27

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

Page 4 of 58



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

(unaudited)

*(In thousands, except per share data)*

	Nine Months Ended September 30,	
	2010	2009
<b>Revenues:</b>		
Asset management, administration and distribution fees	\$ 463,511	\$ 558,808
Information processing and software servicing fees	175,148	173,152
Transaction-based and trade execution fees	30,777	44,593
<b>Total revenues</b>	<b>669,436</b>	<b>776,553</b>
<b>Expenses:</b>		
Subadvisory, distribution and other asset management costs	66,826	62,466
Brokerage commissions and royalties	40,747	47,645
Compensation, benefits and other personnel	198,922	207,312
Stock-based compensation	16,403	10,209
Consulting, outsourcing and professional fees	65,250	60,034
Data processing and computer related	30,512	33,927
Facilities, supplies and other costs	50,833	50,453
Amortization	17,895	29,493
Depreciation	16,392	16,195
<b>Total expenses</b>	<b>503,780</b>	<b>517,734</b>
<b>Income from operations</b>	<b>165,656</b>	<b>258,819</b>
Net gain (loss) from investments	30,435	(1,367)
Interest and dividend income	4,823	5,545
Interest expense	(1,222)	(2,884)
Other income	1,070	0
Equity in earnings of unconsolidated affiliate	72,839	0
<b>Income before income taxes</b>	<b>273,601</b>	<b>260,113</b>
Income taxes	103,183	64,250
<b>Net income</b>	<b>170,418</b>	<b>195,863</b>
Less: Net income attributable to noncontrolling interest	(1,131)	(67,365)
<b>Net income attributable to SEI Investments Company</b>	<b>\$ 169,287</b>	<b>\$ 128,498</b>
<b>Basic earnings per common share</b>	<b>\$ .90</b>	<b>\$ .67</b>

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Diluted earnings per common share	\$ .89	\$ .67
Dividends declared per common share	\$ .10	\$ .08

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 September 30,		
	2010		2009
Net income	\$ 56,721		\$ 80,673
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	4,988		4,126
Unrealized holding gain on investments:			
Unrealized holding gains during the period, net of income tax expense of \$220 and \$825	375	1,670	
Less: reclassification adjustment for losses (gains) realized in net income, net of income tax (benefit) expense of \$(5) and \$6	10	385	(9)
			1,661
Total other comprehensive income, net of tax	5,373		5,787
Comprehensive income	\$ 62,094		\$ 86,460
Comprehensive income attributable to noncontrolling interest	(1,508)		(29,119)
Comprehensive income attributable to SEI Investments Company	\$ 60,586		\$ 57,341

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

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

	Nine Months Ended September 30,		
	2010		2009
Net income	\$ 170,418		\$ 195,863
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	694		7,859
Unrealized holding gain on investments:			
Unrealized holding gains during the period, net of income tax expense of \$869 and \$1,231	1,065		2,615
Less: reclassification adjustment for losses realized in net income, net of income tax benefit of \$22 and \$305	41	1,106	519
			3,134
Total other comprehensive income, net of tax	1,800		10,993
Comprehensive income	\$ 172,218		\$ 206,856
Comprehensive income attributable to noncontrolling interest	(1,513)		(69,026)
Comprehensive income attributable to SEI Investments Company	\$ 170,705		\$ 137,830

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

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

	Nine Months Ended September 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 170,418	\$ 195,863
Adjustments to reconcile net income to net cash provided by operating activities	(49,573)	39,857
<b>Net cash provided by operating activities</b>	<b>120,845</b>	<b>235,720</b>
<b>Cash flows from investing activities:</b>		
Additions to restricted cash	(430)	(6,000)
Additions to property and equipment	(11,568)	(8,965)
Additions to capitalized software	(28,097)	(35,051)
Purchase of marketable securities	(29,117)	(318,392)
Prepayments and maturities of marketable securities	38,998	22,981
Sale of marketable securities	24,866	69
LSV and LSV Employee Group cash balances, net (A)	(37,083)	0
<b>Net cash used in investing activities</b>	<b>(42,431)</b>	<b>(345,358)</b>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(113,000)	(9,340)
Proceeds from borrowings on long-term debt	0	254,000
Purchase and retirement of common stock	(85,283)	(30,138)
Proceeds from issuance of common stock	15,791	14,274
Tax benefit on stock options exercised	990	2,282
Payment of dividends	(36,011)	(30,598)
<b>Net cash (used in) provided by financing activities</b>	<b>(217,513)</b>	<b>200,480</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(139,099)</b>	<b>90,842</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>590,877</b>	<b>416,643</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 451,778</b>	<b>\$ 507,485</b>

(A) Cash balances, net of the partnership distribution payment received in January 2010, of LSV and LSV Employee Group at December 31, 2009 removed due to the deconsolidation of the accounts and operations of LSV and LSV Employee Group in January 2010 (See Note 2).

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



**Notes to Consolidated Financial Statements**

(all figures are in thousands except per share data)

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

**Nature of Operations**

SEI Investments Company (the Company), a Pennsylvania corporation, provides investment processing, fund processing, and investment management business outsourcing solutions to corporations, financial institutions, financial advisors, and ultra-high-net-worth families in the United States, Canada, the United Kingdom, continental Europe, and other various locations throughout the world. Investment processing solutions utilize the Company's proprietary software system to track investment activities in multiple types of investment accounts, including personal trust, corporate trust, institutional trust, and non-trust investment accounts, thereby allowing banks and trust companies to outsource trust and investment related activities. Revenues from investment processing solutions are recognized in information processing and software servicing fees on the accompanying Consolidated Statements of Operations, except for fees earned associated with trade execution services.

The fund processing solution offers a full range of administration and distribution support services to mutual funds, collective trust funds, single-manager hedge funds, funds of hedge funds, private equity funds and other types of investment funds. Administrative services include fund accounting, trustee and custodial support, legal support, transfer agency and shareholder servicing. Distribution support services range from market and industry insight and analysis to identifying distribution opportunities. Revenues from fund processing solutions are recognized in Asset management, administration and distribution 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.

**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 has 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 September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and 2009, and cash flows for the nine month periods ended September 30, 2010 and 2009. 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, 2009.

Except as disclosed herein, there have been no significant changes in significant accounting policies during the nine months ended September 30, 2010 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**Variable Interest Entities**

The Company has involvement with various variable interest entities (VIE or VIEs). These VIEs consist of LSV Employee Group and investment products established for clients created in the form of various types of legal entity structures. In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance related to the consolidation of VIEs. This guidance changed how a company determines when an entity that is insufficiently capitalized or is not controlled through voting common stock should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design, a company's ability to direct the activities of the entity that most significantly impact the entity's

economic performance, and whether a company is obligated to absorb losses or receive benefits that could be potentially significant to the entity. The new guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE and requires additional disclosures about an enterprises involvement in VIEs. The new guidance became effective January 1, 2010.

Under the new guidance, LSV Employee Group remains a VIE. However, the Company is not considered the primary beneficiary because it does not have the power to direct the activities that most significantly impact the economic performance of LSV Employee Group either directly or through any financial responsibility from the Guaranty Agreement. As of January 1, 2010, the Company discontinued consolidating the accounts of LSV Employee Group. The Company does not have any direct equity interest in LSV Employee Group (See Note 2).

In January 2010, the FASB deferred the new guidance for certain types of investment entities. The deferral allows asset managers that have no obligation to fund potentially significant losses of an investment entity to continue to apply the previous guidance to investment entities that have attributes of entities defined in the Investment Company Guide. The deferral applies to many mutual funds, hedge funds, private equity funds, venture capital and certain other types of entities. Also, money market funds subject to rule 2a-7 of the Investment Company Act of 1940 qualify for deferral. However, the deferral does not apply to the new disclosure requirements. All of the Company's investment products where the Company is the sponsor and/or investment manager that are VIEs qualify for the deferral; therefore, the Company will continue to apply the previous guidance for the consolidation of VIEs (See Note 3).

#### Cash and Cash Equivalents

Cash and cash equivalents includes \$353,395 and \$438,690 at September 30, 2010 and December 31, 2009, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. Cash and cash equivalents at December 31, 2009 includes \$57,061 from LSV (See Note 2).

#### Restricted Cash

Restricted cash includes \$16,000 and \$17,000 at September 30, 2010 and December 31, 2009, respectively, segregated in special reserve accounts for the benefit of customers of the Company's broker-dealer subsidiary, SEI Investments Distribution Co. (SIDCO), in accordance with certain rules established by the Securities and Exchange Commission for broker-dealers. Additionally, Restricted cash includes \$3,000 at September 30, 2010 and December 31, 2009 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited.

#### Capitalized Software

The Company capitalized \$28,097 and \$35,051 of software development costs during the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 11.7 years. Amortization expense related to capitalized software was \$17,149 and \$22,957 during the nine months ended September 30, 2010 and 2009, respectively. Included in total amortization expense during the nine months ended September 30, 2009 is additional expense of \$7,643 due to the shortening of the useful life of previously capitalized software development costs related to the Global Wealth Platform. This change was due to the abandonment of these components in the fourth quarter 2009.

Software development costs capitalized during the nine months ended September 30, 2010 and 2009 relates to the continued development of the Global Wealth Platform (GWP). As of September 30, 2010, the net book value of GWP was \$263,531 (net of accumulated amortization of \$56,389), including \$24,495 of capitalized software development costs in-progress associated with future releases. GWP has an estimated useful life of 15 years and a weighted average remaining life of 11.8 years. Amortization expense for GWP was \$16,724 and \$17,404 during the nine months ended September 30, 2010 and 2009, respectively.



Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended September 30, 2010 and 2009 are:

	For the Three Month Period Ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 56,389	187,964	\$ .30
Dilutive effect of stock options	0	1,557	
Diluted earnings per common share	\$ 56,389	189,521	\$ .30

	For the Three Month Period Ended September 30, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 52,727	190,850	\$ .28
Dilutive effect of stock options	0	1,475	
Diluted earnings per common share	\$ 52,727	192,325	\$ .27

Employee stock options to purchase 9,810,000 and 18,684,000 shares of common stock, with an average exercise price of \$25.53 and \$22.40, were outstanding during the three month periods ended September 30, 2010 and 2009, respectively, but not included in the computation of diluted earnings per common share because the effect on diluted earnings per common share would have been anti-dilutive.

The calculations of basic and diluted earnings per share for the nine months ended September 30, 2010 and 2009 are:

	For the Nine Month Period Ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 169,287	189,090	\$ .90
Dilutive effect of stock options	0	1,604	
Diluted earnings per common share	\$ 169,287	190,694	\$ .89

	For the Nine Month Period Ended September 30, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 128,498	190,986	\$ .67

## Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Dilutive effect of stock options	0	919
----------------------------------	---	-----

Diluted earnings per common share	\$ 128,498	191,905	\$ .67
-----------------------------------	------------	---------	--------

Employee stock options to purchase 16,096,000 and 19,912,000 shares of common stock, with an average exercise price of \$23.47 and \$21.72, were outstanding during the nine month periods ended September 30, 2010 and 2009, respectively, but not included in the computation of diluted earnings

## Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

per common share because the exercise price of the options 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.

