SEI INVESTMENTS CO
Form 10-Q
November 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)*

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended September 30, 2011

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from to

0-10200

(Commission File Number)

SEI INVESTMENTS COMPANY

(Exact name of registrant as specified in its charter)

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

The number of shares outstanding of the registrant s common stock as of October 31, 2011 was 178,784,226.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

SEI Investments Company

Consolidated Balance Sheets

(unaudited)

(In thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 428,865	$ 496,292
Restricted cash	4,000	4,000
Receivables from regulated investment companies	27,493	29,282
Receivables, net of allowance for doubtful accounts of $1,097 and $1,195 (Note 4)	139,461	136,490
Deferred income taxes	1,051	1,387
Securities owned (Note 6)	20,032	0
Other current assets	17,544	16,268
Total Current Assets	638,446	683,719
Property and Equipment, net of accumulated depreciation and amortization of $182,045 and $166,816 (Note 4)	133,115	140,568
Capitalized Software, net of accumulated amortization of $110,246 and $90,947	305,589	294,332
Investments Available for Sale (Note 6)	77,978	74,770
Trading Securities (Note 6)	59,130	104,594
Investment in Unconsolidated Affiliate (Note 2)	67,994	64,409
Other Assets, net	21,455	14,831
Total Assets	$ 1,303,707	$ 1,377,223

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, 2011	December 31, 2010
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 6,904	$ 4,582
Accrued liabilities (Note 4)	104,960	121,410
Current portion of long-term debt (Note 7)	20,000	0
Deferred revenue	1,109	1,608
Total Current Liabilities	132,973	127,600
Long-term Debt (Note 7)	0	95,000
Deferred Income Taxes	90,682	92,253
Other Long-term Liabilities (Note 11)	11,172	5,645
Total Liabilities	234,827	320,498
Commitments and Contingencies (Note 12)		
Equity:		
SEI Investments Company shareholders equity:		
Common stock, $.01 par value, 750,000 shares authorized; 179,611 and 186,141 shares issued and outstanding	1,796	1,861
Capital in excess of par value	581,027	565,393
Retained earnings	470,380	471,159
Accumulated other comprehensive income, net	387	3,157
Total SEI Investments Company shareholders equity	1,053,590	1,041,570
Noncontrolling interest	15,290	15,155
Total Equity	1,068,880	1,056,725
Total Liabilities and Equity	$ 1,303,707	$ 1,377,223

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

SEI Investments Company

Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Revenues:		
Asset management, administration and distribution fees	$ 167,827	$ 155,799
Information processing and software servicing fees	55,676	55,226
Transaction-based and trade execution fees	9,724	8,488
Total revenues	233,227	219,513
Expenses:		
Subadvisory, distribution and other asset management costs	24,613	25,237
Software royalties and other information processing costs	6,703	6,048
Brokerage commissions	7,026	6,570
Compensation, benefits and other personnel	71,198	64,694
Stock-based compensation	3,424	3,468
Consulting, outsourcing and professional fees	30,183	21,841
Data processing and computer related	12,316	10,167
Facilities, supplies and other costs	14,274	14,749
Amortization	7,008	5,998
Depreciation	5,346	5,602
Total expenses	182,091	164,374
Income from operations	51,136	55,139
Net (loss) gain from investments	(1,418)	9,362
Interest and dividend income	1,400	1,621
Interest expense	(126)	(336)
Equity in earnings of unconsolidated affiliate	23,908	25,246
Net income before income taxes	74,900	91,032
Income taxes	25,256	34,311
Net income	49,644	56,721
Less: Net income attributable to the noncontrolling interest	(412)	(332)
Net income attributable to SEI Investments Company	$ 49,232	$ 56,389
Basic earnings per common share	$ .27	$ .30
Diluted earnings per common share	$ .27	$ .30

