

SEI INVESTMENTS CO  
Form 10-Q  
May 03, 2012

**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 March 31, 2012**

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 April 30, 2012 was 175,533,170.

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

|                                                                                                 | March 31, 2012   | December 31, 2011 |
|-------------------------------------------------------------------------------------------------|------------------|-------------------|
| <b><u>Assets</u></b>                                                                            |                  |                   |
| Current Assets:                                                                                 |                  |                   |
| Cash and cash equivalents                                                                       | \$ 388,127       | \$ 420,986        |
| Restricted cash                                                                                 | 6,000            | 6,000             |
| Receivables from regulated investment companies                                                 | 34,983           | 25,800            |
| Receivables, net of allowance for doubtful accounts of \$876 and \$924 (Note 4)                 | 147,110          | 142,109           |
| Deferred income taxes                                                                           | 422              | 1,150             |
| Securities owned (Note 6)                                                                       | 21,053           | 20,949            |
| Other current assets                                                                            | 19,644           | 17,957            |
| <br>Total Current Assets                                                                        | <br>617,339      | <br>634,951       |
| <br>Property and Equipment, net of accumulated depreciation of \$186,510 and \$182,453 (Note 4) | <br>136,431      | <br>129,548       |
| <br>Capitalized Software, net of accumulated amortization of \$124,281 and \$117,100            | <br>311,229      | <br>309,133       |
| <br>Investments Available for Sale (Note 6)                                                     | <br>84,214       | <br>83,008        |
| <br>Trading Securities (Note 6)                                                                 | <br>56,461       | <br>56,325        |
| <br>Investment in Unconsolidated Affiliate (Note 2)                                             | <br>66,691       | <br>60,954        |
| <br>Other Assets, net                                                                           | <br>21,261       | <br>20,640        |
| <br>Total Assets                                                                                | <br>\$ 1,293,626 | <br>\$ 1,294,559  |

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

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

|                                                                                                             | March 31, 2012   | December 31, 2011 |
|-------------------------------------------------------------------------------------------------------------|------------------|-------------------|
| <b><u>Liabilities and Equity</u></b>                                                                        |                  |                   |
| Current Liabilities:                                                                                        |                  |                   |
| Accounts payable                                                                                            | \$ 2,241         | \$ 1,999          |
| Accrued liabilities (Note 4)                                                                                | 115,408          | 147,044           |
| Deferred revenue                                                                                            | 1,228            | 2,030             |
| <br>Total Current Liabilities                                                                               | <br>118,877      | <br>151,073       |
| <br>Deferred Income Taxes                                                                                   | <br>92,477       | <br>93,751        |
| <br>Other Long-term Liabilities (Note 11)                                                                   | <br>10,832       | <br>8,276         |
| <br>Total Liabilities                                                                                       | <br>222,186      | <br>253,100       |
| <br>Commitments and Contingencies (Note 12)                                                                 |                  |                   |
| <b><u>Equity:</u></b>                                                                                       |                  |                   |
| SEI Investments shareholders' equity:                                                                       |                  |                   |
| Common stock, \$.01 par value, 750,000 shares authorized; 175,469 and 176,506 shares issued and outstanding | 1,755            | 1,765             |
| Capital in excess of par value                                                                              | 587,971          | 577,949           |
| Retained earnings                                                                                           | 460,727          | 443,702           |
| Accumulated other comprehensive income, net                                                                 | 4,091            | 1,900             |
| <br>Total SEI Investments shareholders' equity                                                              | <br>1,054,544    | <br>1,025,316     |
| <br>Noncontrolling interest                                                                                 | <br>16,896       | <br>16,143        |
| <br>Total Equity                                                                                            | <br>1,071,440    | <br>1,041,459     |
| <br>Total Liabilities and Equity                                                                            | <br>\$ 1,293,626 | <br>\$ 1,294,559  |

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 March 31, |                  |
|--------------------------------------------------------------|------------------------------|------------------|
|                                                              | 2012                         | 2011             |
| <b>Revenues:</b>                                             |                              |                  |
| Asset management, administration and distribution fees       | \$ 172,954                   | \$ 167,504       |
| Information processing and software servicing fees           | 56,200                       | 55,824           |
| Transaction-based and trade execution fees                   | 8,744                        | 9,165            |
| <b>Total revenues</b>                                        | <b>237,898</b>               | <b>232,493</b>   |
| <b>Expenses:</b>                                             |                              |                  |
| Subadvisory, distribution and other asset management costs   | 28,467                       | 26,296           |
| Software royalties and other information processing costs    | 6,477                        | 7,017            |
| Brokerage commissions                                        | 6,307                        | 6,581            |
| Compensation, benefits and other personnel                   | 78,543                       | 71,025           |
| Stock-based compensation                                     | 4,033                        | 3,732            |
| Consulting, outsourcing and professional fees                | 26,955                       | 25,998           |
| Data processing and computer related                         | 11,465                       | 11,303           |
| Facilities, supplies and other costs                         | 14,508                       | 14,102           |
| Amortization                                                 | 7,622                        | 6,231            |
| Depreciation                                                 | 5,432                        | 5,611            |
| <b>Total expenses</b>                                        | <b>189,809</b>               | <b>177,896</b>   |
| Income from operations                                       | 48,089                       | 54,597           |
| Net gain from investments                                    | 3,205                        | 7,278            |
| Interest and dividend income                                 | 1,487                        | 1,544            |
| Interest expense                                             | (161)                        | (204)            |
| Equity in earnings of unconsolidated affiliate               | 27,330                       | 28,949           |
| <b>Net income before income taxes</b>                        | <b>79,950</b>                | <b>92,164</b>    |
| Income taxes                                                 | 29,715                       | 34,124           |
| <b>Net income</b>                                            | <b>50,235</b>                | <b>58,040</b>    |
| Less: Net income attributable to the noncontrolling interest | (270)                        | (312)            |
| <b>Net income attributable to SEI Investments Company</b>    | <b>\$ 49,965</b>             | <b>\$ 57,728</b> |
| Basic earnings per common share                              | \$ .28                       | \$ .31           |
| Diluted earnings per common share                            | \$ .28                       | \$ .31           |

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

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

Page 3 of 37

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

|                                                                                                                | Three Months Ended March 31, |           |
|----------------------------------------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                                                | 2012                         | 2011      |
| Net income                                                                                                     | \$ 50,235                    | \$ 58,040 |
| Other comprehensive income, net of tax:                                                                        |                              |           |
| Foreign currency translation adjustments                                                                       | 2,703                        | 2,828     |
| Unrealized holding loss on investments:                                                                        |                              |           |
| Unrealized holding gains (losses) during the period, net of income tax expense of \$7 and \$112                | 31                           | (170)     |
| Less: reclassification adjustment for gains realized in net income, net of income tax expense of \$35 and \$60 | (60)                         | (29)      |
|                                                                                                                | (103)                        | (273)     |
| Total other comprehensive income, net of tax                                                                   | 2,674                        | 2,555     |
| Comprehensive income                                                                                           | \$ 52,909                    | \$ 60,595 |
| Comprehensive income attributable to the noncontrolling interest                                               | (753)                        | (732)     |
| Comprehensive income attributable to SEI Investments Company                                                   | \$ 52,156                    | \$ 59,863 |

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

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

|                                                                                  | Three Months Ended March 31, |            |
|----------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                  | 2012                         | 2011       |
| <b>Cash flows from operating activities:</b>                                     |                              |            |
| Net income                                                                       | \$ 50,235                    | \$ 58,040  |
| Adjustments to reconcile net income to net cash provided by operating activities | (11,011)                     | 296        |
| Net cash provided by operating activities                                        | 39,224                       | 58,336     |
| <b>Cash flows from investing activities:</b>                                     |                              |            |
| Additions to property and equipment                                              | (12,116)                     | (7,368)    |
| Additions to capitalized software                                                | (9,277)                      | (10,655)   |
| Purchases of marketable securities                                               | (9,646)                      | (27,307)   |
| Prepayments and maturities of marketable securities                              | 10,464                       | 10,140     |
| Sales of marketable securities                                                   | 720                          | 36,812     |
| Sales of other investments                                                       | 0                            | 4,905      |
| Net cash (used in) provided by investing activities                              | (19,855)                     | 6,527      |
| <b>Cash flows from financing activities:</b>                                     |                              |            |
| Payments on long-term debt                                                       | 0                            | (35,000)   |
| Purchase and retirement of common stock                                          | (36,463)                     | (39,501)   |
| Proceeds from issuance of common stock                                           | 12,362                       | 10,594     |
| Tax benefit on stock options exercised                                           | (1,609)                      | 791        |
| Payment of dividends                                                             | (26,518)                     | 0          |
| Net cash used in financing activities                                            | (52,228)                     | (63,116)   |
| Net (decrease) increase in cash and cash equivalents                             | (32,859)                     | 1,747      |
| Cash and cash equivalents, beginning of period                                   | 420,986                      | 496,292    |
| Cash and cash equivalents, end of period                                         | \$ 388,127                   | \$ 498,039 |

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, investment management, and investment operations 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 consist of application and business process outsourcing services, professional services and transaction-based services. Revenues from investment processing solutions are recognized in information processing and software servicing fees on the accompanying Consolidated Statements of Operations, except for fees earned associated with trade execution services.

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

Investment operations solutions offer investment managers support for traditional investment products such as mutual funds, collective investment trusts, exchange-traded funds, and institutional and separate accounts, by providing outsourcing services including fund and investment accounting, administration, reconciliation, investor servicing and client reporting. These solutions also provide support to managers focused on alternative investments who manage hedge funds, funds of hedge funds, private equity funds and real estate funds, across registered, partnership and separate account structures domiciled in the United States and overseas. Revenues from investment operations solutions are recognized in Asset management, administration and distribution fees on the accompanying Consolidated Statements of Operations.