### Statements of Cash Flows

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

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

	2010	2009
Net income	\$ 170,418	\$ 195,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	17,895	29,493
Depreciation	16,392	16,195
Stock-based compensation	16,403	10,209
Undistributed equity in the earnings of unconsolidated affiliate	(26,573)	0
Payments to partners of LSV	0	(66,563)
Provision for losses on receivables	(646)	691
Deferred income tax expense	5,046	67,601
Net realized (gains) losses on investments	(30,435)	175,350
Currency translation adjustments	312	6,199
Change in other long-term liabilities	110	870
Other	1,128	991
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	1,045	342
Receivables	(22,217)	(12,127)
Other current assets	(3,567)	(3,040)
Increase (decrease) in		
Accounts payable	2,378	(489)
Capital Support Agreements	0	(173,983)
Payable to regulated investment companies	0	(97)
Accrued liabilities	(26,049)	(10,823)
Deferred revenue	(795)	(962)
<b>Total adjustments</b>	<b>(49,573)</b>	<b>39,857</b>
Net cash provided by operating activities	\$ 120,845	\$ 235,720

During the three months ended September 30, 2010, the Company identified that it had incorrectly classified certain accounts payable related to the purchase of computer software during the three months ended June 30, 2010 as Additions to property and equipment in the Cash flows from investing activities section on the consolidated statement of cash flows in the six months ended June 30, 2010. The effect of the misclassification resulted in Cash flows provided by operating activities and Cash flows used in investing activities being overstated by \$7,102 for the six months ended June 30, 2010. The Company has evaluated the effect of this misclassification and has concluded that it was not material to the previously issued quarterly consolidated financial statements. The remaining balance attributable to this purchase was \$5,327 at September 30, 2010. The Company has appropriately classified this amount to the Cash flows from operating activities in its consolidated statement of cash flows for the nine months ended September 30, 2010 and will revise the consolidated statement of cash flows for the six months ended June 30, 2010 in its future filings. This misclassification had no effect on the consolidated balances sheets, consolidated statements of operations or consolidated statements of comprehensive income.

### New Accounting Pronouncements



In February 2010, the FASB issued a final Accounting Standards Update that sets forth additional requirements and guidance regarding disclosures of fair value measurements. The new standard requires the gross presentation of activity within the Level 3 fair value measurement rollforward and details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies two existing disclosure requirements on the level of disaggregation of fair value measurements and disclosures on inputs and valuation techniques. The new requirements and guidance are effective for interim and annual periods beginning in the first quarter 2010 except that the Level 3 rollforward is effective in the first quarter 2011. The adoption of the new requirements and guidance effective in the first quarter 2010 did not have a material impact on the Company's consolidated financial statements. The Company does not expect the adoption of the guidance pertaining to the Level 3 rollforward to have a material impact on its consolidated financial statements.

#### Reclassifications

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

#### **Note 2. LSV and LSV Employee Group**

The Company has an investment in the general partnership LSV Asset Management (LSV). LSV is a registered investment advisor that provides investment advisory services to institutions, including pension plans and investment companies. LSV is currently an investment sub-advisor for a number of SEI-sponsored mutual funds. The Company's total partnership interest in LSV was approximately 42 percent during 2010 and 2009.

LSV Employee Group is owned by several current employees of LSV and was formed for the sole purpose of owning a partnership interest in LSV. The Company does not own any interest in LSV Employee Group. In 2006, LSV Employee Group purchased an eight percent interest in LSV from two existing partners. LSV Employee Group obtained financing in the form of a term loan pursuant to the terms of a Credit Agreement to purchase the eight percent interest in LSV. The Company agreed to provide a Guaranty Agreement to the lenders of all obligations of LSV Employee Group under the Credit Agreement. The lenders have the right to seek payment from the Company of all obligations of LSV Employee Group under the Credit Agreement in the event of default. The Company's direct interest in LSV was unchanged as a result of this transaction.

As a result of providing the Guaranty Agreement, LSV Employee Group became a VIE and the Company was considered the primary beneficiary. Also, given the Company's direct ownership of 43 percent in LSV at the time of this transaction in 2006 and its controlling interest in LSV Employee Group through the Guaranty Agreement, the Company was required to consolidate the assets, liabilities and operations of LSV and LSV Employee Group. The partnership interest of the other existing partners of LSV was included in Noncontrolling interest.

In January 2010, new accounting guidance pertaining to the consolidation of VIEs became effective. Under the new guidance, the Company was not considered the primary beneficiary of LSV Employee Group. The Company, therefore, discontinued consolidating the accounts and operations of LSV and LSV Employee Group in its financial statements. 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 affiliate on the accompanying Consolidated Balance Sheet and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statement of Operations. The deconsolidation of LSV had no effect on Net income attributable to SEI. Prior period financial statements are not reclassified for the new accounting guidance.

#### LSV Asset Management

At September 30, 2010, the Company's total investment in LSV was \$63,096. The investment in LSV exceeded the underlying equity in the net assets of LSV by \$4,263, of which \$3,062 is considered goodwill embedded in the investment. The Company receives partnership distributions from LSV on a quarterly basis. The Company received partnership distribution payments from LSV for \$67,508 and \$56,305 in the nine months ended September 30, 2010 and 2009, respectively. The

partnership distribution payment of \$21,242 received in January 2010 is reflected in LSV and LSV Employee Group cash balances, net on the accompanying Consolidated Statement of Cash Flows.

The following table contains the condensed statements of operations of LSV for the three and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenues	\$ 68,979	\$ 199,999
Pre-tax income	61,032	175,645

The following table contains the condensed balance sheet of LSV at September 30, 2010:

	September 30, 2010
Cash and cash equivalents	\$ 63,528
Accounts receivable	71,074
Other current assets	578
Non-current assets	4,334
<b>Total assets</b>	<b>\$ 139,514</b>
Current liabilities	\$ 8,433
Partners' capital	131,081
<b>Total liabilities and partners' capital</b>	<b>\$ 139,514</b>

#### LSV Employee Group

At the time of LSV Employee Group's purchase of an eight percent interest in LSV, it was determined that \$72,220 of the purchase price related to identifiable intangible assets and \$19,780 was goodwill. The identifiable intangible assets have an estimated useful life of ten years and are amortized on a straight-line basis. Goodwill of \$19,780 and intangible assets of \$43,332 (net of accumulated amortization of \$28,888) are included in the Company's Consolidated Balance Sheet at December 31, 2009 but were the assets of LSV Employee Group. These amounts were eliminated through Noncontrolling interest. Amortization expense in the three and nine months ended September 30, 2009 on the accompanying Consolidated Statement of Operations includes \$1,805 and \$5,416, respectively, pertaining to the amortization of the intangible assets, but was eliminated through Noncontrolling interest and had no impact on net income.

In order to finance a portion of the purchase price, LSV Employee Group obtained financing from Bank of America, N.A. and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement. The principal amount of the term loan was \$82,800, which must be paid in full by January 2011. The principal amount and interest of the term loan are paid in quarterly installments. LSV Employee Group may prepay the term loan in whole or in part at any time without penalty. As of September 30, 2010, the remaining unpaid principal balance of the term loan was \$13,123. This amount is not reflected, nor is it required to be reflected, in the Company's Consolidated Balance Sheet at September 30, 2010. LSV Employee Group made principal payments of \$7,429 during the nine months ended September 30, 2010. The deconsolidation of LSV Employee Group did not relinquish the Company's obligation under the Guaranty Agreement. In the event of default by LSV Employee Group, the Company would still be obligated under the Guaranty Agreement to make any required payments to the lenders according to the term loan.

At December 31, 2009, prior to the deconsolidation of LSV Employee Group, the unpaid principal balance of the term loan was \$20,552, of which \$6,400 was classified as current and included in Current portion of long-term debt and the remaining \$14,152 was included in Long-term debt on the accompanying Consolidated Balance Sheet.

Interest expense for the three and nine months ended September 30, 2009 on the Consolidated Statement of Operations includes \$366 and \$1,159, respectively, in interest costs associated with the





borrowings of LSV Employee Group which was eliminated through Noncontrolling interest and had no impact on net income.

In October 2010, LSV Employee Group made a principal payment of \$3,032. As of October 31, 2010, the remaining unpaid principal balance of the term loan was \$10,091. Due to the fact that LSV Employee Group has satisfied all payment requirements relating to the term loan, the Company, in its capacity as guarantor, currently has no obligation to make any payments under the Guaranty Agreement. Furthermore, the Company fully expects that LSV Employee Group will meet all of its future obligations regarding the term loan.

The unaudited proforma financial information for the three and nine months ended September 30, 2009 presents the historical results of the Company as if the operations of LSV and LSV Employee Group had not been consolidated and LSV had been accounted for under the equity method. Net income attributable to SEI and diluted earnings per share were unchanged due to this transaction but are presented for the purpose of clarification.

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Revenues	\$ 215,773	\$ 627,125
Expenses	169,694	488,294
Income from operations	46,079	138,831
Net gain (loss) from investments	15,616	(1,367)
Interest income, net of interest expense	1,219	3,795
Earnings from unconsolidated affiliate	21,240	52,370
Income before income taxes	84,154	193,629
Income taxes	31,109	64,250
Net income	53,045	129,379
Less: Net income attributable to noncontrolling interest	(318)	(881)
Net income attributable to SEI Investments Company	\$ 52,727	\$ 128,498
Diluted earnings per common share	\$ .27	\$ .67

### Note 3. Variable Interest Entities

The Company has 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. Clients are the equity investors and participate in proportion to their ownership percentage in the net income and net capital gains 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.

An entity that lacks decision-making rights is a VIE. In some circumstances, the Manager or Trustee of the Company's investment products controls the governing decisions about the investment activities with respect to the ongoing operations of the investment products without the equity investors possessing the right to remove the Manager or Trustee. Therefore, the equity investors, as a group, do not have the ability to make decisions that have an impact on the ongoing activities of such investment products. Consequently, some of the Company's investment products have been determined to be VIEs at inception.

The VIEs are marketed with investment objectives to generate positive returns; however, the nature of such investments exposes the investors to the risk that the value of the VIEs may increase or decrease. The purpose and design of the VIEs are to achieve the investment objective by implementing strategies which are designed to minimize potential losses; however, there is no assurance given that these strategies will be successful.

The Company does not have a significant equity investment in any of the VIEs and does not have an obligation to enter into any guarantee agreements with the VIEs. The fees paid to the decision maker of a VIE are considered to be variable interests if the decision maker is not subject to substantive kick-out rights. The fees paid to the Company represent a variable interest when the decision maker is not subject to substantive kick-out rights.

The Company is not the primary beneficiary of the VIEs because the expected fees and the expected return on any investment into the VIE by the Company relative to the expected returns of the VIE to the equity investor holders does not approach 50 percent of the expected losses or gains of the VIEs. Therefore, the Company is not required to consolidate any investment products that are VIEs into its financial statements. The Company's variable interest in the VIEs, which consists of management fees and in some situations, seed capital, would not be considered a significant variable interest.

The risks to the Company associated with its involvement with any of the investment products that are VIEs are limited to the cash flows received from the revenue generated for asset management, administration and distribution services and any equity investments in the VIEs. Both of these items are immaterial. The Company has no other financial obligation to the VIEs.

Amounts relating to fees received from the VIEs included in Receivables and amounts relating to equity investments in the VIEs included in Investments Available for Sale on the Company's Consolidated Balance Sheets are immaterial to the total current assets of the Company.

#### Note 4. Composition of Certain Financial Statement Captions

##### Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2010	December 31, 2009
Trade receivables	\$ 41,831	\$ 40,499
Fees earned, not billed	98,174	144,325
Other receivables	6,168	2,841
	146,173	187,665
Less: Allowance for doubtful accounts	(1,553)	(3,348)
	\$ 144,620	\$ 184,317

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.

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

Receivables at December 31, 2009 include \$66,392, net of \$1,149 of allowance for doubtful accounts, of receivables of LSV, of which \$59,241 was included in Fees earned, not billed.

##### Property and Equipment

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

September 30, 2010 December 31, 2009

Page 17 of 58

Buildings	\$ 135,687	\$ 131,376
Equipment	65,462	62,634
Land	9,890	9,719
Purchased software	72,911	70,035
Furniture and fixtures	18,473	19,817
Leasehold improvements	4,216	5,739
Construction in progress	376	4,846
	307,015	304,166
Less: Accumulated depreciation and amortization	(162,989)	(158,113)
Property and Equipment, net	\$ 144,026	\$ 146,053

The Company recognized \$16,392 and \$16,195 in depreciation expense related to property and equipment for the nine months ended September 30, 2010 and 2009, respectively.

#### Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2010	December 31, 2009
Accrued sub-advisory and investment officer fees	\$ 8,539	\$ 8,458
Accrued other asset management fees	6,120	6,398
Accrued brokerage fees	13,370	15,840
Accrued other brokerage and royalties	3,445	2,739
Accrued employee compensation	33,361	41,897
Accrued employee benefits and other personnel	5,851	6,241
Accrued consulting, outsourcing and professional fees	17,429	16,123
Accrued income taxes	0	20,561
Accrued dividend payable	0	17,121
Other accrued liabilities	22,934	17,566
Total accrued liabilities	\$ 111,049	\$ 152,944

#### **Note 5. Fair Value Measurements**

The fair value of the Company's financial assets and liabilities are determined in accordance with the fair value hierarchy. The fair value of the Company's financial assets, except for the fair value of structured investment vehicles (SIVs), are determined using Level 1 or Level 2 inputs and consist mainly of investments in equity and fixed-income mutual funds that are quoted daily and Government National Mortgage Association (GNMA) securities that are single issuer pools that are valued based on current market data for the specific issue owned or pools of similar GNMA securities. Level 3 financial assets consist of senior note obligations issued by SIVs. The Company did not have any Level 3 financial liabilities at September 30, 2010 or December 31, 2009. The Company provided support to two of its money market mutual funds that held SIV securities during 2009 in the form of Capital Support Agreements; however, these agreements were terminated upon the Company's purchase of the SIV securities from the funds. The Capital Support Agreements were considered derivative securities, for which the fair value was determined using the same model to value the SIV securities. There were no transfers of financial assets between levels within the fair value hierarchy during the nine months ended September 30, 2010.

The different levels of the fair value hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities without adjustment. The Company's Level 1 assets primarily include investments in mutual funds sponsored by SEI and LSV that are quoted daily.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets primarily include securities issued by GNMA with quoted prices that are traded less frequently than exchange-traded instruments. The Company uses a pricing vendor to value its GNMA securities. The pricing vendor uses a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data for similar pools of GNMA securities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment by management. The Company's Level 3 financial assets include SIV securities and any change in fair value for these securities are recognized in the current period.

#### Valuation of SIV Securities

The underlying collateral of the SIV securities is mainly comprised of asset-backed securities and collateralized debt obligations. The Company received prices for all of its SIV securities from two independent third party firms. Given the lack of any reliable market data on the SIV securities, the firms utilized a valuation model that employs a net asset approach which considers the value of the underlying collateral of the SIV securities to determine the fair value of the SIV securities. Management evaluates the prices received from these firms and considers other information, such as the existence of any current market activity, to determine the fair value of the SIV securities. The underlying collateral is comprised of asset-backed securities and collateralized debt obligations that are specifically identified by its CUSIP or ISIN number.

The valuation model maintained by the first independent third party firm to value the SIV securities (except the Stanfield Victoria note) attempts to obtain price quotes from pricing vendors for each security that comprises the underlying collateral of the SIV securities. Price quotes are primarily obtained from two pricing vendors that are independent entities of the firm that maintains the valuation model. In the event a price quote is not available from the pricing vendor for a specific security, the last price quote received for that security will be adjusted by the weighted average percentage movement of securities held as collateral within the same sector classification or based upon the weighted average movement of all priced securities.

The valuation model maintained by the second independent third party firm to value the Stanfield Victoria note also attempts to value the underlying collateral of the SIV securities. However, their model does not incorporate the use of pricing vendors but instead primarily uses projected cash flows for each individual security that comprises the underlying collateral based upon proprietary models that incorporate data specific to each security and broad market data that can affect the performance of the security. Other factors may be considered that are specific to the SIV security, such as the capital structure of the SIV security, imposed restrictions, liquidity constraints and risk premiums.

The fair value of each note is sensitive mainly to changing conditions within the residential and commercial real estate markets; however, the level of sensitivity varies due to the unique characteristics of each security within the portfolio of securities that comprise each SIV security's underlying collateral. Therefore, the risk profile for each SIV security is unique and the inputs used to determine the fair value for each SIV security is specific to each security. The Gryphon note has a large portion of its collateral in mortgage-related securities such as sub-prime 1<sup>st</sup> and 2<sup>nd</sup> liens, Alt A ARMs, and home equity loans. The Stanfield Victoria note primarily holds varying types of collateralized debt obligations.

Both firms that provide the fair value of the SIV securities employ a team of evaluators that review the inputs to the model and other external factors that should be considered. The models used to value

all of the SIV securities are the same as those utilized to determine their fair value at December 31, 2009.

Management evaluates current market transactions, if any, for each of the SIV securities. In the event a market transaction does exist for a SIV security, management evaluates the publicly available information surrounding the transaction in order to assess if the price used represents the fair value for the SIV security. In management's opinion, the current market for SIV securities does not represent an orderly and efficient market and has concluded that any transactions involving the SIV securities were the result of distressed sales. Therefore, market prices for any SIV securities do not represent the implied fair value of the SIV securities held by the Company.

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

	At September 30, 2010			
	Fair Value Measurements at Reporting Date Using Quoted Prices in			
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Equity available-for-sale securities	\$ 8,458	\$ 8,458	\$ 0	\$ 0
Fixed income available-for-sale securities	63,193	0	63,193	0
Trading securities issued by SIVs	102,833	0	0	102,833
Other trading securities	3,405	3,405	0	0
	\$ 177,889	\$ 11,863	\$ 63,193	\$ 102,833

	At December 31, 2009			
	Fair Value Measurements at Reporting Date Using Quoted Prices in			
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Equity available-for-sale securities	\$ 3,511	\$ 3,511	\$ 0	\$ 0
Fixed income available-for-sale securities	52,190	0	52,190	0
Trading securities issued by SIVs	120,714	0	0	120,714
Other trading securities	5,482	5,482	0	0
	\$ 181,897	\$ 8,993	\$ 52,190	\$ 120,714

The table below presents a reconciliation for all assets and liabilities of the Company measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2010 to September 30, 2010:

	Trading Securities Issued by SIVs
Balance, January 1, 2010	\$ 120,714
Purchases, issuances and settlements, net	(47,871)
Total gains or (losses) (realized/unrealized):	
Included in earnings	29,990
Included in other comprehensive income	0
Transfers in and out of Level 3	0
<b>Balance September 30, 2010</b>	<b>\$ 102,833</b>





Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

The table below presents a reconciliation for all assets and liabilities of the Company measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2009 to September 30, 2009:

	Trading Securities Issued by SIVs	Other Trading Securities	Capital Support Agreements
Balance, January 1, 2009	\$ 5,713	\$ 1,697	\$ (173,983)
Purchases, issuances and settlements, net	300,731	(1,536)	0
Transfer of Capital Support Agreement at purchase	(179,654)	0	179,654
Total gains or losses (realized/unrealized):			
Included in earnings	3,882	(161)	(5,671)
Included in other comprehensive income	0	0	0
Transfers in and out of Level 3	0	0	0
Balance September 30, 2009	\$ 130,672	\$ 0	\$ 0

**Note 6. Marketable Securities**

Investments Available for Sale

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

	Cost Amount	As of September 30, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
SEI-sponsored mutual funds	\$ 7,425	\$ 226	\$ (29)	\$ 7,622
Other mutual funds	791	45	0	836
Debt securities	60,124	3,069	0	63,193
	\$ 68,340	\$ 3,340	\$ (29)	\$ 71,651

	Cost Amount	As of December 31, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
SEI-sponsored mutual funds	\$ 580	\$ 0	\$ (40)	\$ 540
Other mutual funds	3,111	0	(140)	2,971
Debt securities	50,696	1,494	0	52,190
	\$ 54,387	\$ 1,494	\$ (180)	\$ 55,701

Net unrealized holding gains at September 30, 2010 and December 31, 2009 were \$2,066 (net of income tax expense of \$1,245) and \$960 (net of income tax expense of \$354), respectively. These net unrealized gains are reported as a separate component of Accumulated other comprehensive income on the accompanying Consolidated Balance Sheets.

The Company's debt securities are issued by GNMA and are backed by the full faith and credit of the U.S. government. These securities were purchased to satisfy applicable regulatory requirements of SEI Private Trust Company (SPTC) and have maturity dates which range from 2020

to 2039.

Trading Securities

Trading securities of the Company consist of:

	Cost	As of September 30, 2010 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SIV securities	\$ 252,354	\$ 0	\$ (149,521)	\$ 102,833
LSV-sponsored mutual funds	2,049	1,356	0	3,405
	\$ 254,403	\$ 1,356	\$ (149,521)	\$ 106,238

	Cost	As of December 31, 2009 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SIV securities	\$ 309,796	\$ 0	\$ (189,082)	\$ 120,714
LSV-sponsored mutual funds	4,000	1,482	0	5,482
	\$ 313,796	\$ 1,482	\$ (189,082)	\$ 126,196

The Company records all of its trading securities on the accompanying Consolidated Balance Sheets at fair value. Unrealized gains and losses from the change in fair value of these securities are recognized in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

Through September 30, 2010, the Company recognized \$159,092 in cumulative losses from SIV securities and SIV-related issues. During the nine months ended September 30, 2010, the Company recognized gains from SIV securities of \$29,990, of which \$19,390 resulted from cash payments received from the SIV securities and \$10,217 was from a net increase in fair value at September 30, 2010. In addition, the Company recognized a net gain of \$383 from sales of two SIV securities during 2010. The cumulative loss recognized by the Company pertaining to these SIV securities sold in 2010 was \$9,571. The net gains from the SIV securities are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

During the nine months ended September 30, 2009, the Company recognized losses of \$1,789 from SIV securities and SIV-related issues. During 2009, the Company purchased SIV securities from SEI-sponsored money market mutual funds. As a result of these purchases, the Company's obligation under the Capital Support Agreements was reduced or eliminated. The losses from the purchases of the SIV securities, as well as the subsequent reduction in the Company's required capital contribution, are reflected in Net gain (loss) from investments on the accompanying Consolidated Statements of Operations.

The Company has an investment related to the startup of mutual funds sponsored by LSV. These are U.S. dollar denominated funds that invests primarily in securities of Canadian and Australian companies as well as various other global securities. The underlying securities held by the funds are translated into U.S. dollars within the funds. During the three months ended June 30, 2010, the Company sold a portion of its investment in the LSV-sponsored funds. Additionally, the Company sold all of the equity and currency futures contracts originally purchased as part of an economic strategy to minimize exposure to price and currency risk related to the investment. The net gains recognized from the partial sale of the LSV-sponsored funds and the equity and futures contracts were minimal. As of September 30, 2010, the Company's remaining investment in the LSV-sponsored funds had a cost value of \$2,049 and a fair value of \$3,405.

#### **Note 7. Lines of Credit**

The Company has a five-year \$300,000 Credit Agreement (the Credit Facility) which expires in July 2012, 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 0.450 percent above the London Interbank Offer Rate ( LIBOR ). There is also a commitment fee equal to 0.09 percent per annum on the daily unused portion of the facility. 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, as amended, 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. Both the interest rate and commitment fee prices may increase if the Company's leverage ratio reaches certain levels. 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 Credit Facility may be terminated.

The Company made principal payments of \$113,000 during the nine months ended September 30, 2010. As of September 30, 2010, the outstanding balance of the Credit Facility was \$120,000 and is included in Long-term debt on the accompanying Consolidated Balance Sheet. The Company was in compliance with all covenants of the Credit Facility at September 30, 2010.