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

SEI Investments Company

Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:		
Asset management, administration and distribution fees	$ 507,662	$ 463,511
Information processing and software servicing fees	167,535	175,148
Transaction-based and trade execution fees	28,283	30,777
Total revenues	703,480	669,436
Expenses:		
Subadvisory, distribution and other asset management costs	77,213	75,420
Software royalties and other information processing costs	20,908	18,496
Brokerage commissions	20,206	22,661
Compensation, benefits and other personnel	214,836	198,922
Stock-based compensation	10,966	16,403
Consulting, outsourcing and professional fees	85,579	65,250
Data processing and computer related	35,229	30,512
Facilities, supplies and other costs	42,474	41,829
Amortization	20,031	17,895
Depreciation	16,348	16,392
Total expenses	543,790	503,780
Income from operations	159,690	165,656
Net gain from investments	3,912	30,435
Interest and dividend income	4,380	4,823
Interest expense	(485)	(1,222)
Other income	0	1,070
Equity in earnings of unconsolidated affiliate	82,387	72,839
Net income before income taxes	249,884	273,601
Income taxes	88,087	103,183
Net income	161,797	170,418
Less: Net income attributable to the noncontrolling interest	(1,234)	(1,131)
Net income attributable to SEI Investments Company	$ 160,563	$ 169,287
Basic earnings per common share	$ .87	$ .90
Diluted earnings per common share	$ .86	$ .89
Dividends declared per common share	$ .12	$ .10

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,			
	2011		2010	
Net income		$ 49,644		$ 56,721
Other comprehensive income, net of tax:				
Foreign currency translation adjustments		(9,179)		4,988
Unrealized holding gain on investments:				
Unrealized holding gains during the period, net of income tax expense of $442 and $220	507		375	
Less: reclassification adjustment for (gains) losses realized in net income, net of income tax expense (benefit) of $4 and $(5)	(7)	500	10	385
Total other comprehensive (loss) income, net of tax		(8,679)		5,373
Comprehensive income		$ 40,965		$ 62,094
Comprehensive loss (income) attributable to noncontrolling interest		1,612		(1,508)
Comprehensive income attributable to SEI Investments Company		$ 42,577		$ 60,586

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,			
	2011		2010	
Net income		$ 161,797		$ 170,418
Other comprehensive income, net of tax:				
Foreign currency translation adjustments		(4,884)		694
Unrealized holding gain on investments:				
Unrealized holding gains during the period, net of income tax expense of $678 and $869	1,153		1,065	
Less: reclassification adjustment for (gains) losses realized in net income, net of income tax expense (benefit) of $79 and $(22)	(138)	1,015	41	1,106
Total other comprehensive (loss) income, net of tax		(3,869)		1,800
Comprehensive income		$ 157,928		$ 172,218
Comprehensive income attributable to noncontrolling interest		(135)		(1,513)
Comprehensive income attributable to SEI Investments Company		$ 157,793		$ 170,705

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, 2011	2010
Cash flows from operating activities:		
Net income	$ 161,797	$ 170,418
Adjustments to reconcile net income to net cash provided by operating activities	13,739	(49,573)
Net cash provided by operating activities	175,536	120,845
Cash flows from investing activities:		
Additions to restricted cash	0	(430)
Additions to property and equipment	(10,744)	(11,568)
Additions to capitalized software	(30,556)	(28,097)
Purchase of marketable securities	(47,463)	(29,117)
Prepayments and maturities of marketable securities	38,625	38,998
Sale of marketable securities	37,581	24,866
Purchase of other investments	(7,500)	0
Sale of other investments	4,906	0
LSV and LSV Employee Group cash balances, net (A)	0	(37,083)
Net cash used in investing activities	(15,151)	(42,431)
Cash flows from financing activities:		
Payments on long-term debt	(75,000)	(113,000)
Purchase and retirement of common stock	(154,753)	(85,283)
Proceeds from issuance of common stock	22,499	15,791
Tax benefit on stock options exercised	1,483	990
Payment of dividends	(22,041)	(36,011)
Net cash used in financing activities	(227,812)	(217,513)
Net decrease in cash and cash equivalents	(67,427)	(139,099)
Cash and cash equivalents, beginning of period	496,292	590,877
Cash and cash equivalents, end of period	$ 428,865	$ 451,778

(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.

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 systems 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, 2011, the results of operations for the three and nine months ended September 30, 2011 and 2010, and cash flows for the nine month periods ended September 30, 2011 and 2010. 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, 2010.

There have been no significant changes in significant accounting policies during the nine months ended September 30, 2011 as compared to the significant accounting policies described in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Cash and Cash Equivalents

Cash and cash equivalents includes $283,461 and $383,946 at September 30, 2011 and December 31, 2010, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds.