**Basis of Presentation**

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain financial information and accompanying note disclosure normally included in the Company's Annual Report on Form 10-K 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 March 31, 2012, the results of operations for the three months ended March 31, 2012 and 2011, and cash flows for the three month periods ended March 31, 2012 and 2011. 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, 2011.

There have been no significant changes in significant accounting policies during the three months ended March 31, 2012 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Cash and Cash Equivalents**

Cash and cash equivalents includes \$224,019 and \$281,760 at March 31, 2012 and December 31, 2011, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds.

**Restricted Cash**

Restricted cash includes \$5,000 at March 31, 2012 and December 31, 2011 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited. Restricted cash also includes \$1,000 at March 31, 2012 and December 31, 2011 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 \$9,277 and \$10,655 of software development costs during the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 10.3 years. Amortization expense related to capitalized software was \$7,181 and \$5,981 during the three months ended March 31, 2012 and 2011, respectively.

Software development costs capitalized during the three months ended March 31, 2012 and 2011 relates to the continued development of the Global Wealth Platform (GWP). As of March 31, 2012, the net book value of GWP was \$289,623, net of accumulated amortization of \$94,826. Capitalized software development costs in-progress at March 31, 2012 associated with future releases to GWP were \$20,830. GWP has an estimated useful life of 15 years and a weighted average remaining life of 10.3 years. Amortization expense for GWP was \$7,064 and \$5,840 during the three months ended March 31, 2012 and 2011, respectively.

Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended March 31, 2012 and 2011 are:

|                                   | 000,000<br>For the Three Month<br>Income<br>(Numerator) | 000,000<br>Shares<br>(Denominator) | 000,000<br>For the Three Month Period Ended March 31, 2012<br>Per Share<br>Amount |
|-----------------------------------|---------------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------------|
| Basic earnings per common share   | \$ 49,965                                               | 176,348                            | \$ .28                                                                            |
| Dilutive effect of stock options  | 0                                                       | 1,320                              |                                                                                   |
| Diluted earnings per common share | \$ 49,965                                               | 177,668                            | \$ .28                                                                            |
|                                   |                                                         |                                    |                                                                                   |
|                                   | 000,000<br>For the Three Month<br>Income<br>(Numerator) | 000,000<br>Shares<br>(Denominator) | 000,000<br>For the Three Month Period Ended March 31, 2011<br>Per Share<br>Amount |
| Basic earnings per common share   | \$ 57,728                                               | 185,787                            | \$ .31                                                                            |
| Dilutive effect of stock options  | 0                                                       | 2,708                              |                                                                                   |
| Diluted earnings per common share | \$ 57,728                                               | 188,495                            | \$ .31                                                                            |

Employee stock options to purchase 14,329,000 and 7,609,000 shares of common stock, with an average exercise price of \$23.43 and \$28.26, were outstanding during the three month periods ended March 31, 2012 and 2011, 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.

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 three months ended March 31:

|                                                                                   | 2012            | 2011       |
|-----------------------------------------------------------------------------------|-----------------|------------|
| Net income                                                                        | \$ 50,235       | \$ 58,040  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |            |
| Depreciation                                                                      | 5,432           | 5,611      |
| Amortization                                                                      | 7,622           | 6,231      |
| Equity in earnings of unconsolidated affiliate                                    | (27,330)        | (28,949)   |
| Distributions received from unconsolidated affiliate                              | 21,593          | 23,802     |
| Stock-based compensation                                                          | 4,033           | 3,732      |
| Provision for losses on receivables                                               | (48)            | (236)      |
| Deferred income tax expense                                                       | (517)           | 2,345      |
| Net realized gains from investments                                               | (3,205)         | (7,278)    |
| Change in other long-term liabilities                                             | 2,556           | 294        |
| Change in other assets                                                            | (1,385)         | (1,841)    |
| Other                                                                             | 2,656           | 3,036      |
| Change in current asset and liabilities                                           |                 |            |
| Decrease (increase) in                                                            |                 |            |
| Receivables from regulated investment companies                                   | (9,183)         | 824        |
| Receivables                                                                       | (4,413)         | (3,551)    |
| Other current assets                                                              | (1,687)         | (1,210)    |
| Increase (decrease) in                                                            |                 |            |
| Accounts payable                                                                  | 242             | (1,841)    |
| Accrued liabilities                                                               | (6,575)         | (151)      |
| Deferred revenue                                                                  | (802)           | (522)      |
| <b>Total adjustments</b>                                                          | <b>(11,011)</b> | <b>296</b> |
| Net cash provided by operating activities                                         | \$ 39,224       | \$ 58,336  |

**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. As of March 31, 2012, the Company's total partnership interest in LSV was approximately 41 percent. The Company accounts for its interest in LSV using the equity method because of its less than 50 percent ownership. The Company's interest in the net assets of LSV is reflected in Investment in unconsolidated 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 March 31, 2012, the Company's total investment in LSV was \$66,691. The investment in LSV exceeded the underlying equity in the net assets of LSV by \$3,608, 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 \$21,593 and \$23,802 in the three months ended March 31, 2012 and 2011, respectively.

The Company's proportionate share in the earnings of LSV was \$27,330 and \$28,949 during the three months ended March 31, 2012 and 2011, respectively.



The following table contains the condensed statements of operations of LSV for the three months ended March 31, 2012 and 2011:

|            | Three Months Ended<br>March 31, |           |
|------------|---------------------------------|-----------|
|            | 2012                            | 2011      |
| Revenues   | \$ 77,465                       | \$ 79,402 |
| Net income | 66,673                          | 69,946    |

In March 2009, certain partners (the Contributing partners) of LSV, including the Company, designated a portion of their partnership interest for the purpose of providing an interest in the partnership to a select group of key employees. Until such time an interest in the partnership is issued to a key employee, all profits, losses, distributions and other rights and obligations relating to such unissued interests remains with the Contributing partners. Each issuance must be authorized by unanimous vote of all Contributing partners. In April 2012, the Contributing partners agreed to provide certain key employees an interest in LSV, thereby reducing the Company's interest in LSV to slightly under 40 percent.

#### Guaranty Agreement

In April 2011, LSV Employee Group II, LLC agreed to purchase a partnership interest of an existing LSV employee for \$4,300, of which \$3,655 was financed through a term loan with Bank of America, N.A. (Bank of America). The Company provided an unsecured guaranty to the lenders of all the obligations of LSV Employee Group II, LLC. The lenders have the right to seek payment from the Company in the event of a default by LSV Employee Group II, LLC. 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 \$219 during the three months ended March 31, 2012. As of March 31, 2012, the remaining unpaid principal balance of the term loan was \$2,978. This amount is not reflected, nor is it required to be reflected, in the Company's Consolidated Balance Sheet at March 31, 2012.

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.

In April 2012, LSV Employee Group II made a principal payment of \$249. As of April 30, 2012, the remaining unpaid principal balance of the term loan was \$2,729. 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 Investment Products**

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:

|                                       | March 31, 2012 | December 31, 2011 |
|---------------------------------------|----------------|-------------------|
| Trade receivables                     | \$ 36,162      | \$ 37,822         |
| Fees earned, not billed               | 106,670        | 92,916            |
| Other receivables                     | 5,154          | 12,295            |
|                                       | 147,986        | 143,033           |
| Less: Allowance for doubtful accounts | (876)          | (924)             |
|                                       | \$ 147,110     | \$ 142,109        |

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:

|                                | March 31, 2012 | December 31, 2011 |
|--------------------------------|----------------|-------------------|
| Buildings                      | \$ 137,327     | \$ 136,949        |
| Equipment                      | 63,350         | 64,256            |
| Land                           | 9,929          | 9,929             |
| Purchased software             | 89,262         | 77,971            |
| Furniture and fixtures         | 18,222         | 17,999            |
| Leasehold improvements         | 4,743          | 4,558             |
| Construction in progress       | 108            | 339               |
|                                | 322,941        | 312,001           |
| Less: Accumulated depreciation | (186,510)      | (182,453)         |
| Property and Equipment, net    | \$ 136,431     | \$ 129,548        |

The Company recognized \$5,432 and \$5,611 in depreciation expense related to property and equipment for the three months ended March 31, 2012 and 2011, respectively.

Accrued Liabilities

Accrued liabilities on the accompanying Consolidated Balance Sheets consist of:

|                                                                    | March 31, 2012    | December 31, 2011 |
|--------------------------------------------------------------------|-------------------|-------------------|
| Accrued employee compensation                                      | \$ 21,335         | \$ 48,112         |
| Accrued employee benefits and other personnel                      | 5,816             | 5,408             |
| Accrued consulting, outsourcing and professional fees              | 19,493            | 17,477            |
| Accrued brokerage fees                                             | 8,415             | 8,665             |
| Accrued sub-advisory, distribution and other asset management fees | 16,500            | 17,091            |
| Accrued income taxes                                               | 18,074            | 0                 |
| Accrued dividend payable                                           | 0                 | 26,518            |
| Other accrued liabilities                                          | 25,775            | 23,773            |
| <b>Total accrued liabilities</b>                                   | <b>\$ 115,408</b> | <b>\$ 147,044</b> |

**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 Level 1 and Level 2 financial assets 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 primarily consist of senior note obligations issued by SIVs. The Company did not have any Level 3 financial liabilities at March 31, 2012 or December 31, 2011. There were no transfers of financial assets between levels within the fair value hierarchy during the three months ended March 31, 2012.

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 evaluated the value received from the firm and considered other information, such as the existence of any current market activity, to determine the fair value of the SIV securities. As a result of this evaluation, the Company utilized the fair value of the SIV security without adjustment as provided by the third party firm.

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 any orderly and efficient market.