As of September 30, 2010, the Company's ability to borrow from the Credit Facility is not limited by any covenant of the agreement. In management's opinion, the leverage ratio is the most restrictive of all of the covenants contained in the Credit Facility. The leverage ratio is calculated as consolidated indebtedness divided by earnings before interest, taxes, depreciation, amortization and other items as defined by the covenant during the last four quarters (EBITDA). According to the terms of the agreement, the Company must continue to include the outstanding debt of LSV Employee Group in the calculation of consolidated indebtedness. The Company must maintain at all times a ratio of consolidated indebtedness of not more than 1.75 times the amount of EBITDA. As of September 30, 2010, the Company's leverage ratio is 0.32 times EBITDA.

The Company considers the book value of long-term debt related to the borrowings through the Credit Facility to be representative of its fair value.

The Company's Canadian subsidiary has a credit facility agreement (the Canadian Credit Facility) for the purpose of facilitating the settlement of mutual fund transactions. The Canadian Credit Facility has no stated expiration date. The amount of the facility is generally limited to \$2,000 Canadian dollars or the equivalent amount in U.S. dollars. The Canadian Credit Facility does not contain any covenants which restrict the liquidity or capital resources of the Company. The Company had no borrowings under the Canadian Credit Facility and was in compliance with all covenants during the three months ended September 30, 2010.

#### **Note 8. Shareholders' Equity**

##### Stock-Based Compensation

The Company currently has one active equity compensation plan, the 2007 Equity Compensation Plan (the 2007 Plan), which provides for the grant of incentive stock options, non-qualified stock options and stock appreciation rights with respect to up to 20 million shares of common stock of the Company, subject to adjustment for stock splits, reclassifications, mergers and other events. Permitted grantees under the 2007 Plan include employees, non-employee directors and consultants who perform services for the Company. The plan is administered by the Compensation Committee of the Board of Directors of the Company. There were no grants of incentive stock options or stock appreciation rights made under the plan in 2010 or 2009. 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

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

options vest at a rate of 50 percent when specified diluted earnings per share targets are achieved, and the remaining 50 percent when secondary, higher specified diluted earnings per share targets are achieved. The amount of stock-based compensation expense is based upon management's estimate of when the earnings per share targets may be achieved.

The Company discontinued any further grants under the Company's 1998 Equity Compensation Plan (the 1998 Plan) as a result of the approval of the 2007 Plan. No options are available for grant from this plan. Grants made from the 1998 Plan continue in effect under the terms of the grant.

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the three month periods ended September 30, 2010 and 2009, respectively, as follows:

	Three Months Ended September 30,	
	2010	2009
Stock-based compensation expense	\$ 3,468	\$ 3,418
Less: Deferred tax benefit	(1,313)	(1,347)
Stock-based compensation expense, net of tax	\$ 2,155	\$ 2,071

The Company recognized stock-based compensation expense in its Consolidated Financial Statements in the nine month periods ended September 30, 2010 and 2009, respectively, as follows:

	Nine Months Ended September 30,	
	2010	2009
Stock-based compensation expense	\$ 16,403	\$ 10,209
Less: Deferred tax benefit	(6,194)	(3,648)
Stock-based compensation expense, net of tax	\$ 10,209	\$ 6,561

As of September 30, 2010, there was approximately \$40,384 of unrecognized compensation cost remaining, adjusted for estimated forfeitures, related to unvested employee stock options that the Company expects will vest. The Company estimates that compensation cost will be recognized according to the following schedule:

Period	Stock-Based Compensation Expense
Remainder of 2010	\$ 9,647
2011	9,159
2012	9,026
2013	7,290
2014	3,763
2015	1,499
	\$ 40,384

During the nine months ended September 30, 2010, the Company revised its estimates of when some vesting targets are expected to be achieved. These changes in management's estimates resulted in an increase of \$8,684 in stock-based compensation expense in the nine months ended September 30, 2010. Additionally, during the three months ended September 30, 2010, the Company reversed \$6,267 of previously-recognized stock-based compensation costs pertaining to option grants which management does not expect to vest. Management does not expect to recognize any compensation cost associated with these option grants. As of September 30, 2010, these option grants have an unrecognized

compensation cost of \$27,566.

During the nine months ended September 30, 2009, the Company revised its estimate of when some vesting targets are expected to be achieved. This change in management's estimate resulted in a

decrease of \$5,325 in stock-based compensation expense in the nine months ended September 30, 2009.

The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the nine months ended September 30, 2010 and 2009 was \$5,361 and \$7,063, respectively. The total options exercisable as of September 30, 2010 had an intrinsic value of \$10,426. The total intrinsic value for options exercisable is calculated as the difference between the market value of the Company's common stock as of September 30, 2010 and the exercise price of the shares. The market value of the Company's common stock as of September 30, 2010 was \$20.34 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of September 30, 2010 was \$19.37. Total options that were outstanding as of September 30, 2010 was 27,091,000.

Common Stock Buyback

The Company's Board of Directors has authorized the repurchase of the Company's common stock on the open market or through private transactions of up to an aggregate of \$1.728 billion. Through September 30, 2010, a total of 262,409,000 shares at an aggregate cost of \$1.588 billion have been purchased and retired. The Company purchased 4,409,000 shares at a total cost of \$88,330 during the nine months ended September 30, 2010.

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 25, 2010, the Board of Directors declared a cash dividend of \$.10 per share on the Company's common stock, which was paid on June 28, 2010, to shareholders of record on June 23, 2010. Cash dividends declared during the nine month periods ended September 30, 2010 and 2009 were \$18,890 and \$15,301, respectively.

Noncontrolling Interest

The following table provides a reconciliation of Noncontrolling interest on the Consolidated Balance Sheet for the period from January 1, 2010 to September 30, 2010:

	Noncontrolling interest
Balance, January 1, 2010	\$ 121,895
Net income attributable to noncontrolling interest	1,131
Foreign currency translation adjustments	382
Deconsolidation of LSV	(65,522)
Deconsolidation of LSV Employee Group	(43,536)
Balance, September 30, 2010	\$ 14,350

The following table provides a reconciliation of Noncontrolling interest on the Consolidated Balance Sheet for the period from January 1, 2009 to September 30, 2009:

	Noncontrolling interest
Balance, January 1, 2009	\$ 109,722
Net income attributable to noncontrolling interest	67,366
Foreign currency translation adjustments	1,660
Distributions to noncontrolling interests	(66,563)
Other	(386)





Balance, September 30, 2009

\$ 111,799

**Note 9. Accumulated Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss), net of tax, consists of:

	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Investments	Accumulated Other Comprehensive Income (Loss)
Total accumulated comprehensive loss at December 31, 2009	\$ (1,053)	\$ 960	\$ (93)
Less: Total accumulated comprehensive loss attributable to noncontrolling interest at December 31, 2009	1,351	0	1,351
Total accumulated comprehensive income attributable to SEI Investments Company at December 31, 2009	\$ 298	\$ 960	\$ 1,258
Total comprehensive income for the nine months ended September 30, 2010	\$ 694	\$ 1,106	\$ 1,800
Less: Total comprehensive income attributable to noncontrolling interest for the nine months ended September 30, 2010	(382)	0	(382)
Total comprehensive income attributable to SEI Investments Company for the nine months ended September 30, 2010	\$ 312	\$ 1,106	\$ 1,418
Total accumulated comprehensive income at September 30, 2010	\$ (359)	\$ 2,066	\$ 1,707
Less: Total accumulated comprehensive loss attributable to noncontrolling interest at September 30, 2010	969	0	969
Total accumulated comprehensive income attributable to SEI Investments Company at September 30, 2010	\$ 610	\$ 2,066	\$ 2,676

**Note 10. Business Segment Information**

The Company's reportable business segments in 2010 are:

**Private Banks** provides investment processing and investment management programs to banks and trust institutions worldwide, independent wealth advisers located in the United Kingdom, and financial advisers in Canada;

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

**Institutional Investors** provides investment management programs and administrative outsourcing solutions to retirement plan sponsors and not-for-profit organizations worldwide;

**Investment Managers** provides investment processing, fund processing, and operational outsourcing solutions to investment managers, fund companies and banking institutions



Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

located in the United States, and to investment managers worldwide of alternative asset classes such as hedge funds, funds of hedge funds, and private equity funds across both registered and partnership structures; and

Investments in New Businesses provides investment management programs to ultra-high-net-worth families residing in the United States through the SEI Wealth Network®.

In January 2010, the Company deconsolidated the assets, liabilities and operations of LSV Asset Management. As a result, LSV is no longer considered a reportable business segment in 2010.

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 nine months ended September 30, 2010 and 2009. Management evaluates Company assets on a consolidated basis during interim periods. Except as disclosed herein, 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, 2009.

The following tables highlight certain unaudited financial information about each of the Company's business segments for the three months ended September 30, 2010 and 2009.

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	Total
For the Three Months Ended September 30, 2010						
Revenues	\$ 83,518	\$ 43,422	\$ 51,036	\$ 40,548	\$ 989	\$ 219,513
Expenses	73,463	26,426	25,940	25,763	4,080	155,672
Operating profit (loss)	\$ 10,055	\$ 16,996	\$ 25,096	\$ 14,785	\$ (3,091)	\$ 63,841
Operating margin	12%	39%	49%	36%	N/A	29%

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	LSV	Total
For the Three Month Period Ended September 30, 2009							
Revenues	\$ 88,561	\$ 43,467	\$ 47,458	\$ 35,208	\$ 1,079	\$ 60,160	\$ 275,933
Expenses (1)	79,549	28,001	27,369	23,047	3,171	38,928	200,065
Operating profit (loss)	\$ 9,012	\$ 15,466	\$ 20,089	\$ 12,161	\$ (2,092)	\$ 21,232	\$ 75,868
Operating margin	10%	36%	42%	35%	N/A	35%	27%

(1) LSV includes \$29,829 of noncontrolling interest of the other partners of LSV.

A reconciliation of the total operating profit reported for the business segments to income from operations in the Consolidated Statements of Operations for the quarters ended September 30, 2010 and 2009 is as follows:

	2010	2009
Total operating profit from segments above	\$ 63,841	\$ 75,868

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Corporate overhead expenses	(8,981)	(8,897)
Noncontrolling interest reflected in segments	279	30,168
LSV Employee Group (2)	0	(1,836)
<b>Income from operations</b>	<b>\$ 55,139</b>	<b>\$ 95,303</b>

(2) For the three months ended September 30, 2009, includes \$1,805 in amortization expense of intangible assets related to LSV Employee Group.

The following tables provide additional information for the three months ended September 30, 2010 and 2009 pertaining to our business segments:

	Capital Expenditures		Depreciation	
	2010	2009	2010	2009
Private Banks	\$ 8,452	\$ 8,741	\$ 4,044	\$ 3,789
Investment Advisors	2,976	2,742	602	576
Institutional Investors	615	365	297	279
Investment Managers	770	730	467	389
Investments in New Businesses	147	119	36	43
LSV	0	10	0	99
<b>Total from business segments</b>	<b>\$ 12,960</b>	<b>\$ 12,707</b>	<b>\$ 5,446</b>	<b>\$ 5,175</b>
Corporate Overhead	151	108	156	147
	<b>\$ 13,111</b>	<b>\$ 12,815</b>	<b>\$ 5,602</b>	<b>\$ 5,322</b>

	Amortization	
	2010	2009
Private Banks	\$ 3,767	\$ 8,389
Investment Advisors	1,362	3,064
Institutional Investors	305	302
Investment Managers	204	222
Investments in New Businesses	117	890
LSV	0	109
<b>Total from business segments</b>	<b>\$ 5,755</b>	<b>\$ 12,976</b>
LSV Employee Group	0	1,820
Corporate Overhead	243	246
	<b>\$ 5,998</b>	<b>\$ 15,042</b>

The following tables highlight certain unaudited financial information about each of the Company's business segments for the nine months ended September 30, 2010 and 2009.