Restricted Cash

Restricted cash includes $3,000 at September 30, 2011 and December 31, 2010 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited. Restricted cash also includes $1,000 at September 30, 2011 and December 31, 2010 segregated in special reserve accounts for the benefit of customers of the Company s broker-dealer subsidiary, SEI Investments Distribution Co. (SIDCO), in accordance with certain rules established by the Securities and Exchange Commission for broker-dealers.

Capitalized Software

The Company capitalized $30,556 and $28,097 of software development costs during the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 10.7 years. Amortization expense related to capitalized software was $19,299 and $17,149 during the nine months ended September 30, 2011 and 2010, respectively.

Software development costs capitalized during the nine months ended September 30, 2011 and 2010 relates to the continued development of the Global Wealth Platform (GWP). As of September 30, 2011, the net book value of GWP was $289,683 (net of accumulated amortization of $81,025), including $14,895 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 10.8 years. Amortization expense for GWP was $18,873 and $16,724 during the nine months ended September 30, 2011 and 2010, respectively.

Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended September 30, 2011 and 2010 are:

	(Denominator)	(Denominator)	(Denominator)
	For the Three Months Ended September 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	$ 49,232	181,718	$ .27
Dilutive effect of stock options	0	862	
Diluted earnings per common share	$ 49,232	182,580	$ .27

	(Denominator)	(Denominator)	(Denominator)
	For the Three Months 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

Employee stock options to purchase 16,290,000 and 9,810,000 shares of common stock, with an average exercise price of $23.66 and $25.53, were outstanding during the three months ended September 30, 2011 and 2010, 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, 2011 and 2010 are:

	For the Nine Months Ended September 30, 2011		
	(Denominator) Income (Numerator)	(Denominator) Shares (Denominator)	(Denominator) Per Share Amount
Basic earnings per common share	$ 160,563	184,030	$ .87
Dilutive effect of stock options	0	2,002	
Diluted earnings per common share	$ 160,563	186,032	$ .86

	For the Nine Months Ended September 30, 2010		
	(Denominator) Income (Numerator)	(Denominator) Shares (Denominator)	(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

Employee stock options to purchase 13,273,000 and 16,096,000 shares of common stock, with an average exercise price of $24.72 and $23.47, were outstanding during the nine months ended September 30, 2011 and 2010, 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.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued a final Accounting Standards Update which represents the converged guidance of the FASB and the International Accounting Standards Board on fair value measurement. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risks, addresses the concept of valuation premise and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy and requires additional disclosures. The guidance is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The Company is currently evaluating the requirements of the guidance and has not yet determined its impact on the Company s consolidated financial statements.

In June 2011, the FASB issued a final Accounting Standards Update to amend the presentation of comprehensive income in financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies will be required to present each component of net income and comprehensive income. The guidance is effective for interim and annual periods beginning after December 15, 2011 and is applied retrospectively. The Company does not expect the adoption of the guidance to have any impact on its consolidated financial statements.

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:

	2011	2010
Net income	$ 161,797	$ 170,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	16,348	16,392
Amortization	20,031	17,895
Equity in earnings of unconsolidated affiliate	(82,387)	(72,839)
Distributions received from unconsolidated affiliate	78,550	46,266
Stock-based compensation	10,966	16,403
Provision for losses on receivables	(98)	(646)
Deferred income tax expense	(1,834)	5,046
Net realized gains from investments	(3,912)	(30,435)
Change in other long-term liabilities	5,527	110
Other	(4,484)	1,440
Change in current asset and liabilities		
Decrease (increase) in		
Receivables from regulated investment companies	1,789	1,045
Receivables	(8,703)	(22,217)
Other current assets	(1,276)	(3,567)
Increase (decrease) in		
Accounts payable	2,322	2,378
Accrued liabilities	(18,601)	(26,049)
Deferred revenue	(499)	(795)
Total adjustments	13,739	(49,573)
Net cash provided by operating activities	$ 175,536	$ 120,845

Reclassifications

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

Note 2. Investment in Unconsolidated Affiliate

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 small number of SEI-sponsored mutual funds. Currently, the Company s total partnership interest in LSV is approximately 41 percent. The Company accounts for its interest in LSV using the equity method. The Company s interest in the net assets of LSV is reflected in Investment in unconsolidated affiliate on the accompanying Consolidated Balance Sheets and its interest in the earnings of LSV is reflected in Equity in earnings of unconsolidated affiliate on the accompanying Consolidated Statements of Operations.