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

| At March 31, 2012                                             |            |                                               |                                               |                                           |
|---------------------------------------------------------------|------------|-----------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Fair Value Measurements at Reporting Date Using Quoted Prices |            |                                               |                                               |                                           |
| Assets                                                        | Total      | in                                            |                                               |                                           |
|                                                               |            | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Equity available-for-sale securities                          | \$ 12,847  | \$ 12,847                                     | \$ 0                                          | \$ 0                                      |
| Fixed income available-for-sale securities                    | 71,367     | 0                                             | 71,367                                        | 0                                         |
| Fixed income securities owned                                 | 21,053     | 0                                             | 21,053                                        | 0                                         |
| Trading securities                                            | 56,461     | 4,220                                         | 0                                             | 52,241                                    |
|                                                               | \$ 161,728 | \$ 17,067                                     | \$ 92,420                                     | \$ 52,241                                 |

| At December 31, 2011                                          |            |                                               |                                               |                                           |
|---------------------------------------------------------------|------------|-----------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Fair Value Measurements at Reporting Date Using Quoted Prices |            |                                               |                                               |                                           |
| Assets                                                        | Total      | in                                            |                                               |                                           |
|                                                               |            | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Equity available-for-sale securities                          | \$ 8,010   | \$ 8,010                                      | \$ 0                                          | \$ 0                                      |
| Fixed income available-for-sale securities                    | 74,998     | 0                                             | 74,998                                        | 0                                         |
| Fixed income securities owned                                 | 20,949     | 0                                             | 20,949                                        | 0                                         |
| Trading securities                                            | 56,325     | 3,702                                         | 0                                             | 52,623                                    |
|                                                               | \$ 160,282 | \$ 11,712                                     | \$ 95,947                                     | \$ 52,623                                 |

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, 2012 to March 31, 2012:

|                                                | Trading Securities |
|------------------------------------------------|--------------------|
| Balance, January 1, 2012                       | \$ 52,623          |
| Purchases                                      | 0                  |
| Issuances                                      | 0                  |
| Principal prepayments and settlements          | (3,267)            |
| Sales                                          | 0                  |
| Total gains or (losses) (realized/unrealized): |                    |
| Included in earnings                           | 2,885              |
| Included in other comprehensive income         | 0                  |
| Transfers in and out of Level 3                | 0                  |
| Balance March 31, 2012                         | \$ 52,241          |

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 March 31, 2011:

|                                                | Trading Securities |
|------------------------------------------------|--------------------|
| Balance, January 1, 2011                       | \$ 100,645         |
| Purchases                                      | 0                  |
| Issuances                                      | 0                  |
| Principal prepayments and settlements          | (3,441)            |
| Sales                                          | (34,706)           |
| Total gains or (losses) (realized/unrealized): |                    |
| Included in earnings                           | 6,864              |
| Included in other comprehensive income         | 0                  |
| Transfers in and out of Level 3                | 0                  |
| Balance March 31, 2011                         | \$ 69,362          |

**Note 6. Marketable Securities**

Investments Available for Sale

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

|                            | Cost<br>Amount | As of March 31, 2012         |                               | Fair<br>Value |
|----------------------------|----------------|------------------------------|-------------------------------|---------------|
|                            |                | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| SEI-sponsored mutual funds | \$ 12,744      | \$ 84                        | \$ (13)                       | \$ 12,815     |
| Other mutual funds         | 28             | 4                            | 0                             | 32            |
| Debt securities            | 67,407         | 3,960                        | 0                             | 71,367        |
|                            | \$ 80,179      | \$ 4,048                     | \$ (13)                       | \$ 84,214     |



Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

|                            | Cost<br>Amount | As of December 31, 2011      |                               | Fair<br>Value |
|----------------------------|----------------|------------------------------|-------------------------------|---------------|
|                            |                | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| SEI-sponsored mutual funds | \$ 8,243       | \$ 48                        | \$ (360)                      | \$ 7,931      |
| Other mutual funds         | 69             | 10                           | 0                             | 79            |
| Debt securities            | 70,604         | 4,394                        | 0                             | 74,998        |
|                            | \$ 78,916      | \$ 4,452                     | \$ (360)                      | \$ 83,008     |

Net unrealized holding gains at March 31, 2012 and December 31, 2011 were \$2,545 (net of income tax expense of \$1,490) and \$2,574 (net of income tax expense of \$1,518), 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 three months ended March 31, 2012 and 2011 were minimal. Gains and losses from available-for-sale securities are reflected in Net 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:

|                            | Cost       | As of March 31, 2012         |                                 | Fair<br>Value |
|----------------------------|------------|------------------------------|---------------------------------|---------------|
|                            |            | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) |               |
| SIV securities             | \$ 143,096 | \$ 0                         | \$ (92,073)                     | \$ 51,023     |
| LSV-sponsored mutual funds | 2,049      | 2,171                        | 0                               | 4,220         |
| Other investments          | 1,215      | 3                            | 0                               | 1,218         |
|                            | \$ 146,360 | \$ 2,174                     | \$ (92,073)                     | \$ 56,461     |

|                            | Cost       | As of December 31, 2011      |                                 | Fair<br>Value |
|----------------------------|------------|------------------------------|---------------------------------|---------------|
|                            |            | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) |               |
| SIV securities             | \$ 146,363 | \$ 0                         | \$ (94,955)                     | \$ 51,408     |
| LSV-sponsored mutual funds | 2,049      | 1,653                        | 0                               | 3,702         |
| Other investments          | 1,215      | 0                            | 0                               | 1,215         |
|                            | \$ 149,627 | \$ 1,653                     | \$ (94,955)                     | \$ 56,325     |

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 from investments on the accompanying Consolidated Statements of Operations.

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

During the three months ended March 31, 2012 and 2011, the Company recognized gains from SIV securities of \$2,882 and \$6,864, respectively. Of the gains recognized during the three months ended March 31, 2012, \$2,111 resulted from cash payments received from the SIV securities and \$771 was from an increase in fair value at March 31, 2012. Of the gains recognized during the three

Page 14 of 37

months ended March 31, 2011, \$2,049 resulted from cash payments received from the SIV securities and \$4,815 was from an increase in fair value at March 31, 2011. The net gains from the SIV securities are reflected in Net 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 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. The net gains (losses) from the change in fair value of the funds during the three months ended March 31, 2012 and 2011 were minimal.

#### Securities Owned

The Company's broker-dealer subsidiary, SIDCO, has investments in U.S. government agency and commercial paper securities with maturity dates less than one year. These investments are reflected as Securities owned on the accompanying Consolidated Balance Sheets. Due to specialized accounting practices applicable to investments by broker-dealers, the securities are reported at fair value and changes in fair value are recorded in current period earnings. The securities had a fair value of \$21,053 and \$20,949 at March 31, 2012 and December 31, 2011, respectively. The net gains (losses) from the change in fair value of the securities during the three months ended March 31, 2012 and 2011 were minimal.

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

On February 2, 2012 (the Closing Date), the Company entered into a new five-year \$300,000 Credit Agreement (the Credit Facility) with Wells Fargo Bank, National Association, and a syndicate of other lenders. The Credit Facility became available on the Closing Date and replaced the five-year Credit Agreement with JP Morgan Chase Bank, N.A. The Credit Facility is scheduled to expire in February 2017, 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 1.250 percent above LIBOR. There is also a commitment fee equal to 0.15 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 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 agreement may be terminated. The Company had no borrowings through the Credit Facility at March 31, 2012. The Company was in compliance with all covenants of the Credit Facility at March 31, 2012.

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 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 March 31, 2012.

**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. The Company has only granted non-qualified stock options under the plan. All outstanding stock options have performance-based vesting provisions specific to each option grant that tie the vesting of the applicable stock options to the Company's financial performance. The Company's stock options vest at a rate of 50 percent when 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 months ended March 31, 2012 and 2011, respectively, as follows:

|                                                     | Three Months Ended<br>March 31, |                 |
|-----------------------------------------------------|---------------------------------|-----------------|
|                                                     | 2012                            | 2011            |
| Stock-based compensation expense                    | \$ 4,033                        | \$ 3,732        |
| Less: Deferred tax benefit                          | (1,521)                         | (1,398)         |
| <b>Stock-based compensation expense, net of tax</b> | <b>\$ 2,512</b>                 | <b>\$ 2,334</b> |

As of March 31, 2012, there was approximately \$45,594 of unrecognized compensation cost remaining, adjusted for estimated forfeitures, related to unvested employee stock options that management expects will vest and is being amortized. The Company estimates that compensation cost will be recognized according to the following schedule:

| Period            | Stock-Based<br>Compensation<br>Expense |
|-------------------|----------------------------------------|
| Remainder of 2012 | \$ 11,837                              |
| 2013              | 12,715                                 |
| 2014              | 12,521                                 |
| 2015              | 3,850                                  |
| 2016              | 2,358                                  |
| 2017              | 2,313                                  |
|                   | <b>\$ 45,594</b>                       |

The Company issues new common shares associated with the exercise of stock options. The total intrinsic value of options exercised during the three months ended March 31, 2012 was \$3,752. The total options exercisable as of March 31, 2012 had an intrinsic value of \$36,218. The total intrinsic value for options exercisable is calculated as the difference between the market value of the Company's common stock as of March 31, 2012 and the exercise price of the shares. The market value of the Company's common stock as of March 31, 2012 was \$20.69 as reported by the Nasdaq Stock Market, LLC. The weighted average exercise price of the options exercisable as of March 31,



2012 was \$17.36. Total options that were outstanding and exercisable as of March 31, 2012 were 26,082,000 and 10,873,000, respectively.

Common Stock Buyback

The Company's Board of Directors, under multiple authorizations, has authorized the repurchase of the Company's common stock on the open market or through private transactions. The Company purchased 1,848,000 shares at a total cost of \$37,714 during the three months ended March 31, 2012. As of March 31, 2012, the Company has \$58,562 of authorization remaining for the purchase of common stock under the program.