Total

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	
	For the Nine Months Ended September 30, 2010					
Revenues	\$ 260,730	\$ 135,283	\$ 152,821	\$ 117,598	\$ 3,004	\$ 669,436
Expenses	229,674	82,129	78,896	75,918	9,480	476,097

Page 31 of 58

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

---

Operating profit (loss)	\$ 31,056	\$ 53,154	\$ 73,925	\$ 41,680	\$ (6,476)	\$ 193,339
Operating margin	12%	39%	48%	35%	N/A	29%

Page 32 of 58



	Private Banks	Investment Advisors	Institutional Investors	Investment Managers	Investments In New Businesses	LSV	Total
For the Nine Month Period Ended September 30, 2009							
Revenues	\$ 272,154	\$ 120,557	\$ 129,001	\$ 101,911	\$ 3,502	\$ 149,428	\$ 776,553
Expenses (3)	229,108	81,049	74,803	68,159	8,789	97,083	558,991
Operating profit (loss)	\$ 43,046	\$ 39,508	\$ 54,198	\$ 33,752	\$ (5,287)	\$ 52,345	\$ 217,562
Profit margin	16%	33%	42%	33%	N/A	35%	28%

(3) LSV includes \$73,120 of noncontrolling interest of the other partners of LSV.

A reconciliation of the total operating profit reported for the business segments to income from operations in the Consolidated Statements of Operations for the nine month periods ended September 30, 2010 and 2009 is as follows:

	2010	2009
Total operating profit from segments above	\$ 193,339	\$ 217,562
Corporate overhead expenses	(28,639)	(27,235)
Noncontrolling interest reflected in segments	956	73,968
LSV Employee Group (4)	0	(5,476)
Income from operations	\$ 165,656	\$ 258,819

(4) For the nine months ended September 30, 2009, includes \$5,416 in amortization expense of intangible assets related to LSV Employee Group.

The following tables provide additional information for the nine months ended September 30, 2010 and 2009 pertaining to our business segments:

	Capital Expenditures		Depreciation	
	2010	2009	2010	2009
Private Banks	\$ 27,119	\$ 28,904	\$ 11,796	\$ 11,572
Investment Advisors	9,752	9,924	1,758	1,716
Institutional Investors	2,476	1,679	864	833
Investment Managers	4,090	2,366	1,410	1,200
Investments in New Businesses	552	544	109	133
LSV	0	63	0	300
Total from business segments	\$ 43,989	\$ 43,480	\$ 15,937	\$ 15,754
Corporate Overhead	1,003	536	455	441
	\$ 44,992	\$ 44,016	\$ 16,392	\$ 16,195

	Amortization	
	2010	2009
Private Banks	\$ 11,233	\$ 15,620
Investment Advisors	4,066	5,470
Institutional Investors	910	622
Investment Managers	615	468
Investments in New Businesses	342	1,000
LSV	0	327
<b>Total from business segments</b>	<b>\$ 17,166</b>	<b>\$ 23,507</b>
LSV Employee Group	0	5,460
Corporate Overhead	729	526
	\$ 17,895	\$ 29,493

### Note 11. Income Taxes

The gross liability for unrecognized tax benefits at September 30, 2010 and December 31, 2009 was \$5,582 and \$4,989, respectively, exclusive of interest and penalties, of which \$4,820 and \$4,335 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 September 30, 2010 and December 31, 2009, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was \$1,015 and \$864, respectively.

	September 30, 2010	December 31, 2009
Gross liability for unrecognized tax benefits, exclusive of interest and penalties	\$ 5,582	\$ 4,989
Interest and penalties on unrecognized benefits	1,015	864
<b>Total gross uncertain tax positions</b>	<b>\$ 6,597</b>	<b>\$ 5,853</b>
Amount included in Current liabilities	\$ 761	\$ 127
Amount included in Other long-term liabilities	5,836	5,726
	\$ 6,597	\$ 5,853

The Company's effective tax rates were 37.8 percent and 37.0 percent for the three months ended September 30, 2010 and 2009, respectively. The increase in the tax rate for the three month period in 2010 was primarily due to the expiration of the Research and Development Tax Credit on December 31, 2009. For the nine months ended September 30, 2010 and 2009, our effective tax rates were 37.8 percent and 33.2 percent, respectively. The tax rate for the nine month period in 2009 was favorably impacted by the recognition of certain tax benefits as discrete items. The discrete items amounted to \$7,691 and are related to the realization of prior unrecognized tax benefits that have been resolved by the conclusion of the federal and state income tax audits during the first quarter of 2009 as well the true up of the 2008 estimated Federal tax return and the actual tax return filed.

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 2008 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2000.



The Company estimates it will recognize \$761 of unrecognized tax benefits within the next twelve months due to the expiration of the statute of limitations and resolution of income tax audits. 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 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. One of SEI's principal subsidiaries, SEI Investments Distribution Co. (SIDCO), has been named as a defendant in certain putative class action complaints (the Complaints) related to leveraged exchange traded funds (ETFs) advised by ProShares Advisors, LLC, which is a client of the Company. To date, the Complaints have been filed in the United States District Court for the Southern District of New York and in the United States District Court for the District of Maryland although the three complaints filed in the District of Maryland have been voluntarily dismissed by the plaintiffs. Two of them were subsequently re-filed in the Southern District of New York. Two of the complaints filed in the Southern District of New York have been voluntarily dismissed by plaintiffs. The first complaint was filed on August 5, 2009. The Complaints are purportedly made on behalf of all persons that purchased or otherwise acquired shares in various ProShares leveraged ETFs pursuant or traceable to allegedly false and misleading registration statements, prospectuses and statements of additional information. The Complaints name as defendants ProShares Advisors, LLC; ProShares Trust; ProShares Trust II, SIDCO, and various officers and trustees to ProShares Advisors, LLC; ProShares Trust and ProShares Trust II. The Complaints allege that SIDCO was the distributor and principal underwriter for the various ProShares leveraged ETFs that were distributed to authorized participants and ultimately shareholders. The complaints allege that the registration statements for the ProShares ETFs were materially false and misleading because they failed to adequately describe the nature and risks of the investments. The Complaints allege that SIDCO is liable for these purportedly material misstatements and omissions under Section 11 of the Securities Act of 1933. The Complaints seek unspecified compensatory and other damages, reasonable costs and other relief. The cases are in the early stage, and the court has not yet appointed lead plaintiff(s). Defendants have moved to consolidate the complaints, which motion has been granted. While the outcome of this litigation is uncertain given its early phase, SEI believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

The Company has also been named in three lawsuits that were filed in August 2009 in the 19th Judicial District Court for the Parish of East Baton Rouge, State of Louisiana. One of the three actions purports to set forth claims on behalf of a class and also names SEI Private Trust Company (SPTC), one of SEI's principal subsidiaries, as a defendant. All three actions name various defendants besides SEI, and, in all three actions, the plaintiffs purport to bring a cause of action against SEI under the Louisiana Securities Act. The putative class action also includes a claim against SEI for an alleged violation of the Louisiana Unfair Trade Practices Act. In addition, in December 2009, a group of six plaintiffs filed a lawsuit in the 23rd Judicial District Court for the Parish of Ascension, State of Louisiana against SEI and other defendants asserting claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Securities Act and Louisiana Racketeering Act and conspiracy. Further, SEI is aware that in February 2010 two groups of plaintiffs amended petitions that they had previously filed in the 19th Judicial District for the Parish of East Baton Rouge, State of Louisiana to add claims against SEI and SPTC for alleged violations of the Louisiana Securities Act, the Louisiana Racketeering Act, and civil conspiracy. The underlying allegations in all six actions are purportedly related to the role of SPTC in providing data consolidation, securities processing, and other services to Stanford Trust Company. Two of the three actions filed in East Baton Rouge have been removed to federal court, and plaintiffs' motions to remand are pending. These two cases were also transferred by the Judicial Panel on Multidistrict Litigation (MDL) to a MDL pending in the Northern District of

Texas. The case filed in Ascension was also removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the same MDL pending in the Northern District of Texas. That case has been stayed. SEI and SPTC filed exceptions in the putative class action that remains pending in East Baton Rouge, which the Court granted in part and dismissed the claims under the Louisiana Unfair Trade Practices Act and denied, in part, as to the other exceptions. There is a motion for class certification that is pending in that case. The time for SEI and SPTC to respond to the two amended petitions adding claims against them has not yet run. While the outcome of this litigation is uncertain given its early phase, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously.

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

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

This discussion reviews and analyzes the consolidated financial condition at September 30, 2010 and 2009, the consolidated results of operations for the three and nine months ended September 30, 2010 and 2009 and other key factors that may affect future performance. This discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

**Overview***Consolidated Summary*

We are a global provider of investment processing, fund processing, and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. Investment processing fees are earned as monthly fees for contracted services including computer processing services, software licenses, and trust operations services, as well as transaction-based fees for providing securities valuation and trade-execution. Fund processing and investment management fees are earned as a percentage of average assets under management or administration. As of September 30, 2010, through our subsidiaries and partnerships in which we have a significant interest, we administer \$402.3 billion in mutual fund and pooled assets, manage \$164.0 billion in assets, and operate from numerous countries worldwide. In January 2010, we deconsolidated the assets, liabilities and operations of LSV Asset Management. As a result, LSV is no longer considered a reportable business segment in 2010 (See Deconsolidation of LSV and LSV Employee Group later in this discussion).

Our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009 were:

	Three Months Ended			Nine Months Ended		
	September 30,		Percent Change	September 30,		Percent Change
	2010	2009		2010	2009	
Revenues	\$ 219,513	\$ 275,933	(20%)	\$ 669,436	\$ 776,553	(14%)
Expenses	164,374	180,630	(9%)	503,780	517,734	(3%)
Income from operations	55,139	95,303	(42%)	165,656	258,819	(36%)
Net gain from investments	9,362	15,616	(40%)	30,435	(1,367)	N/A
Interest income, net of interest expense	1,285	863	49%	3,601	2,661	35%
Other income	0	0	N/A	1,070	0	N/A
Equity in earnings of unconsolidated affiliate	25,246	0	N/A	72,839	0	N/A
Income before income taxes	91,032	111,782	(19%)	273,601	260,113	5%
Income taxes	34,311	31,109	10%	103,183	64,250	61%
Net income	56,721	80,673	(30%)	170,418	195,863	(13%)
Less: Net income attributable to noncontrolling interest	(332)	(27,946)	N/A	(1,131)	(67,365)	N/A
Net income attributable to SEI Investments Company	\$ 56,389	\$ 52,727	7%	\$ 169,287	\$ 128,498	32%
Diluted earnings per common share	\$ .30	\$ .27	11%	\$ .89	\$ .67	33%



In our opinion, the following items had a significant impact on our financial results for the three and nine month periods ended September 30, 2010 and 2009:

Revenues in the three and nine months ended September 30, 2010 reflect the impact of deconsolidating LSV. Excluding the revenues from LSV in 2009, our revenues increased \$3.7 million, or two percent, in the third quarter 2010 and \$42.3 million, or seven percent, in the first nine months of 2010. These increases were primarily due to improved capital markets during the later part of 2009 and during the first and third quarters of 2010. The severe downturn in the capital markets during the first quarter 2009 significantly affected our revenues during the prior year periods. Our assets under management, excluding LSV, increased \$2.7 billion, or three percent, to \$109.5 billion at September 30, 2010 from \$106.8 billion at September 30, 2009.

New business activity in our Institutional Investors and Investment Managers segments also contributed to increased revenues. New client asset funding, as well as asset funding from existing clients, for our retirement and not-for-profit solutions in our Institutional Investors segment and for our hedge fund solution in our Investment Managers segment positively impacted revenues during the first nine months of 2010.