At September 30, 2011, the Company s total investment in LSV was $67,994. The investment in LSV exceeded the underlying equity in the net assets of LSV by $3,826, 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 $78,550 and $67,508 in the nine months ended September 30, 2011 and 2010, respectively. The partnership distribution payment of $21,242 received in the three months ended March 31, 2010 is reflected in LSV and LSV Employee Group cash balances, net on the accompanying Consolidated Statement of Cash Flows.

The Company s proportionate share in the earnings of LSV was $23,908 and $25,246 during the three months ended September 30, 2011 and 2010, respectively. During the nine months ended September 30, 2011 and 2010, the Company s proportionate share in the earnings of LSV was $82,387 and $72,839, respectively.

The following table contains the condensed statements of operations of LSV for the three months ended September 30, 2011 and 2010:

	Three Months Ended September 30,	
	2011	2010
Revenues	$ 67,230	$ 68,979
Net income	58,358	61,032

The following table contains the condensed statements of operations of LSV for the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September 30,	
	2011	2010
Revenues	$ 228,380	$ 199,999
Net income	200,322	175,645

Guaranty Agreements

In 2006, LSV Employee Group purchased an eight percent interest in LSV from two existing partners. In order to finance a portion of the purchase price, LSV Employee Group obtained financing from Bank of America, N.A. (Bank of America) and certain other lenders in the form of a term loan pursuant to the terms of a Credit Agreement. The Company agreed to provide a Guaranty Agreement to the lenders of all obligations of LSV Employee Group under the Credit Agreement. In January 2011, LSV Employee Group and Bank of America agreed to amend the Credit Agreement and extend the maturity date of the loan from January 2011 to July 2012. The Company s obligations under the Guaranty Agreement remained in full force and effect with respect to the amended Credit Agreement. LSV Employee Group made the final principal payment in October 2011 and has no further obligation regarding the Credit Agreement. The principal amount and interest of the term loan were paid in quarterly installments. LSV Employee Group made principal payments of $10,091 during 2011, including the final principal payment of $1,298 in October 2011.

In April 2011, a group of existing employees of LSV agreed to purchase a partnership interest of an existing LSV employee for $4,300 of which $3,655 was financed through a new term loan with Bank of America. The group of existing LSV employees formed a new limited liability company, LSV Employee Group II, LLC (LSV Employee Group II). The Company provided an unsecured guaranty to the lenders of all the obligations of LSV Employee Group II. The lenders will have the right to seek payment from the Company in the event of a default by LSV Employee Group II. The term loan has a four year term and will be repaid from the quarterly distributions of LSV. LSV Employee Group II made principal payments of $458 thus far during 2011. As of October 31, 2011, the remaining unpaid principal balance of the term loan was $3,197.

The Company s direct interest in LSV is unchanged as a result of this transaction. The Company has determined that LSV Employee Group II is a variable interest entity (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 II either directly or through any financial responsibility from the guaranty.

As of October 31, 2011, the Company, in its capacity as guarantor, currently has no obligation of payment relating to the term loan of LSV Employee Group II and, furthermore, fully expects that LSV Employee Group II will meet all of their future obligations regarding the term loan.

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. Some of the Company s investment products have been determined to be VIEs at inception.

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 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, is not 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 not significant. 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 not significant to the total assets of the Company.

Note 4. Composition of Certain Financial Statement Captions

Receivables

Receivables on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2011	December 31, 2010
Trade receivables	$ 36,581	$ 34,528
Fees earned, not billed	99,274	93,506
Other receivables	4,703	9,651
	140,558	137,685
Less: Allowance for doubtful accounts	(1,097)	(1,195)
	$ 139,461	$ 136,490

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.

Property and Equipment

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

	September 30, 2011	December 31, 2010
Buildings	$ 136,690	$ 135,935
Equipment	67,812	63,902
Land	9,929	9,890
Purchased software	78,026	74,720
Furniture and fixtures	18,023	18,566
Leasehold improvements	4,525	4,250
Construction in progress	155	121
	315,160	307,384
Less: Accumulated depreciation and amortization	(182,045)	(166,816)
Property and Equipment, net	$ 133,115	$ 140,568

The Company recognized $16,348 and $16,392 in depreciation expense related to property and equipment for the nine months ended September 30, 2011 and 2010, respectively.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