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

Noncontrolling Interest

The following table provides a reconciliation of Noncontrolling interest on the Consolidated Balance Sheet for the period from January 1, 2012 to March 31, 2012:

|                                                    | Noncontrolling<br>interest |
|----------------------------------------------------|----------------------------|
| Balance, January 1, 2012                           | \$ 16,143                  |
| Net income attributable to noncontrolling interest | 270                        |
| Foreign currency translation adjustments           | 483                        |
| Balance, March 31, 2012                            | \$ 16,896                  |

The following table provides a reconciliation of Noncontrolling interest on the Consolidated Balance Sheet for the period from January 1, 2011 to March 31, 2011:

|                                                    | Noncontrolling<br>interest |
|----------------------------------------------------|----------------------------|
| Balance, January 1, 2011                           | \$ 15,155                  |
| Net income attributable to noncontrolling interest | 312                        |
| Foreign currency translation adjustments           | 420                        |
| Balance, March 31, 2011                            | \$ 15,887                  |

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

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

|                                                                                                                    | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Holding<br>Gains (Losses)<br>on Investments | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Total accumulated comprehensive income at December 31, 2011                                                        | \$ (2,043)                                        | \$ 2,574                                                  | \$ 531                                                    |
| Less: Total accumulated comprehensive loss attributable to noncontrolling interest at December 31, 2011            | 1,369                                             | 0                                                         | 1,369                                                     |
| Total accumulated comprehensive income attributable to SEI Investments Company at December 31, 2011                | \$ (674)                                          | \$ 2,574                                                  | \$ 1,900                                                  |
| Total comprehensive income for the three months ended March 31, 2012                                               | \$ 2,703                                          | \$ (29)                                                   | \$ 2,674                                                  |
| Less: Total comprehensive income attributable to noncontrolling interest for the three months ended March 31, 2012 | (483)                                             | 0                                                         | (483)                                                     |
| Total comprehensive income attributable to SEI Investments Company for the three months ended March 31, 2012       | \$ 2,220                                          | \$ (29)                                                   | \$ 2,191                                                  |
| Total accumulated comprehensive income at March 31, 2012                                                           | \$ 660                                            | \$ 2,545                                                  | \$ 3,205                                                  |
| Less: Total accumulated comprehensive loss attributable to noncontrolling interest at March 31, 2012               | 886                                               | 0                                                         | 886                                                       |
| Total accumulated comprehensive income attributable to SEI Investments Company at March 31, 2012                   | \$ 1,546                                          | \$ 2,545                                                  | \$ 4,091                                                  |

**Note 10. Business Segment Information**

The Company's reportable business segments are:

**Private Banks** provides investment processing and investment management programs to banks and trust institutions 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, hospitals, and not-for-profit organizations worldwide;

**Investment Managers** provides investment operations outsourcing solutions to investment managers, fund companies and banking institutions located in the United States, and to



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

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® and conducts other research and development activities.

The information in the following tables is derived from the Company's internal financial reporting used for corporate management purposes. There are no inter-segment revenues for the three months ended March 31, 2012 and 2011. Management evaluates Company assets on a consolidated basis during interim periods. The accounting policies of the reportable business segments are the same as those described in Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The following tables highlight certain unaudited financial information about each of the Company's business segments for the three months ended March 31, 2012 and 2011.

|                                           | Private<br>Banks | Investment<br>Advisors | Institutional<br>Investors | Investment<br>Managers | Investments<br>In New<br>Businesses | Total      |
|-------------------------------------------|------------------|------------------------|----------------------------|------------------------|-------------------------------------|------------|
| For the Three Months Ended March 31, 2012 |                  |                        |                            |                        |                                     |            |
| Revenues                                  | \$ 87,988        | \$ 49,468              | \$ 53,317                  | \$ 46,211              | \$ 914                              | \$ 237,898 |
| Expenses                                  | 87,517           | 29,301                 | 28,100                     | 30,426                 | 3,698                               | 179,042    |
| Operating profit (loss)                   | \$ 471           | \$ 20,167              | \$ 25,217                  | \$ 15,785              | \$ (2,784)                          | \$ 58,856  |
| Operating margin                          | 1%               | 41%                    | 47%                        | 34%                    | N/A                                 | 25%        |

|                                           | Private<br>Banks | Investment<br>Advisors | Institutional<br>Investors | Investment<br>Managers | Investments<br>In New<br>Businesses | Total      |
|-------------------------------------------|------------------|------------------------|----------------------------|------------------------|-------------------------------------|------------|
| For the Three Months Ended March 31, 2011 |                  |                        |                            |                        |                                     |            |
| Revenues                                  | \$ 86,709        | \$ 48,108              | \$ 53,185                  | \$ 43,441              | \$ 1,050                            | \$ 232,493 |
| Expenses                                  | 82,403           | 27,040                 | 26,953                     | 27,999                 | 3,125                               | 167,520    |
| Operating profit (loss)                   | \$ 4,306         | \$ 21,068              | \$ 26,232                  | \$ 15,442              | \$ (2,075)                          | \$ 64,973  |
| Operating margin                          | 5%               | 44%                    | 49%                        | 36%                    | N/A                                 | 28%        |

A reconciliation of the total reported for the business segments to income from operations in the Consolidated Statements of Operations for the quarters ended March 31, 2012 and 2011 is as follows:

|                                               | 2012      | 2011      |
|-----------------------------------------------|-----------|-----------|
| Total operating profit from segments above    | \$ 58,856 | \$ 64,973 |
| Corporate overhead expenses                   | (11,082)  | (10,648)  |
| Noncontrolling interest reflected in segments | 315       | 272       |
| Income from operations                        | \$ 48,089 | \$ 54,597 |

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

The following tables provide additional information for the three months ended March 31, 2012 and 2011 pertaining to our business segments:

|                               | Capital Expenditures |           | Depreciation |          |
|-------------------------------|----------------------|-----------|--------------|----------|
|                               | 2012                 | 2011      | 2012         | 2011     |
| Private Banks                 | \$ 11,842            | \$ 11,030 | \$ 3,728     | \$ 4,038 |
| Investment Advisors           | 4,141                | 3,742     | 494          | 591      |
| Institutional Investors       | 1,231                | 881       | 262          | 292      |
| Investment Managers           | 3,053                | 1,784     | 476          | 503      |
| Investments in New Businesses | 272                  | 212       | 334          | 30       |
| Total from business segments  | \$ 20,539            | \$ 17,649 | \$ 5,294     | \$ 5,454 |
| Corporate Overhead            | 854                  | 374       | 138          | 157      |
|                               | \$ 21,393            | \$ 18,023 | \$ 5,432     | \$ 5,611 |

|                               | Amortization |          |
|-------------------------------|--------------|----------|
|                               | 2012         | 2011     |
| Private Banks                 | \$ 4,685     | \$ 4,229 |
| Investment Advisors           | 1,716        | 1,418    |
| Institutional Investors       | 302          | 167      |
| Investment Managers           | 201          | 115      |
| Investments in New Businesses | 277          | 59       |
| Total from business segments  | \$ 7,181     | \$ 5,988 |
| Corporate Overhead            | 441          | 243      |
|                               | \$ 7,622     | \$ 6,231 |

**Note 11. Income Taxes**

The gross liability for unrecognized tax benefits at March 31, 2012 and December 31, 2011 was \$11,757 and \$9,410, respectively, exclusive of interest and penalties, of which \$10,043 and \$8,320 would affect the effective tax rate if the Company were to recognize the tax benefit.

The Company classifies interest and penalties on unrecognized tax benefits as income tax expense. As of March 31, 2012 and December 31, 2011, the combined amount of accrued interest and penalties related to tax positions taken on tax returns was \$843 and \$634, respectively.

|                                                                                    | March 31, 2012 | December 31, 2011 |
|------------------------------------------------------------------------------------|----------------|-------------------|
| Gross liability for unrecognized tax benefits, exclusive of interest and penalties | \$ 11,757      | \$ 9,410          |
| Interest and penalties on unrecognized benefits                                    | 843            | 634               |
| Total gross uncertain tax positions                                                | \$ 12,600      | \$ 10,044         |
| Amount included in Current liabilities                                             | \$ 1,768       | \$ 1,768          |
| Amount included in Other long-term liabilities                                     | 10,832         | 8,276             |

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

\$ 12,600 \$ 10,044

The Company's effective tax rates were 37.2 percent and 37.1 percent for the three months ended March 31, 2012 and 2011, respectively. The Company files income tax returns in the United States on a consolidated basis and in many U.S. state and foreign jurisdictions. The Company is subject to examination of income tax returns by the Internal Revenue Service (IRS) and other domestic and

foreign tax authorities. The Company is no longer subject to U.S. federal income tax examination for years before 2007 and is no longer subject to state, local or foreign income tax examinations by authorities for years before 2006.