Revenues in our Private Banks segment decreased in the first nine months of 2010 due to lower investment processing fees from bank clients lost as a result of mergers and acquisitions as well as lower trade-execution fees due to lower trading volumes. Furthermore, the full impact of previously-announced client losses in the segment were reflected in the third quarter as the associated one-time revenues from the client losses were fully recognized in the preceding quarters of 2010. An increase in recurring revenues from new GWS clients on the Global Wealth Platform partially offset the decline in revenues for the segment.

Gross new business sales events across all of our core business segments were approximately \$16.7 million during the third quarter of 2010. This figure represents annualized revenues from fully implemented clients. These new sales events include newly contracted clients as well as increases in business with existing clients. We expect these new business sales to favorably impact our level of recurring revenues in future quarters.

We recognized \$8.7 million and \$30.0 million in gains from SIV securities in the three and nine months ended September 30, 2010, respectively, as compared to gains of \$14.9 million and losses of \$1.8 million in the three and nine months ended September 30, 2009, respectively. Approximately \$19.4 million of the gain in the first nine months of 2010 resulted from cash payments received from the SIV securities that had been previously written down.

Stock-based compensation costs in the three months ended September 30, 2010 reflect the reversal of \$6.3 million of previously-recognized stock-based compensation costs and the acceleration of approximately \$3.1 million of stock-based compensation due to a change in management's estimates of the attainment of certain performance vesting targets. The net effect of these two items was a reduction of \$3.2 million of stock-based compensation costs in the third quarter. We estimate our stock-based compensation costs during the fourth quarter 2010 will be \$9.6 million.

We incurred \$2.1 million in costs associated with processing errors in the three months ended September 30, 2010, of which, approximately \$1.0 million was recognized in the Investment Advisors segment and \$900 thousand was recognized in the Investments in New Businesses segment. We also incurred \$2.2 million in costs associated with processing errors in the three months ended September 30, 2009, which was recognized in the Institutional Investors segment.

Our percentage ownership of LSV remained at approximately 42 percent. Our proportionate share in the earnings of LSV in the first nine months of 2010 was \$72.8 million, as compared to \$52.4 million in the first nine months of 2009, an increase of 39 percent. LSV's revenues significantly increased because of market appreciation in the value of assets under management from existing clients.



Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

LSV's assets under management were \$54.5 billion at September 30, 2010, as compared to \$49.3 billion at September 30, 2009, an increase of ten percent.

Page 38 of 58

We continued to invest in the Global Wealth Platform and its operational infrastructure. During the first nine months of 2010, we capitalized \$28.1 million for significant enhancements and new functionality for the platform, as compared to \$35.1 million in the first nine months of 2009. We will continue to incur significant development costs for these enhancements and upgrades. Our intention is to implement enhancements and upgrades into the platform through a series of releases.

Amortization expense related to capitalized software was \$17.1 million and \$22.9 million during the nine months ended September 30, 2010 and 2009, respectively. We recognized an additional \$7.6 million of amortization expense during the third quarter 2009 due to a shortening in the useful life of previously capitalized software development costs for some components of the platform. This change was due to the abandonment of these components in the fourth quarter 2009.

Our effective tax rate for the first nine months of 2010 increased to 37.8 percent as compared to 33.2 percent in the first nine months of 2009. Our tax rate in 2009 was favorably impacted by the recognition of certain tax benefits related to the conclusion of federal and state income tax audits.

We continued our stock repurchase program during 2010 and purchased approximately 4,409,000 shares at an average price of approximately \$20 per share in the nine month period.

*Deconsolidation of LSV and LSV Employee Group*

In January 2010, new accounting guidance pertaining to the consolidation of variable interest entities (VIE or VIEs) became effective. Under the new guidance, we are not considered to be the primary beneficiary of LSV Employee Group and discontinued consolidating the accounts of LSV and LSV Employee Group. Our interest in LSV is accounted for using the equity method because of our less than 50 percent ownership. Our interest in the net assets of LSV is reflected in Investment in unconsolidated affiliate on the accompanying Consolidated Balance Sheet and our proportionate share in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statement of Operations. The deconsolidation of LSV and LSV Employee Group had no effect on Net income attributable to SEI. Prior period financial statements are not reclassified for the new accounting guidance. For more information pertaining to the deconsolidation of LSV and LSV Employee Group, see Note 2 to the Consolidated Financial Statements.

The following proforma Consolidated Statements of Operations presents the three and nine months ended September 30, 2009 as if LSV and LSV Employee Group was deconsolidated and LSV was accounted for under the equity method. This proforma statement is being provided for informational and comparative purposes only and is not a restatement or reclassification of previously reported statements.

	Three Months Ended			Nine Months Ended		
	September 30,		Percent Change	September 30,		Percent Change
	2010(1)	2009(2)		2010(1)	2009(2)	
Revenues	\$ 219,513	\$ 215,773	2%	\$ 669,436	\$ 627,125	7%
Expenses	164,374	169,694	(3%)	503,780	488,294	3%
Income from operations	55,139	46,079	20%	165,656	138,831	19%
Net gain (loss) from investments	9,362	15,616	(40%)	30,435	(1,367)	N/A
Interest income, net of interest expense	1,285	1,219	5%	3,601	3,795	(5%)
Other income	0	0	N/A	1,070	0	N/A
Equity in earnings of unconsolidated affiliate	25,246	21,240	19%	72,839	52,370	39%
Income before income taxes	91,032	84,154	8%	273,601	193,629	41%
Income taxes	34,311	31,109	10%	103,183	64,250	61%
Net income	56,721	53,045	7%	170,418	129,379	32%
Less: Net income attributable to noncontrolling interest	(332)	(318)	4%	(1,131)	(881)	28%
Net income attributable to SEI Investments Company	\$ 56,389	\$ 52,727	7%	\$ 169,287	\$ 128,498	32%
Diluted earnings per common share	\$ .30	\$ .27	11%	\$ .89	\$ .67	33%

(1) As reported.

(2) Proforma.

**Asset Balances**

This table presents assets of our clients, or of our clients' customers, for which we provide management or administrative services. These assets are not included in our balance sheets because we do not own them.

## Asset Balances

(In millions)

	As of September 30,		Percent
	2010	2009	Change
<b>Private Banks:</b>			
Equity and fixed income programs	\$ 12,842	\$ 12,479	3%
Collective trust fund programs	615	1,098	(44%)
Liquidity funds	5,034	6,524	(23%)
<b>Total assets under management</b>	<b>\$ 18,491</b>	<b>\$ 20,101</b>	<b>(8%)</b>
Client proprietary assets under administration	10,557	10,941	(4%)
<b>Total assets</b>	<b>\$ 29,048</b>	<b>\$ 31,042</b>	<b>(6%)</b>
<b>Investment Advisors:</b>			
Equity and fixed income programs	26,091	24,739	5%
Collective trust fund programs	2,028	2,521	(20%)
Liquidity funds	2,253	2,243	0%
<b>Total assets under management</b>	<b>\$ 30,372</b>	<b>\$ 29,503</b>	<b>3%</b>
<b>Institutional Investors:</b>			
Equity and fixed income programs	47,667	43,672	9%
Collective trust fund programs	641	707	(9%)
Liquidity funds	3,475	4,624	(25%)
<b>Total assets under management</b>	<b>\$ 51,783</b>	<b>\$ 49,003</b>	<b>6%</b>
<b>Investment Managers:</b>			
Equity and fixed income programs	1	4	(75%)
Collective trust fund programs	7,781	7,075	10%
Liquidity funds	423	528	(20%)
<b>Total assets under management</b>	<b>\$ 8,205</b>	<b>\$ 7,607</b>	<b>8%</b>
Client proprietary assets under administration	227,777	216,222	5%
<b>Total assets</b>	<b>\$ 235,982</b>	<b>\$ 223,829</b>	<b>5%</b>
<b>Investments in New Businesses:</b>			
Equity and fixed income programs	533	473	13%
Liquidity funds	82	93	(12%)
<b>Total assets under management</b>	<b>\$ 615</b>	<b>\$ 566</b>	<b>9%</b>
<b>LSV:</b>			
Equity and fixed income programs	\$ 54,492	\$ 49,349	10%

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Consolidated:			
Equity and fixed income programs	141,626	130,716	8%
Collective trust fund programs	11,065	11,401	(3%)
Liquidity funds	11,267	14,012	(20%)
<b>Total assets under management</b>	<b>\$ 163,958</b>	<b>\$ 156,129</b>	<b>5%</b>
Client proprietary assets under administration	238,334	227,163	5%
<b>Total assets under management and administration</b>	<b>\$ 402,292</b>	<b>\$ 383,292</b>	<b>5%</b>

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. Assets under management and administration are total assets of our clients or their customers for which we provide administrative services, including client proprietary fund balances for which we provide administration and/or distribution services.

**Business Segments**

Revenues, Expenses and Operating Profit (Loss) for our business segments, excluding LSV, for the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009 were as follows:

	Three Months Ended			Nine Months Ended		
	September 30, 2010	September 30, 2009	Percent Change	September 30, 2010	September 30, 2009	Percent Change
<b>Private Banks:</b>						
Revenues	\$ 83,518	\$ 88,561	(6%)	\$ 260,730	\$ 272,154	(4%)
Expenses	73,463	79,549	(8%)	229,674	229,108	0%
Operating Profit	\$ 10,055	\$ 9,012	12%	\$ 31,056	\$ 43,046	(28%)
Operating Margin	12%	10%		12%	16%	
<b>Investment Advisors:</b>						
Revenues	\$ 43,422	\$ 43,467	0%	\$ 135,283	\$ 120,557	12%
Expenses	26,426	28,001	(6%)	82,129	81,049	1%
Operating Profit	\$ 16,996	\$ 15,466	10%	\$ 53,154	\$ 39,508	35%
Operating Margin	39%	36%		39%	33%	
<b>Institutional Investors:</b>						
Revenues	\$ 51,036	\$ 47,458	8%	\$ 152,821	\$ 129,001	18%
Expenses	25,940	27,369	(5%)	78,896	74,803	5%
Operating Profit	\$ 25,096	\$ 20,089	25%	\$ 73,925	\$ 54,198	36%
Operating Margin	49%	42%		48%	42%	
<b>Investment Managers:</b>						
Revenues	\$ 40,548	\$ 35,208	15%	\$ 117,598	\$ 101,911	15%
Expenses	25,763	23,047	12%	75,918	68,159	11%
Operating Profit	\$ 14,785	\$ 12,161	22%	\$ 41,680	\$ 33,752	23%
Operating Margin	36%	35%		35%	33%	
<b>Investments in New Businesses:</b>						
Revenues	\$ 989	\$ 1,079	(8%)	\$ 3,004	\$ 3,502	(14%)
Expenses	4,080	3,171	29%	9,480	8,789	8%
Operating Loss	\$ (3,091)	\$ (2,092)	(48%)	\$ (6,476)	\$ (5,287)	(22%)
Operating Margin	N/A	N/A		N/A	N/A	

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

Private Banks

	Three Months Ended			Nine Months Ended		
	Sept 30, 2010	Sept 30, 2009	Percent Change	Sept 30, 2010	Sept 30, 2009	Percent Change
<b>Revenues:</b>						
Investment processing and software servicing fees	\$ 54,804	\$ 55,885	(2%)	\$ 173,302	\$ 171,946	1%
Asset management, administration & distribution fees	22,021	22,086	0%	64,339	63,772	1%
Transaction-based and trade execution fees	6,693	10,590	(37%)	23,089	36,436	(37%)
<b>Total revenues</b>	<b>\$ 83,518</b>	<b>\$ 88,561</b>	<b>(6%)</b>	<b>\$ 260,730</b>	<b>\$ 272,154</b>	<b>(4%)</b>

Revenues decreased \$5.0 million, or six percent, in the three month period and \$11.4 million, or four percent, in the nine month period ended September 30, 2010 and were primarily affected by:

Lower recurring investment processing fees mainly due to lost clients involved in mergers and acquisitions as well as price reductions provided to existing clients that contracted for longer periods;

Decreased trade execution fees due to lower trading volumes in the capital markets;

Lower fees from our liquidity products;

\$7.0 million in contract buyout fees in first quarter 2009 related to existing bank clients involved in mergers and acquisitions; and

\$1.2 million in deconversion fees recorded in third quarter 2009 relating to a lost client; partially offset by

Increased investment processing fees, including non-recurring project fees, from new GWS clients implemented onto the Global Wealth Platform;

Increased investment management fees from existing international clients due to higher assets under management from improved capital markets;

\$5.0 million in one-time contract termination fees in second quarter 2010 from a bank client lost as a result of an acquisition; and

\$4.7 million in non-recurring investment processing fees from existing clients involved in mergers and acquisitions for data conversion services.