	September 30, 2011	December 31, 2010
Accrued employee compensation	$ 37,991	$ 43,747
Accrued employee benefits and other personnel	5,005	6,988
Accrued consulting, outsourcing and professional fees	16,522	16,390
Accrued brokerage fees	9,075	11,942
Accrued sub-advisory, distribution and other asset management fees	14,149	16,778
Accrued income taxes	0	2,077
Other accrued liabilities	22,218	23,488
Total accrued liabilities	$ 104,960	$ 121,410

Note 5. Fair Value Measurements

The fair value of the Company s financial assets and liabilities is determined in accordance with the fair value hierarchy. The fair value of the Company s financial assets, except for the fair value of senior notes issued by structured investment vehicles (SIVs), is 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) and other U.S. government agency securities that are single issuer pools that are valued based on current market data for the specific issue owned or pools of similar 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, 2011 or December 31, 2010. There were no transfers of financial assets between levels within the fair value hierarchy during the nine months ended September 30, 2011.

Valuation of SIV Securities

The underlying collateral of the SIV securities is mainly comprised of asset-backed securities and collateralized debt obligations. The Company utilizes the services of a third party independent firm to assist in determining the fair value of the SIV security owned. Given the lack of any reliable market data on the SIV security, the firm utilized a valuation model that employs a net asset approach which considers the value of the underlying collateral of the SIV security to determine its fair value.

Management evaluates the value received from the firm and considers other information, such as the existence of any current market activity, to determine the fair value of the SIV securities.

The model used by the independent valuation firm to determine the fair value of the SIV security attempts to value the underlying collateral of the SIV security through the use of industry accepted and proprietary valuation techniques and models. This approach combines advanced analytics with real-time market information that incorporate structural and fundamental analysis, collateral characteristics and recent market developments. Each security that makes up the underlying collateral is specifically identified by its CUSIP or ISIN number and is analyzed by using observable collateral characteristics and credit statistics in order to project future performance and expected cash flows for each individual security. The projected cash flows incorporate assumptions and expectations based upon the foregoing analysis of the collateral characteristics such as, but not limited to, default probabilities, recovery rates, prepayment speeds and loss severities. Expected future cash flows are discounted at an appropriate yield derived from the individual security, structural and collateral characteristics, trading levels and other available market data. Different modeling techniques and associated inputs and assumptions may be used to project future cash flows for each security depending upon the asset classification of that individual security (i.e. residential mortgage-backed security, commercial mortgage-backed security, collateralized debt obligations, etc.). The aggregate value of the discounted cash flows of the underlying collateral is compared to the total remaining par value of the collateral to determine the expected recovery price, or fair value, of the remaining note obligations. Other factors may be considered that are specific to the SIV security that may affect the fair value of the SIV security.

Management may also consider, when available, price quotes from brokers and dealers. If a price quote is available, management will compare this number to the fair value derived from the valuation model of the independent firm giving consideration to other market factors and risk premiums. Given the lack of any significant trading activity for the SIV security owned by the Company, management believes that market prices may not represent the implied fair value of the SIV security owned by the Company.

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.

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

	At September 30, 2011 Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Equity available-for-sale securities	$ 8,374	$ 8,374	$ 0	$ 0
Fixed income available-for-sale securities	69,604	0	69,604	0
Fixed income securities owned	20,032	0	20,032	0
Trading securities issued by SIVs	55,633	0	0	55,633
Other trading securities	3,497	3,497	0	0
	$ 157,140	$ 11,871	$ 89,636	$ 55,633

	At December 31, 2010 Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Equity available-for-sale securities	$ 5,853	$ 5,853	$ 0	$ 0
Fixed income available-for-sale securities	68,917	0	68,917	0
Trading securities issued by SIVs	100,645	0	0	100,645
Other trading securities	3,949	3,949	0	0
	$ 179,364	$ 9,802	$ 68,917	$ 100,645

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, 2011 to September 30, 2011:

	Trading Securities Issued by SIVs
Balance, January 1, 2011	$ 100,645
Purchases	0
Issuances	0
Principal prepayments and settlements	(14,434)
Sales	(34,706)
Total gains or (losses) (realized/unrealized):	
Included in earnings	4,128
Included in other comprehensive income	0
Transfers in and out of Level 3	0
Balance, September 30, 2011	$ 55,633

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	536
Issuances	0
Principal prepayments and settlements	(31,991)
Sales	(16,416)
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
Balance, September 30, 2010	$ 102,833