The Company estimates it will recognize \$1,768 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, 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. The first complaint was filed on August 5, 2009. 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. 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 also been voluntarily dismissed by plaintiffs. 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. Defendants have moved to consolidate the complaints, which motion has been granted. The Court appointed lead plaintiff on July 13, 2010, and an amended consolidated class action complaint was filed on September 25, 2010 asserting substantially the same claims. Defendants moved to dismiss on November 15, 2010. On December 16, 2010, lead plaintiff informed the Court and Defendants that lead plaintiff elected to file a second amended consolidated complaint, which was filed on January 31, 2011. Defendants filed a motion to dismiss the second complaint on March 17, 2011. Oral argument on this motion was held on February 2, 2012. 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 been named in six lawsuits filed in Louisiana. Five lawsuits were filed in the 19th Judicial District Court for the Parish of East Baton Rouge, State of Louisiana. One of the five actions purports to set forth claims on behalf of a class and also names SPTC as a defendant. Two of the other actions also name SPTC as a defendant. All five actions name various defendants in addition to SEI, and, in all five actions, the plaintiffs purport to bring a cause of action under the Louisiana Securities Act. The putative class action originally included a claim against SEI and SPTC for an alleged violation of the Louisiana Unfair Trade Practices Act. Two of the other five actions include claims for violations of the Louisiana Racketeering Act and possibly conspiracy. In addition, another group of plaintiffs have filed a lawsuit in the 23rd Judicial District Court for the Parish of Ascension, State of Louisiana, against SEI and SPTC and other defendants asserting claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Securities Act and Louisiana Racketeering Act and conspiracy. The underlying allegations in all the actions are purportedly related

to the role of SPTC in providing back-office services to Stanford Trust Company. The petitions allege that SEI and SPTC aided and abetted or otherwise participated in the sale of certificates of deposit issued by Stanford International Bank. Two of the five actions filed in East Baton Rouge have been removed to federal court, and plaintiffs' motions to remand are pending. These two cases have been transferred by the Judicial Panel on Multidistrict Litigation to United States District Court for the Northern District of Texas. On August 31, 2011, the United States District Court for the Northern District of Texas issued an order and judgment that the causes of action alleged against SEI and SPTC in the two remanded actions were preempted by federal law and the Court dismissed these cases with prejudice. The Court of Appeals for the Fifth Circuit granted an expedited appeal of the United States District Court's order and judgment. The appeal was briefed, and oral argument was held on February 7, 2012. On March 19, 2012, a panel of the Court of Appeals for the Fifth Circuit reversed the decision of the United States District Court and remanded the actions for further proceedings. On April 2, 2012, SEI filed with the United States Court of Appeals for the Fifth Circuit a petition for rehearing en banc of the panel's opinion. On April 19, 2012, the Fifth Circuit Court of Appeals denied the petition for rehearing.

The case filed in Ascension Parish was also removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas. The schedule for responding to that complaint has not yet been established. The plaintiffs in the remaining two cases in East Baton Rouge have granted SEI an extension to respond to the filings. SEI and SPTC filed exceptions in the putative class action 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. SEI and SPTC filed an answer to the East Baton Rouge putative class action; plaintiffs filed a motion for class certification; and SEI and SPTC also filed a motion for summary judgment against certain named plaintiffs which the Court stated will not be set for hearing until after the hearing on the class certification motion. Following the decision by the United States District Court for the Northern District of Texas, the Court in the East Baton Rouge action issued an order staying the proceedings in the East Baton Rouge class action pending the outcome of the appeal of the order and judgment of the United States District Court for the Northern District of Texas. Following the panel opinion of the Court of Appeals on March 19, 2012, the Court in the East Baton Rouge action scheduled a hearing on class certification for September 20, 2012. While the outcome of this litigation is uncertain given its early phase, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously.

Because of the uncertainty of the make-up of the classes, the specific theories of liability that may survive a motion to dismiss, the lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

**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 March 31, 2012 and 2011, the consolidated results of operations for the three months ended March 31, 2012 and 2011 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 leading global provider of investment processing, investment management, and investment operations solutions. We help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth by providing comprehensive, innovative, investment and investment-business solutions. Investment processing fees are earned as monthly fees for contracted services, including computer processing services, software licenses, and investment operations services, as well as transaction-based fees for providing securities valuation and trade-execution. Investment operations and investment management fees are earned as a percentage of average assets under management or administration. As of March 31, 2012, through our subsidiaries and partnerships in which we have a significant interest, we manage or administer \$427.8 billion in mutual fund and pooled or separately managed assets, including \$188.6 billion in assets under management and \$239.2 billion in client assets under administration. Our affiliate, LSV Asset Management (LSV), manages \$60.6 billion of assets which are included as assets under management.

Our Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011 were:

|                                                          | Three Months Ended |                | Percent Change |
|----------------------------------------------------------|--------------------|----------------|----------------|
|                                                          | March 31, 2012     | March 31, 2011 |                |
| Revenues                                                 | \$ 237,898         | \$ 232,493     | 2%             |
| Expenses                                                 | 189,809            | 177,896        | 7%             |
| Income from operations                                   | 48,089             | 54,597         | (12%)          |
| Net gain from investments                                | 3,205              | 7,278          | (56%)          |
| Interest income, net of interest expense                 | 1,326              | 1,340          | (1%)           |
| Equity in earnings from unconsolidated affiliate         | 27,330             | 28,949         | (6%)           |
| Income before income taxes                               | 79,950             | 92,164         | (13%)          |
| Income taxes                                             | 29,715             | 34,124         | (13%)          |
| Net income                                               | 50,235             | 58,040         | (13%)          |
| Less: Net income attributable to noncontrolling interest | (270)              | (312)          | (13%)          |
| Net income attributable to SEI Investments Co.           | \$ 49,965          | \$ 57,728      | (13%)          |
| Diluted earnings per common share                        | \$ .28             | \$ .31         | (10%)          |

In our opinion, the following items had a significant impact on our financial results for the three month periods ended March 31, 2012 and 2011:

Revenue growth was primarily driven by higher Asset management, administration and distribution fees from improved cash flows and market appreciation occurring in late 2011 and into the first quarter 2012. Our average assets under management, excluding LSV, increased \$9.6 billion, or eight percent, to \$124.1 billion in the first quarter 2012 as compared to \$114.5 billion during the first quarter 2011.

New business coupled with asset funding from existing clients for our hedge fund solutions and increased accounts for our separately managed accounts solutions in our Investment Managers segment also served to drive revenue growth.

Our percentage ownership of LSV remained at approximately 41 percent. Our proportionate share in the earnings of LSV in the first quarter 2012 was \$27.3 million, as compared to \$28.9 million in first quarter 2011, a decrease of six percent. Despite the favorable market conditions in late 2011 and first quarter 2012, LSV's revenues decreased due to cash outflows in early 2011 and the sharp market decline in third quarter 2011 which resulted in a net decline in the value of assets under management. LSV's average assets under management were \$59.2 billion during the first quarter 2012, as compared to \$62.2 billion during the first quarter 2011, a decrease of five percent.

Our operating expenses related to servicing new and existing clients of our Global Wealth Services solution implemented on the Global Wealth Platform increased during the first quarter 2012 as compared to first quarter 2011 as we continue to build out the operational infrastructure and add new functionality to the platform. A higher portion of these costs are not capitalized. These increased operational costs, mainly related to personnel, primarily impacted the Private Banks and Investment Advisors segments. The increased operational costs are included in Compensation, benefits and other personnel on the accompanying Consolidated Statements of Operations.

Our operating expenses related to our hedge fund and separately managed accounts solutions of our Investment Managers segment increased during the first quarter 2012 as compared to first quarter 2011. These increased operational costs, mainly related to personnel, resulted from servicing new and existing clients and are also included in Compensation, benefits and other personnel on the accompanying Consolidated Statements of Operations.

Sales events, net of client losses, were significantly higher during the first quarter 2012. These sales events resulted in an increase in sales compensation expense of \$1.8 million when compared to first quarter 2011.

We recognized \$2.9 million in gains from structured investment vehicles (SIV) securities during the first quarter 2012 as compared to gains of \$6.9 million during the first quarter 2011. Approximately \$2.1 million of the gain in 2012 resulted from cash payments received from the SIV securities that had been previously written down.

We continued our stock repurchase program during 2012 and purchased 1,848,000 shares at an average price of approximately \$20 per share in the first quarter of 2012.

**Ending Asset Balances**

This table presents ending assets of our clients, or of our clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest. These assets are not included in our balance sheets because we do not own them.

## Ending Asset Balances

(In millions)

|                                                | As of March 31,   |                   | Percent     |
|------------------------------------------------|-------------------|-------------------|-------------|
|                                                | 2012              | 2011              | Change      |
| <b>Private Banks:</b>                          |                   |                   |             |
| Equity and fixed income programs               | \$ 17,180         | \$ 14,809         | 16%         |
| Collective trust fund programs                 | 435               | 576               | (24%)       |
| Liquidity funds                                | 5,549             | 5,217             | 6%          |
| <b>Total assets under management</b>           | <b>\$ 23,164</b>  | <b>\$ 20,602</b>  | <b>12%</b>  |
| Client proprietary assets under administration | 10,916            | 11,227            | (3%)        |
| <b>Total assets</b>                            | <b>\$ 34,080</b>  | <b>\$ 31,829</b>  | <b>7%</b>   |
| <b>Investment Advisors:</b>                    |                   |                   |             |
| Equity and fixed income programs               | 29,722            | 28,296            | 5%          |
| Collective trust fund programs                 | 1,199             | 1,618             | (26%)       |
| Liquidity funds                                | 1,643             | 1,551             | 6%          |
| <b>Total assets under management</b>           | <b>\$ 32,564</b>  | <b>\$ 31,465</b>  | <b>3%</b>   |
| <b>Institutional Investors:</b>                |                   |                   |             |
| Equity and fixed income programs               | 54,537            | 51,287            | 6%          |
| Collective trust fund programs                 | 424               | 608               | (30%)       |
| Liquidity funds                                | 3,725             | 3,202             | 16%         |
| <b>Total assets under management</b>           | <b>\$ 58,686</b>  | <b>\$ 55,097</b>  | <b>7%</b>   |
| <b>Investment Managers:</b>                    |                   |                   |             |
| Equity and fixed income programs               | 62                | 37                | 68%         |
| Collective trust fund programs                 | 12,781            | 8,841             | 45%         |
| Liquidity funds                                | 147               | 139               | 6%          |
| <b>Total assets under management</b>           | <b>\$ 12,990</b>  | <b>\$ 9,017</b>   | <b>44%</b>  |
| Client proprietary assets under administration | 228,327           | 238,335           | (4%)        |
| <b>Total assets</b>                            | <b>\$ 241,317</b> | <b>\$ 247,352</b> | <b>(2%)</b> |
| <b>Investments in New Businesses:</b>          |                   |                   |             |
| Equity and fixed income programs               | 568               | 598               | (5%)        |
| Liquidity funds                                | 34                | 56                | (39%)       |
| <b>Total assets under management</b>           | <b>\$ 602</b>     | <b>\$ 654</b>     | <b>(8%)</b> |
| <b>LSV:</b>                                    |                   |                   |             |
| Equity and fixed income programs               | \$ 60,607         | \$ 62,370         | (3%)        |
| <b>Consolidated:</b>                           |                   |                   |             |
| Equity and fixed income programs               | 162,676           | 157,397           | 3%          |
| Collective trust fund programs                 | 14,839            | 11,643            | 27%         |
| Liquidity funds                                | 11,098            | 10,165            | 9%          |

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

|                                                  |            |            |      |
|--------------------------------------------------|------------|------------|------|
| Total assets under management                    | \$ 188,613 | \$ 179,205 | 5%   |
| Client proprietary assets under administration   | 239,243    | 249,562    | (4%) |
| Total assets under management and administration | \$ 427,856 | \$ 428,767 | 0%   |

Page 25 of 37

**Average Asset Balances**

This table presents average asset balances of our clients, or of clients' customers, for which we provide management or administrative services through our subsidiaries and partnerships in which we have a significant interest. These assets are not included in our balance sheets because we do not own them.