Operating margins increased to 12 percent compared to 10 percent in the three month period. Operating income increased \$1.0 million, or 12 percent, in the three month period and was primarily affected by:



## Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Additional amortization expense of \$5.0 million in the third quarter 2009 related to the shortening in useful life of certain components related to the Global Wealth Platform replaced in the fourth quarter 2009; and

Decreased direct expenses associated with the decreased trade execution fees; partially offset by

The decrease in revenues; and

Increased direct expenses associated with increased investment management fees from existing international clients.

Operating margins decreased to 12 percent compared to 16 percent in the nine month period. Operating income decreased \$12.0 million, or 28 percent, in the nine month period and was primarily affected by:

The decrease in revenues;

An increase in stock-based compensation costs primarily due to the acceleration in recognition of stock-based compensation, net of the reversal of stock-based compensation costs, due to a change in management's estimate of the attainment of certain performance vesting targets;

Increased non-capitalized development costs as well as operating costs relating to the Global Wealth Platform; and

Increased direct expenses associated with increased investment management fees from existing international clients; partially offset by

Decreased direct expenses associated with the decreased trade execution fees; and

Decreased one-time termination costs associated with the workforce reduction in first quarter 2009, net of one-time termination costs in first quarter 2010.

Investment Advisors

Revenues were flat in the three month period and increased \$14.7 million, or 12 percent, in the nine month period ended September 30, 2010 and were primarily affected by:

Increased investment management fees from existing clients due to higher assets under management caused by improved capital markets; and

An increase in the average basis points earned on assets in the nine month period due to client-directed shifts from liquidity products to our equity and fixed income programs.

Operating margins increased to 39 percent, as compared to 36 percent in the three month period and were 39 percent, as compared to 33 percent in the nine month period. Operating income increased by \$1.5 million, or ten percent, in the three month period, and \$13.6 million, or 35 percent, in the nine month period and was primarily affected by:

An increase in revenues in the nine month period;

Decreased one-time termination costs associated with the workforce reduction in first quarter 2009; and

Additional amortization expense of \$1.9 million in the third quarter 2009 related to the shortening in useful life of certain components related to the Global Wealth Platform replaced in the fourth quarter 2009; partially offset by

An increase in stock-based compensation costs in the nine month period primarily due to the acceleration in recognition of stock-based compensation, net of the reversal of stock-based compensation costs, due to a change in management's estimate of the attainment of certain performance vesting targets; and

A charge of approximately \$1.0 million related to a processing error in the third quarter 2010.

Institutional Investors

Revenues increased \$3.6 million, or eight percent, in the three month period and \$23.8 million, or 18 percent, in the nine month period ended September 30, 2010 and were primarily affected by:

Increased investment management fees from existing clients due to higher assets under management caused by improved capital markets as well as additional asset funding from existing clients; and

Asset funding from new sales of our retirement and not-for-profit solutions; partially offset by

Client losses; and

## Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

Unfavorable currency exchange rate changes.

Operating margins increased to 49 percent, as compared to 42 percent in the three month period and were 48 percent, as compared to 42 percent in the nine month period. Operating income increased \$5.0 million, or 25 percent, in the three month period and \$19.7 million, or 36 percent, in the nine month period and was primarily affected by:

An increase in revenues; and

A charge of approximately \$2.2 million related to an operational error in the third quarter of 2009; partially offset by

An increase in stock-based compensation costs in the nine month period primarily due to the acceleration in recognition of stock-based compensation, net of the reversal of stock-based compensation costs, due to a change in management's estimate of the attainment of certain performance vesting targets;

An increase in other personnel expenses; and

Increased direct expenses associated with higher investment management fees.

### Investment Managers

Revenues increased \$5.3 million, or 15 percent, in the three month period and \$15.7 million, or 15 percent, in the nine month period ended September 30, 2010 and were primarily affected by:

Cash flows from new clients, primarily hedge fund clients; and

Net positive cash flows from existing hedge fund clients mainly due to higher valuations from capital market increases; partially offset by

Client losses.

Operating margins increased to 36 percent, as compared to 35 percent in the three month period and were 35 percent, as compared to 33 percent in the nine month period. Operating income increased \$2.6 million, or 22 percent, in the three month period and \$7.9 million, or 23 percent, in the nine month period and was primarily affected by:

An increase in revenues; partially offset by

An increase in stock-based compensation costs in the nine month period primarily due to the acceleration in recognition of stock-based compensation, net of the reversal of stock-based compensation costs, due to a change in management's estimate of the attainment of certain performance vesting targets;

An increase in other personnel expenses; and

Increased technology and other investment spending for the development of new products and services.

**Other**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net gain (loss) from investments	\$ 9,362	\$ 15,616	\$ 30,435	\$ (1,367)
Interest and dividend income	1,621	1,897	4,823	5,545
Interest expense	(336)	(1,034)	(1,222)	(2,884)
Other income	0	0	1,070	0
Equity in earnings of unconsolidated affiliate	25,246	0	72,839	0
Total other income and expense items, net	\$ 35,893	\$ 16,479	\$ 107,945	\$ 1,294

*Net gain (loss) from investments*

Net gain (loss) from investments consists of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gains (losses) from SIV securities and Capital Support Agreements	\$ 8,728	\$ 14,912	\$ 29,990	\$ (1,789)
Net gain from marketable securities (A)	634	704	445	1,323
Other-than-temporary declines in market value	0	0	0	(901)
Net gain (loss) from investments	\$ 9,362	\$ 15,616	\$ 30,435	\$ (1,367)

(A) Excludes the change in fair value of SIV securities. All changes in fair value of SIV securities are included in Gains (losses) from SIV securities and Capital Support Agreements. For more information pertaining to SIV securities, see Notes 5 and 6 to the Consolidated

## Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

### Financial Statements.

#### *Interest and dividend income*

Interest income is earned based upon the amount of cash that is invested daily and the average yield earned on those balances.

#### *Interest expense*

Interest expense in the three and nine months ended September 30, 2009 includes \$366 and \$1,159, respectively, in interest charges for the borrowings of LSV Employee Group. We did not recognize any interest expense for LSV Employee Group in 2010. The remaining balance of interest expense pertains to interest charges and commitment fees associated with our credit facility.

#### *Equity in earnings of unconsolidated affiliate*

Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statement of Operations includes our less than 50 percent ownership in LSV. We deconsolidated the accounts and operations of LSV in January 2010. In 2009, LSV was a business segment and, therefore, our proportionate share in the earnings of LSV was included in the results of our business segments. Our total partnership interest in LSV remained at

approximately 42 percent during the nine month periods ended September 30, 2010 and 2009. Our proportionate share in the earnings of LSV was \$25.2 million in the three months ended September 30, 2010 as compared to \$21.2 million in three months ended September 30, 2009, an increase of 19 percent. Our proportionate share in the earnings of LSV was \$72.8 million in the nine months ended September 30, 2010 as compared to \$52.4 million in the nine months ended September 30, 2009, an increase of 39 percent. The increases in the three and nine month periods in 2010 were due to increased assets under management from existing clients because of improved capital markets. LSV's assets under management increased \$5.2 billion to \$54.5 billion at September 30, 2010 as compared to \$49.3 billion at September 30, 2009, an increase of ten percent. For more information pertaining to the deconsolidation of LSV and LSV Employee Group, see Note 2 to the Consolidated Financial Statements.

**Noncontrolling interest**

Noncontrolling interest in 2009 primarily includes the amount owned by other shareholders or partners of LSV and LSV Employee Group.

**Income Taxes**

Our effective tax rates were 37.8 percent and 37.0 percent for the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009, our effective tax rates were 37.8 percent and 33.2 percent, respectively. The increase in our tax rate for the three month period in 2010 was primarily due to the expiration of the federal Research and Development Tax Credit on December 31, 2009. Our tax rate in 2009 was favorably impacted by the recognition of certain tax benefits as discrete items. The discrete items amounted to \$7.7 million and are related to the realization of prior unrecognized tax benefits that have been resolved by the conclusion of the federal and state income tax audits during the first quarter of 2009 and differences between the estimated federal tax expense and the actual tax expense paid. Tax discrete items generally are not related to current year income or expense and must be entirely recognized in the quarter that they are identified.

Congress has not yet passed an extension of the Research and Development Tax Credit. This tax credit and other extenders have been included in separate bills approved by the House of Representatives and Senate; however, a compromise version has not been passed. The House and Senate generally support extending the same expired provisions, but reaching agreement on the revenue offsets has been more challenging. On September 16, 2010, legislation was introduced extending expired provisions one year, generally through 2010. However, this bill has not passed but may be addressed in the lame duck session after the November 2010 elections.

*Stock-Based Compensation*

During the nine months ended September 30, 2010 and 2009, we recognized approximately \$16.4 million and \$10.2 million, respectively, in stock-based compensation expense, an increase of \$6.2 million. This increase consisted of the following components:

	Change in Stock-Based Compensation Expense
Stock-based compensation cost recognized in 2010 for grants made in December 2009 (1)	\$ 9,304
Reversal of previously recognized stock-based compensation expense	(6,267)
Change in management's estimate of expected vesting of stock options for grants that were outstanding at December 31, 2009 (2)	4,018
Stock-based compensation cost associated with options that vested in 2009	(738)
Other items	(123)
	\$ 6,194

- (1) Includes a change in management estimate of expected vesting of stock option grants of \$4,666 during 2010.  
 (2) Excludes options granted in December 2009.

For more information pertaining to stock-based compensation, see Note 8 to the Consolidated Financial Statements.

### Fair Value Measurements

The fair value of our financial assets and liabilities is determined in accordance with the fair value hierarchy. The fair value of most of our 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) securities that are single issuer pools that are valued based on current market data of similar assets. Our Level 3 financial assets consist mainly of SIV securities (See Note 5 to the Consolidated Financial Statements).

### Liquidity and Capital Resources

	For the Nine Months Ended September 30,	
	2010	2009
Net cash provided by operating activities	\$ 120,845	\$ 235,720
Net cash used in investing activities	(42,431)	(345,358)
Net cash (used in) provided by financing activities	(217,513)	200,480
Net (decrease) increase in cash and cash equivalents	(139,099)	90,842
Cash and cash equivalents, beginning of period	590,877	416,643
Cash and cash equivalents, end of period	\$ 451,778	\$ 507,485

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing. At September 30, 2010, our unused sources of liquidity consisted of cash and cash equivalents and the amount available under our five-year, \$300.0 million credit facility. Our credit facility is an unsecured senior revolving line of credit with JPMorgan Chase Bank, N.A., individually and as agent and a syndicate of other lenders, and is scheduled to expire in July 2012. The availability of the credit facility is subject to the compliance with certain covenants set forth in the agreement. During 2009, we borrowed \$254.0 million through the credit facility and used the proceeds to purchase SIV securities from SEI-sponsored money market funds. Beginning in December 2009, we made principal payments of \$134.0 million through September 2010 to reduce the outstanding balance of our credit facility. As of September 30, 2010, the outstanding balance of the credit facility was \$120.0 million (See Note 7 to the Consolidated Financial Statements).