Note 6. Marketable Securities

Investments Available for Sale

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

	As of September 30, 2011			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SEI-sponsored mutual funds	$ 8,778	$ 67	$ (593)	$ 8,252
Other mutual funds	109	13	0	122
Debt securities	65,354	4,250	0	69,604
	$ 74,241	$ 4,330	$ (593)	$ 77,978

	As of December 31, 2010			
	Cost Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SEI-sponsored mutual funds	$ 5,086	$ 279	$ (14)	$ 5,351
Other mutual funds	443	59	0	502
Debt securities	67,118	1,799	0	68,917
	$ 72,647	$ 2,137	$ (14)	$ 74,770

Net unrealized holding gains at September 30, 2011 and December 31, 2010 were $2,354 (net of income tax expense of $1,383) and $1,339 (net of income tax expense of $784), respectively. These net unrealized gains are reported as a separate component of Accumulated other comprehensive income on the accompanying Consolidated Balance Sheets.

Gross realized gains and losses from available-for-sale securities during the nine months ended September 30, 2011 and 2010 were minimal. Gains and losses from available-for-sale securities are reflected in Net (loss) gain from investments on the accompanying Consolidated Statements of Operations.

The Company s debt securities classified as available-for-sale 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 2041.

Trading Securities

Trading securities of the Company consist of:

	As of September 30, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SIV securities	$ 149,850	$ 0	$ (94,217)	$ 55,633
LSV-sponsored mutual funds	2,049	1,448	0	3,497
	$ 151,899	$ 1,448	$ (94,217)	$ 59,130

	As of December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SIV securities	$ 231,026	$ 0	$ (130,381)	$ 100,645
LSV-sponsored mutual funds	2,049	1,900	0	3,949
	$ 233,075	$ 1,900	$ (130,381)	$ 104,594

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 (loss) gain from investments on the accompanying Consolidated Statements of Operations.

Through September 30, 2011, the Company recognized $140,707 in cumulative losses from SIV securities and SIV-related issues. During the nine months ended September 30, 2011 and 2010, the Company recognized net gains from SIV securities of $4,128 and $29,990, respectively. Of the net gains recognized during the nine months ended September 30, 2011, gains of $8,430 resulted from cash payments received from the SIV securities offset by losses of $4,302 which resulted from a decrease in fair value at September 30, 2011. Of the gains recognized during the nine months ended September 30, 2010, $19,390 resulted from cash payments received from the SIV securities and $10,217 was from an increase in fair value at September 30, 2010. The net gains from the SIV securities are reflected in Net (loss) gain from investments on the accompanying Consolidated Statements of Operations.

In January 2011, the Company sold the senior note obligation originally issued by Stanfield Victoria. There was no gain or loss recognized by the Company from the sale of the note in 2011 as the fair value of the Stanfield Victoria note at December 31, 2010 was not different than the sale price received.

The Company has an investment related to the startup of mutual funds sponsored by LSV. These are U.S. dollar denominated funds that invest primarily in securities of Canadian, Australian and Japanese companies as well as various other global securities. The underlying securities held by the funds are translated into U.S. dollars within the funds. The net gains (losses) from the change in fair value of the funds during the three and nine months ended September 30, 2011 and 2010 were minimal.

Securities Owned

During 2011, the Company s broker-dealer subsidiary, SIDCO, made investments in U.S. government agency and commercial paper securities with maturity dates less than one year. These investments are reflected as Securities owned on the accompanying Consolidated Balance Sheets. Due to specialized accounting practices applicable to investments by broker-dealers, the securities are reported at fair value and changes in fair value are recorded in current period earnings. The securities had a fair value of $20,032 at September 30, 2011. The changes in fair value recognized in the three and nine months ended September 30, 2011 were minimal.

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. As of September 30, 2011, the Company s ability to borrow from the Credit Facility is not limited by any covenant of the agreement.

The Company made principal payments of $75,000 during the nine months ended September 30, 2011. As of September 30, 2011, the outstanding balance of the Credit Facility was $20,000 and is included in Current portion of long-term debt on the accompanying Consolidated Balance Sheet. The Company was in compliance with all covenants of the Credit Facility at September 30, 2011.

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, 2011.

Note 8. Shareholders Equity

Stock-Based Compensation

The Company currently has one active equity compensation plan, the 2007 Equity Compensation Plan (the 2007 Plan), wh