## Average Asset Balances

(In millions)

|                                                | As of March 31,   |                   | Percent     |
|------------------------------------------------|-------------------|-------------------|-------------|
|                                                | 2012              | 2011              | Change      |
| <b>Private Banks:</b>                          |                   |                   |             |
| Equity and fixed income programs               | \$ 17,116         | \$ 14,170         | 21%         |
| Collective trust fund programs                 | 436               | 593               | (26%)       |
| Liquidity funds                                | 5,581             | 5,058             | 10%         |
| <b>Total assets under management</b>           | <b>\$ 23,133</b>  | <b>\$ 19,821</b>  | <b>17%</b>  |
| Client proprietary assets under administration | 10,211            | 10,921            | (7%)        |
| <b>Total assets</b>                            | <b>\$ 33,344</b>  | <b>\$ 30,742</b>  | <b>8%</b>   |
| <b>Investment Advisors:</b>                    |                   |                   |             |
| Equity and fixed income programs               | 28,426            | 27,841            | 2%          |
| Collective trust fund programs                 | 1,238             | 1,687             | (27%)       |
| Liquidity funds                                | 2,015             | 1,580             | 28%         |
| <b>Total assets under management</b>           | <b>\$ 31,679</b>  | <b>\$ 31,108</b>  | <b>2%</b>   |
| <b>Institutional Investors:</b>                |                   |                   |             |
| Equity and fixed income programs               | 52,270            | 50,392            | 4%          |
| Collective trust fund programs                 | 427               | 608               | (30%)       |
| Liquidity funds                                | 3,765             | 3,418             | 10%         |
| <b>Total assets under management</b>           | <b>\$ 56,462</b>  | <b>\$ 54,418</b>  | <b>4%</b>   |
| <b>Investment Managers:</b>                    |                   |                   |             |
| Equity and fixed income programs               | 58                | 1                 | N/A         |
| Collective trust fund programs                 | 11,983            | 8,288             | 45%         |
| Liquidity funds                                | 190               | 210               | (10%)       |
| <b>Total assets under management</b>           | <b>\$ 12,231</b>  | <b>\$ 8,499</b>   | <b>44%</b>  |
| Client proprietary assets under administration | 224,547           | 237,376           | (5%)        |
| <b>Total assets</b>                            | <b>\$ 236,778</b> | <b>\$ 245,875</b> | <b>(4%)</b> |
| <b>Investments in New Businesses:</b>          |                   |                   |             |
| Equity and fixed income programs               | 549               | 579               | (5%)        |
| Liquidity funds                                | 39                | 61                | (36%)       |
| <b>Total assets under management</b>           | <b>\$ 588</b>     | <b>\$ 640</b>     | <b>(8%)</b> |
| <b>LSV:</b>                                    |                   |                   |             |
| Equity and fixed income programs               | \$ 59,200         | \$ 62,212         | (5%)        |
| <b>Consolidated:</b>                           |                   |                   |             |
| Equity and fixed income programs               | 157,619           | 155,195           | 2%          |

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

|                                                         |                   |                   |             |
|---------------------------------------------------------|-------------------|-------------------|-------------|
| Collective trust fund programs                          | 14,084            | 11,176            | 26%         |
| Liquidity funds                                         | 11,590            | 10,327            | 12%         |
| <b>Total assets under management</b>                    | <b>\$ 183,293</b> | <b>\$ 176,698</b> | <b>4%</b>   |
| Client proprietary assets under administration          | 234,758           | 248,297           | (5%)        |
| <b>Total assets under management and administration</b> | <b>\$ 418,051</b> | <b>\$ 424,995</b> | <b>(2%)</b> |

Page 26 of 37

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

In the preceding tables, assets under management are total assets of our clients or their customers invested in our equity and fixed-income investment programs, collective trust fund programs, and liquidity funds for which we provide asset management services. Assets under management and administration also include 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 for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 were as follows:

|                                       | Three Months Ended<br>March 31, |            | Percent<br>Change |
|---------------------------------------|---------------------------------|------------|-------------------|
|                                       | 2012                            | 2011       |                   |
| <b>Private Banks:</b>                 |                                 |            |                   |
| Revenues                              | \$ 87,988                       | \$ 86,709  | 1%                |
| Expenses                              | 87,517                          | 82,403     | 6%                |
| Operating Profit                      | \$ 471                          | \$ 4,306   | (89%)             |
| Operating Margin                      | 1%                              | 5%         |                   |
| <b>Investment Advisors:</b>           |                                 |            |                   |
| Revenues                              | \$ 49,468                       | \$ 48,108  | 3%                |
| Expenses                              | 29,301                          | 27,040     | 8%                |
| Operating Profit                      | \$ 20,167                       | \$ 21,068  | (4%)              |
| Operating Margin                      | 41%                             | 44%        |                   |
| <b>Institutional Investors:</b>       |                                 |            |                   |
| Revenues                              | \$ 53,317                       | \$ 53,185  | 0%                |
| Expenses                              | 28,100                          | 26,953     | 4%                |
| Operating Profit                      | \$ 25,217                       | \$ 26,232  | (4%)              |
| Operating Margin                      | 47%                             | 49%        |                   |
| <b>Investment Managers:</b>           |                                 |            |                   |
| Revenues                              | \$ 46,211                       | \$ 43,441  | 6%                |
| Expenses                              | 30,426                          | 27,999     | 9%                |
| Operating Profit                      | \$ 15,785                       | \$ 15,442  | 2%                |
| Operating Margin                      | 34%                             | 36%        |                   |
| <b>Investments in New Businesses:</b> |                                 |            |                   |
| Revenues                              | \$ 914                          | \$ 1,050   | (13%)             |
| Expenses                              | 3,698                           | 3,125      | 18%               |
| Operating Loss                        | (\$ 2,784)                      | (\$ 2,075) | N/A               |
| Operating Margin                      | 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 |                  | Percent Change |
|------------------------------------------------------|--------------------|------------------|----------------|
|                                                      | 2012               | March 31, 2011   |                |
| <b>Revenues:</b>                                     |                    |                  |                |
| Information processing and software servicing fees   | \$ 55,752          | \$ 55,446        | 1%             |
| Asset management, administration & distribution fees | 25,109             | 23,918           | 5%             |
| Transaction-based and trade execution fees           | 7,127              | 7,345            | (3%)           |
| <b>Total revenues</b>                                | <b>\$ 87,988</b>   | <b>\$ 86,709</b> | <b>1%</b>      |

Revenues increased \$1.3 million, or one percent, compared to the prior year corresponding period and were primarily affected by:

Increased investment management fees from existing international clients due to higher average assets under management from improved capital markets in late 2011 into the first quarter of 2012, in addition to positive cash flows; and

Increased net investment processing fees from new Global Wealth Services clients implemented onto the Global Wealth Platform; offset by

Lower recurring investment processing fees due to price reductions provided to existing clients that recontracted for longer periods and lower transaction volumes.

Operating margins decreased to one percent compared to five percent in the same period a year ago. Operating income decreased by \$3.8 million or 89 percent, compared to the prior year corresponding period and was primarily affected by:

Increased direct expenses associated with increased investment management fees from existing international clients, mainly distribution fees;

Increased non-capitalized development costs, mainly personnel costs, and amortization expense relating to the Global Wealth Platform;

Increased operational costs, mainly personnel costs, for servicing new and existing Global Wealth Services clients implemented onto the Global Wealth Platform;

Increased sales compensation expense due to new business activity; and

Increased one-time termination costs; partially offset by

An increase in revenues.

Investment Advisors

Revenues increased \$1.4 million, or three percent, compared to the prior year corresponding period and were primarily affected by:

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

Increased investment management fees from existing clients due to higher average assets under management caused by improved capital markets in late 2011 and through the first quarter of 2012 and an increase in net cash flows from new and existing advisors; and

An increase in the average basis points earned on our assets under management due to movement of assets into higher-yielding products.

Operating margins decreased to 41 percent compared to 44 percent in the same period a year ago. Operating income decreased slightly compared to the prior year corresponding period and was primarily affected by:

Increased non-capitalized development costs and amortization expense relating to the Global Wealth Platform as well as spending associated with building the necessary functionality and infrastructure for servicing financial institutions and investment advisors in the United States;

Increased sales compensation expense due to new business activity; and

Increased one-time termination costs; partially offset by

An increase in revenues.