Due to the adoption of new accounting guidance, we discontinued consolidating the accounts of LSV and LSV Employee Group in January 2010 (See Deconsolidation of LSV and LSV Employee Group earlier in this discussion). Because of the deconsolidation, we no longer include the amount of cash and cash equivalents of LSV and LSV Employee Group on our balance sheet. The deconsolidation resulted in a net reduction of \$37.1 million in our cash and cash equivalents in 2010 classified as net cash used in investing activities.

Our cash and cash equivalents include accounts managed by our subsidiaries and minority-owned 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. As of October 31, 2010, the amount of cash and cash equivalents considered free and immediately accessible for other general corporate purposes was \$355.2 million.

The decline in cash flows from operations of \$114.9 million in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to tax benefits received for net realized losses from SIV securities in 2009 which significantly reduced our tax payments in the prior year period. The net change in our working capital accounts also reduced cash flows from operations.

We have long-term contractual agreements with banks and other financial institutions, especially within our Private Banks segment. These banks and financial institutions continue to meet the scheduled payment terms under





these contracts. We have no reason to believe that these clients will be unable to satisfy current and future obligations. Additionally, the Investment Managers segment has contractual agreements with managers of hedge funds. There have been recent concerns and issues within the hedge fund industry. We believe our clients are stable and well-respected managers that will continue to remain viable entities over the long-term. We do not have any significant collectibility issues regarding our receivables as of September 30, 2010 and we have not received any indications that we should anticipate significant collectibility issues regarding our receivables in the near term.

Net cash used in investing activities includes:

*The deconsolidation of LSV and LSV Employee Group.* The previously discussed deconsolidation of the cash accounts of LSV and LSV Employee Group resulted in a net reduction of \$37.1 million in the first nine months of 2010. This amount reflects the removal of the cash balances of LSV and LSV Employee Group at December 31, 2009 net of the partnership distribution payment of \$21.2 million we received in the first quarter of 2010.

*Purchases, sales and maturities of marketable securities.* We had cash outflows of \$29.1 million for the purchase of marketable securities in the first nine months of 2010 as compared to \$318.4 million in the first nine months of 2009. Marketable securities purchased in 2010 primarily consisted of investments for the start-up of new investment products and additional GNMA securities to satisfy applicable regulatory requirements of SPTC. Marketable securities purchased in 2009 consisted of SIV securities acquired from SEI-sponsored money market funds. Sales and maturities of marketable securities, including principal prepayments received from our GNMA and SIV securities were \$63.9 million in 2010 as compared to \$23.1 million in 2009.

*The capitalization of costs incurred in developing computer software.* We will continue to fund the development of the Global Wealth Platform. Future releases of the platform are intended to expand the functionality and geographic reach of the platform. We capitalized \$28.1 million of software development costs in the first nine months of 2010 as compared to \$35.1 million in the first nine months of 2009. Amounts capitalized in 2010 and 2009 include costs for significant enhancements and upgrades to the platform.

*Capital expenditures.* Our capital expenditures in the first nine months of 2010 primarily include equipment for our data center operations. Capital expenditures in the first nine months of 2009 primarily include new computer-related equipment associated with our investment processing platforms.

Net cash used in financing activities includes:

*Principal payments of our debt.* We made principal payments of \$113.0 million in the first nine months of 2010 to reduce the outstanding debt associated with our credit facility. Principal payments in the first nine months of 2009 consist of payments made by LSV Employee Group for amounts previously included in our debt. Due to the deconsolidation of LSV Employee Group in January 2010, we no longer include the principal payments of LSV Employee Group in cash flows from financing activities.

*Borrowings on long-term debt.* In the first nine months of 2009, we borrowed \$254.0 million through our credit facility to finance our purchases of SIV securities from SEI-sponsored money market funds. There were no borrowings related to our credit facility in the first nine months of 2010.

*Dividend payments.* Cash dividends paid were \$36.0 million or \$.19 per share in the first nine months of 2010 and \$30.6 million or \$.16 per share in the first nine months of 2009.

*The repurchase of our common stock.* Our Board of Directors has authorized the repurchase of up to \$1.728 billion worth of our common stock. Through October 31, 2010, we repurchased approximately 262.5 million shares of our common stock at a cost of \$1.589 billion and had \$139.0 million of authorization remaining for the purchase of our common stock under this program. We

## Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

spent approximately \$85.3 million during the first nine months of 2010 and \$30.1 million during the first nine months of 2009 for the repurchase of our common stock. Currently, there is no expiration date for our common stock repurchase program.

Page 49 of 58

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; principal payments on our debt; 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;

consolidation within our target markets, including consolidations between banks and other financial institutions;

risk of failure by a third-party service provider;

the performance of the funds we manage;

the affect of extensive governmental regulation; including changes in laws or regulations and changes in the identity or policies of the regulators having jurisdiction over our regulated subsidiaries, products or clients;

systems and technology risks;

data security risks;

third party approval of our investment products with advisors affiliated with independent broker-dealers or other networks;

operational risks associated with the processing of investment transactions, including, but not limited to, improper operation of systems, human error or improper action by employees;

changes in, or interpretation of, accounting principles or tax rules and regulations;

fluctuations in foreign currency exchange rates; and

retention of senior management personnel.

The Company and our clients are subject to extensive governmental regulation. Our various business activities are conducted through entities which may be registered with the Securities and Exchange Commission (SEC) as an investment advisor, a broker-dealer, a transfer agent, an investment company or with the United States Office of Thrift Supervision or state banking authorities as a trust company. Our broker-dealer is also a member of the Financial Industry Regulatory Authority and is subject to its rules and oversight. In addition, various subsidiaries of the Company are registered with, and subject to the oversight of, regulatory authorities primarily in the United Kingdom and the Republic of Ireland. Many of our clients are subject to substantial regulation by federal and state banking, securities or insurance authorities or the Department of Labor. Compliance with existing and future regulations and responding to and complying with recent regulatory activity affecting broker-dealers, investment companies and their service providers could have a significant impact on us. We periodically undergo regulatory examinations and respond to regulatory inquiries and document requests. As a result of these examinations, inquiries and requests, we review our compliance procedures and business operations, and make changes as we deem necessary, some of which may result in increased expense or may reduce revenues. We offer investment and banking products that also are subject to regulation by the federal and state securities and banking authorities, as well as non-United States regulatory authorities, where applicable. Existing or future regulations that affect these products could lead to a reduction in sales of these products.

The Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law in July 2010 makes extensive changes to the laws regulating financial services firms. Among other things, this Act abolishes the Office of Thrift Supervision and transfers its functions to the other federal banking agencies. The legislation requires significant rule-making and mandates multiple studies, which could result in additional legislative or regulatory action. We are currently evaluating the impact the legislation will have on us and our subsidiaries and the products and services we provide to our clients.

Our bank clients are subject to supervision by federal and state banking 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 and state securities authorities. 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 regarding our market risk exposures appears in Part II - Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in our market risk exposures from those disclosed in our Annual Report on Form 10-K for 2009.

**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 (the Exchange Act) 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 Exchange 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 September 30, 2010 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.**

One of SEI's principal subsidiaries, SEI Investments Distribution Co. (SIDCO), has been named as a defendant in certain putative class action complaints (the Complaints) related to leveraged exchange traded funds (ETFs) advised by ProShares Advisors, LLC. To date, the Complaints have been filed in the United States District Court for the Southern District of New York and in the United States District Court for the District of Maryland although the three complaints filed in the District of Maryland have been voluntarily dismissed by the plaintiffs. Two of them were subsequently re-filed in the Southern District of New York. Two of the complaints filed in the Southern District of New York have been voluntarily dismissed by plaintiffs. The first complaint was filed on August 5, 2009. The Complaints are purportedly made on behalf of all persons that purchased or otherwise acquired shares in various ProShares leveraged ETFs pursuant or traceable to allegedly false and misleading registration statements, prospectuses and statements of additional information. The Complaints name as defendants ProShares Advisors, LLC; ProShares Trust; ProShares Trust II, SIDCO, and various officers and trustees to ProShares Advisors, LLC; ProShares Trust and ProShares Trust II. The Complaints allege that SIDCO was the distributor and principal underwriter for the various ProShares leveraged ETFs that were distributed to authorized participants and ultimately shareholders. The complaints allege that the registration statements for the ProShares ETFs were materially false and misleading because they failed adequately to describe the nature and risks of the investments. The Complaints allege that SIDCO is liable for these purportedly material misstatements and omissions under Section 11 of the Securities Act of 1933. The Complaints seek unspecified compensatory and other damages, reasonable costs and other relief. The cases are in the early stage, and the court has not yet appointed lead plaintiff(s). Defendants have moved to consolidate the complaints, which motion has been granted. While the outcome of this litigation is uncertain given its early phase, SEI believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

SEI has also been named in three lawsuits that were filed in August 2009 in the 19th Judicial District Court for the Parish of East Baton Rouge, State of Louisiana. One of the three actions purports to set forth claims on behalf of a class and also names SEI Private Trust Company (SPTC) as a defendant. All three actions name various defendants besides SEI, and, in all three actions, the plaintiffs purport to bring a cause of action against SEI under the Louisiana Securities Act. The putative class action also includes a claim against SEI for an alleged violation of the Louisiana Unfair Trade Practices Act. In addition, in December 2009, a group of six plaintiffs filed a lawsuit in the 23rd Judicial District Court for the Parish of Ascension, State of Louisiana, against SEI and other defendants asserting claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Securities Act, and Louisiana Racketeering Act and conspiracy. Further, SEI is aware that, in February 2010, two groups of plaintiffs amended petitions they had previously filed in the 19th Judicial District for the Parish of East Baton Rouge, State of Louisiana, to add claims against SEI and SPTC for alleged violations of the Louisiana Securities Act, the Louisiana Racketeering Act, and civil conspiracy. The underlying allegations in all six actions are purportedly related to the role of SPTC in providing data consolidation, securities processing, and other services to Stanford Trust Company. Two of the three actions filed in East Baton Rouge have been removed to federal court, and plaintiffs' motions to remand are pending. These two cases were also transferred by the Judicial Panel on Multidistrict Litigation (MDL) to a MDL pending in the Northern District of Texas. The case filed in Ascension was also removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the same MDL pending in the Northern District of Texas. That case has been stayed. SEI and SPTC filed exceptions in the putative class action that remains pending in East Baton Rouge, which the Court granted in part and dismissed the claims under the Louisiana Unfair Trade Practices Act and denied, in part, as to the other exceptions. There is a motion for class certification that is pending in that case. The time for SEI and SPTC to respond to the two amended petitions adding claims against them has not yet run. While the outcome of this litigation is uncertain given its early phase, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously.

### **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, 2009. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for 2009.

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

(c) Our Board of Directors has authorized the repurchase of up to \$1.728 billion worth of our common stock. Currently, there is no expiration date for our common stock repurchase program.

Information regarding the repurchase of common stock during the three months ended September 30, 2010 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
July 1 31, 2010	350,000	\$ 19.71	350,000	\$ 71,792,000
August 1 31, 2010	828,000	18.84	828,000	56,192,000
September 1 30, 2010	811,000	19.86	811,000	40,092,000
Total	1,989,000	19.41	1,989,000	

**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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation 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: November 4, 2010

By: /s/ Dennis J. McGonigle  
Dennis J. McGonigle  
Chief Financial Officer

Page 55 of 58