Institutional Investors

Revenues increased slightly compared to the prior year corresponding period and were primarily affected by:

Increased investment management fees from existing clients due to higher average assets under management caused by improved capital markets in late 2011 and through the first quarter of 2012 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 lower basis points earned on assets under management.

Operating margins decreased to 47 percent compared to 49 percent in the same period a year ago. Operating income decreased \$1.0 million, or four percent, compared to the prior year corresponding period and was primarily affected by:

Increased sales compensation expense due to new business activity and other personnel costs, mainly salary; and

Increased discretionary marketing and promotion expenses; partially offset by

An increase in revenues.

Investment Managers

Revenues increased \$2.8 million, or six percent, compared to the prior year corresponding period and were primarily affected by:

Cash flows from new clients of our hedge funds and collective trust fund solutions; partially offset by client losses;

Net positive cash flows from existing hedge fund clients due to new funding along with higher valuations from capital market increases in late 2011 and through the first quarter of 2012; and

Increased accounts from our separately managed account program due to new clients and existing clients involved in mergers.

Operating margins decreased to 34 percent compared to 36 percent in the same period a year ago. Operating income increased slightly compared to the prior year corresponding period and was primarily affected by:

An increase in revenues; partially offset by

Increased personnel expenses, technology and other operational costs to service new clients of our hedge fund and separately managed accounts solutions.

Other

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

Edgar Filing: SEI INVESTMENTS CO - Form 10-Q

|                                                    | Three Months Ended<br>March 31, |                  |
|----------------------------------------------------|---------------------------------|------------------|
|                                                    | 2012                            | 2011             |
| Net gain from investments                          | \$ 3,205                        | \$ 7,278         |
| Interest and dividend income                       | 1,487                           | 1,544            |
| Interest expense                                   | (161)                           | (204)            |
| Equity in the earnings of unconsolidated affiliate | 27,330                          | 28,949           |
| <b>Total other income and expense items, net</b>   | <b>\$ 31,861</b>                | <b>\$ 37,567</b> |

*Net gain from investments*

Net gain from investments consists of:

|                                                              | Three Months Ended<br>March 31, |                 |
|--------------------------------------------------------------|---------------------------------|-----------------|
|                                                              | 2012                            | 2011            |
| Gains from SIV securities                                    | \$ 2,882                        | \$ 6,864        |
| Net realized and unrealized gains from marketable securities | 619                             | 414             |
| Other losses                                                 | (296)                           | 0               |
| <b>Net gain from investments</b>                             | <b>\$ 3,205</b>                 | <b>\$ 7,278</b> |

During the three months ended March 31, 2012, we recognized gains of \$2.9 million from SIV securities, of which \$2.1 million resulted from cash payments received from the SIV securities and \$0.8 million from an increase in fair value at March 31, 2012.

During the three months ended March 31, 2011, we recognized gains of \$6.9 million from SIV securities, of which \$2.1 million resulted from cash payments received from the SIV securities and \$4.8 million from an increase in fair value at March 31, 2011. In addition, we sold the senior note obligation originally issued by Stanfield Victoria. There was no gain or loss recognized from the sale of the note as the fair value of the Stanfield Victoria note at December 31, 2010 was not different than the sale price received.

#### *Interest and dividend income*

Interest and dividend 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 primarily includes fees related to our credit facility.

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

Equity in the earnings of unconsolidated affiliate on the accompanying Consolidated Statement of Operations includes our less than 50 percent ownership in LSV. Our total partnership interest in LSV remained at approximately 41 percent during the three month periods ended March 31, 2012 and 2011. Our proportionate share in the earnings of LSV was \$27.3 million in first quarter 2012 as compared to \$28.9 million in first quarter 2011, a decrease of six percent. LSV's revenues decreased due to cash outflows in early 2011 coupled with the sharp market decline in third quarter 2011 despite improved capital market conditions in late 2011 and first quarter 2012. LSV's ending assets under management decreased \$1.8 billion to \$60.6 billion at March 31, 2012 as compared to \$62.4 billion at March 31, 2011, a decrease of three percent.

In March 2009, certain partners of LSV, including SEI, agreed to designate a portion of their partnership interest for the purpose of providing an interest in the partnership to a select group of key LSV employees. In April 2012, these contributing partners agreed to provide certain key LSV employees an interest in LSV thereby reducing our interest in LSV to slightly below 40 percent.

#### **Noncontrolling interest**

Noncontrolling interest includes the interest of other shareholders in a joint venture of the Company in an asset management firm located in South Korea.

#### **Income Taxes**

Our effective tax rates were 37.2 percent and 37.1 percent for the three months ended March 31, 2012 and 2011, respectively.

#### **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) and other U.S. government agency 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 Notes to Consolidated Financial Statements).

**Liquidity and Capital Resources**

|                                                      | Three Months Ended<br>March 31, |            |
|------------------------------------------------------|---------------------------------|------------|
|                                                      | 2012                            | 2011       |
| Net cash provided by operating activities            | \$ 39,224                       | \$ 58,336  |
| Net cash (used in) provided by investing activities  | (19,855)                        | 6,527      |
| Net cash used in financing activities                | (52,228)                        | (63,116)   |
| Net (decrease) increase in cash and cash equivalents | (32,859)                        | 1,747      |
| Cash and cash equivalents, beginning of period       | 420,986                         | 496,292    |
| Cash and cash equivalents, end of period             | \$ 388,127                      | \$ 498,039 |

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing. At March 31, 2012, our unused sources of liquidity consisted of cash and cash equivalents and the amount available under our credit facility.

In February 2012, we replaced our credit facility with a new five-year credit facility agreement which provides for borrowings of up to \$300.0 million (See Note 7 to the Consolidated Financial Statements). The new credit facility is a senior unsecured revolving line of credit with Wells Fargo Bank, National Association, and a syndicate of other lenders and is scheduled to expire in February 2017. The availability of the new credit facility is subject to the compliance with certain covenants set forth in the agreement. The credit facility contains covenants which restrict our ability to engage in mergers, consolidations, asset sales, investments, transactions with affiliates, or to incur liens, as defined in the agreement. In the event of a default under the credit facility, we would also be restricted from paying dividends on, or repurchasing, our common stock. Currently, our ability to borrow from the credit facility is not limited by any covenant of the agreement. We currently have no borrowings under the new credit facility.

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 April 30, 2012, the amount of cash and cash equivalents considered free and immediately accessible for other general corporate purposes was \$262.9 million.

Cash flows from operations decreased \$19.1 million in the first quarter of 2012 compared to the first quarter of 2011 due to the decline in net income and the net change in our working capital accounts, primarily from the change in the balances of receivables and accrued income taxes.

Cash flows from investing activities decreased \$26.4 million in the first quarter of 2012 compared to the first quarter of 2011. Net cash used in investing activities includes:

*Purchases, sales and maturities of marketable securities.* We had cash outflows of \$9.6 million for the purchase of marketable securities in the first quarter of 2012 as compared to \$27.3 million in the first quarter of 2011. Marketable securities purchased in 2012 and 2011 consisted of investments for the start-up of new investment products and investments in short-term U.S. government agency and commercial paper securities by SIDCO. Purchases of marketable securities in first quarter 2011 include \$20.0 million of short-term U.S. government agency and commercial paper securities to initiate SIDCO's investment program. We had cash inflows of \$11.2 million from sales and maturities of marketable securities in the first quarter of 2012 as compared to \$46.9 million in the first quarter of 2011. Marketable securities sold in 2011 primarily includes the proceeds from the sales of SIV securities. Cash inflows from maturities and prepayments of marketable securities were \$10.4 million in the first quarter of 2012 as compared to \$10.1 million in the first quarter of 2011.

*The capitalization of costs incurred in developing computer software.* We will continue the development of the Global Wealth Platform through a series of releases to expand the functionality of the platform. We capitalized \$9.3 million of software development costs in the first quarter of 2012 as compared to \$10.7 million in the first quarter of 2011. Amounts capitalized in 2012 and 2011 include costs for significant enhancements and upgrades to the platform.



*Capital expenditures.* Our capital expenditures in the first quarter of 2012 primarily include purchased software. Our capital expenditures in the first quarter of 2011 primarily include equipment for our data center operations.

Cash flows from financing activities increased \$10.9 million in the first quarter of 2012 compared to the first quarter of 2011. Net cash used in financing activities includes:

*The repurchase of our common stock.* Our Board of Directors has authorized the repurchase of up to \$1.928 billion worth of our common stock through multiple authorizations. Through April 30, 2012, we repurchased approximately 276.8 million shares of our common stock at a cost of \$1.870 billion and had \$58.6 million of authorization remaining for the purchase of our common stock under this program. We spent approximately \$36.5 million during the first quarter of 2012 and \$39.5 million during the first quarter of 2011 for the repurchase of our common stock. Currently, there is no expiration date for our common stock repurchase program.

*Dividend payments.* Cash dividends paid were \$26.5 million or \$.15 per share in the first quarter of 2012. There were no cash dividends paid during the first quarter of 2011 since the payment date of the cash dividend declared in December 2010 occurred in 2010.

*Principal payments of our debt.* Principal payments in the first quarter of 2011 include payments of \$35.0 million to reduce the outstanding debt associated with our credit facility. We fully repaid the outstanding balance of our credit facility in 2011 and had no debt during the first quarter 2012.

We believe our operating cash flow, available borrowing capacity, and existing cash and cash equivalents should provide adequate funds for ongoing operations; continued investment in new products and equipment; our common stock repurchase program and future dividend payments.

#### **Forward-Looking Information and Risk Factors**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information contained in this discussion is or may be considered forward-looking. Forward-looking statements relate to future operations, strategies, financial results or other developments. Forward-looking statements are based upon estimates and assumptions that involve certain risks and uncertainties, many of which are beyond our control or are subject to change. Although we believe our assumptions are reasonable, they could be inaccurate. Our actual future revenues and income could differ materially from our expected results. We have no obligation to publicly update or revise any forward-looking statements.

Among the risks and uncertainties which may affect our future operations, strategies, financial results or other developments are those risks described in our latest Annual Report on Form 10-K in Part I, Item 1A. These risks include the following:

changes in capital markets that may affect our revenues and earnings;

product development risk;

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;

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;

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

fluctuations in foreign currency exchange rates; and

retention of senior management personnel.

SEI is a savings and loan holding company subject to supervision and regulation by the Federal Reserve. SEI is not subject to specific statutory capital requirements. However, SEI is required to maintain capital that is sufficient to support the holding

company and its subsidiaries' business activities, and the risks inherent in those activities. To manage capital adequacy, SEI currently utilizes a target Tier 1 Leverage Ratio as defined by the Board of Governors of the Federal Reserve System.

Our principal, regulated wholly-owned subsidiaries are SEI Investments Distribution Co., or SIDCO, SEI Investments Management Corporation, or SIMC, SEI Private Trust Company, or SPTC, SEI Trust Company, or STC, and SEI Investments (Europe) Limited, or SIEL. SIDCO is a broker-dealer registered with the SEC under the Securities and Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA). SIMC is an investment advisor registered with the SEC under the Investment Advisers Act of 1940. SPTC is a limited purpose federal thrift chartered and regulated by the Office of the Comptroller of the Currency. STC is a Pennsylvania trust company, regulated by the Pennsylvania Department of Banking. SIEL is an investment manager and financial institution subject to regulation by the Financial Services Authority of the United Kingdom. In addition, various SEI subsidiaries are subject to the jurisdiction of regulatory authorities in Canada, the Republic of Ireland and other foreign countries. The Company has a minority ownership interest in LSV, which is also an investment advisor registered with the SEC.

The Company, its regulated subsidiaries, their regulated services and solutions and their customers are all subject to extensive legislation, regulation and supervision that recently has been subject to, and continues to experience, significant change and increased regulatory activity. These changes and regulatory activities could have a material adverse affect on us and our clients.

The various governmental agencies and self-regulatory authorities that regulate or supervise the Company and various of its subsidiaries have broad administrative powers. In the event of a failure to comply with laws, regulations and requirements of these agencies and authorities, the possible sanctions that may be imposed include the suspension of individual employees, limitations on our ability to engage in business for specified periods of time, the revocation of applicable registration as a broker-dealer, investment advisor or other regulated entity, and, as the case may be, censures and fines. Additionally, certain securities and banking laws applicable to us and our subsidiaries provide for certain private rights of action that could give rise to civil litigation. Any litigation could have significant financial and non-financial consequences including monetary judgments and the requirement to take action or limit activities that could ultimately affect our business.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to our regulated subsidiaries and their activities, services and solutions, our business practices, our past actions and other matters has increased dramatically in the past several years. Responding to these examinations, investigations, actions and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation and on the morale and performance of our employees, which could adversely affect our businesses and results of operations.

We are subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires implementation of regulations applicable to financial services companies, including standards for verifying client identification and monitoring client transactions and detecting and reporting suspicious activities. Anti-money laundering laws outside the United States contain similar requirements.

We offer investment and banking solutions that also are subject to regulation by the federal and state securities and banking authorities, as well as foreign regulatory authorities, where applicable. Existing or future regulations that affect these solutions could lead to a reduction in sales of these solutions or require modifications of these solutions.

Compliance with existing and future regulations and responding to and complying with recent increased regulatory activity affecting broker-dealers, investment advisors, investment companies, financial institutions and their service providers could have a significant impact on us. We periodically undergo regulatory examinations and respond to regulatory inquiries and document requests. In addition, recent legislative activity in the United States (including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and attendant rule making activities) and in other jurisdictions (including the European Union and the United Kingdom) have made and continue to make, extensive changes to the laws regulating financial services firms. As a result of these examinations, inquiries and requests, as a result of increased civil litigation activity, and as a result of these new laws and regulations, we engage legal counsel, review our compliance procedures, solution and service offerings,

and business operations, and make changes as we deem necessary. These additional activities and required changes may result in increased expense or may reduce revenues.

Our bank clients are subject to supervision by federal 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, state securities authorities, or FINRA. Existing or future regulations applicable to our clients may affect our clients' purchase of our products and services.

In addition, see the discussion of governmental regulations in Item 1A Risk Factors in our latest Annual Report on Form 10-K for a description of the risks that proposed regulatory changes may present for our business.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Information 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, 2011. There have been no material changes in our market risk exposures from those disclosed in our Annual Report on Form 10-K for 2011.

**Item 4. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective in ensuring that information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended March 31, 2012 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, 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. The first complaint was filed on August 5, 2009. 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. 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 also been voluntarily dismissed by plaintiffs. 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. Defendants have moved to consolidate the complaints, which motion has been granted. The Court appointed lead plaintiff on July 13, 2010, and an amended consolidated class action complaint was filed on September 25, 2010 asserting substantially the same claims. Defendants moved to dismiss on November 15, 2010. On December 16, 2010, lead plaintiff informed the Court and Defendants that lead plaintiff elected to file a second amended consolidated complaint, which was filed on January 31, 2011. Defendants filed a motion to dismiss the second complaint on March 17, 2011. Oral argument on this motion was held on February 2, 2012. 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 been named in six lawsuits filed in Louisiana. Five lawsuits were filed in the 19th Judicial District Court for the Parish of East Baton Rouge, State of Louisiana. One of the five actions purports to set forth claims on behalf of a class and also names SPTC as a defendant. Two of the other actions also name SPTC as a defendant. All five actions name various defendants in addition to SEI, and, in all five actions, the plaintiffs purport to bring a cause of action under the Louisiana Securities Act. The putative class action originally included a claim against SEI and SPTC for an alleged violation of the Louisiana Unfair Trade Practices Act. Two of the other five actions include claims for violations of the Louisiana Racketeering Act and possibly conspiracy. In addition, another group of plaintiffs have filed a lawsuit in the 23rd Judicial District Court for the Parish of Ascension, State of Louisiana, against SEI and SPTC and other defendants asserting claims of negligence, breach of contract, breach of fiduciary duty, violations of the uniform fiduciaries law, negligent misrepresentation, detrimental reliance, violations of the Louisiana Securities Act and Louisiana Racketeering Act and conspiracy. The underlying allegations in all the actions are purportedly related to the role of SPTC in providing back-office services to Stanford Trust Company. The petitions allege that SEI and SPTC aided and abetted or otherwise participated in the sale of certificates of deposit issued by Stanford International Bank. Two of the five actions filed in East Baton Rouge have been removed to federal court, and plaintiffs' motions to remand are pending. These two cases have been transferred by the Judicial Panel on Multidistrict Litigation to United States District Court for the Northern District of Texas. On August 31, 2011, the United States District Court for the Northern District of Texas issued an order and judgment that the causes of action alleged against SEI and SPTC in the two remanded actions were preempted by federal law and the Court dismissed these cases with prejudice. The Court of Appeals for the Fifth Circuit granted an expedited appeal of the United States District Court's order and judgment. The appeal was briefed, and oral argument was held on February 7, 2012. On March 19, 2012, a panel of the Court of Appeals for the Fifth Circuit reversed the decision of the United States District Court and remanded the actions for further proceedings. On April 2, 2012, SEI filed with the United States Court of Appeals for the Fifth Circuit a petition for rehearing en banc of the panel's opinion. On April 19, 2012, the Fifth Circuit Court of Appeals denied the petition for rehearing.

The case filed in Ascension Parish was also removed to federal court and transferred by the Judicial Panel on Multidistrict Litigation to the Northern District of Texas. The schedule for responding to that complaint has not yet been established. The plaintiffs in the remaining two cases in East Baton Rouge have granted SEI an extension to respond to the filings. SEI and SPTC filed exceptions in the putative class action 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. SEI and SPTC filed an answer to the East Baton Rouge putative class

action; plaintiffs filed a motion for class certification; and SEI and SPTC also filed a motion for summary judgment against certain named plaintiffs which the Court stated will not be set for hearing until after the hearing on the class certification motion. Following the decision by the United States District Court for the Northern District of Texas, the Court in the East Baton Rouge action issued an order staying the proceedings in the East Baton Rouge class action pending the outcome of the appeal of the order and judgment of the United States District Court for the Northern District of Texas. Following the panel opinion of the Court of Appeals on March 19, 2012, the Court in the East Baton Rouge action scheduled a hearing on class certification for September 20, 2012. While the outcome of this litigation is uncertain given its early phase, SEI and SPTC believe that they have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously.

Because of the uncertainty of the make-up of the classes, the specific theories of liability that may survive a motion to dismiss, the lack of discovery regarding damages, causation, mitigation and other aspects that may ultimately bear upon loss, the Company is not reasonably able to provide an estimate of loss, if any, with respect to the foregoing lawsuits.

**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, 2011. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for 2011.

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

(e) Our Board of Directors has authorized the repurchase of up to \$1.928 billion worth of our common stock through multiple authorizations. Currently, there is no expiration date for our common stock repurchase program.

Information regarding the repurchase of common stock during the three months ended March 31, 2012 is as follows:

| Period                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|-----------------------|----------------------------------|------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| January 1 - 31, 2012  | 25,000                           | \$ 18.10                     | 25,000                                                                 | \$ 95,823,000                                                                  |
| February 1 - 29, 2012 | 575,000                          | 19.70                        | 575,000                                                                | 84,496,000                                                                     |
| March 1 - 31, 2012    | 1,248,000                        | 20.78                        | 1,248,000                                                              | 58,562,000                                                                     |
| Total                 | 1,848,000                        | 20.40                        | 1,848,000                                                              |                                                                                |

**Item 5. Other Information.**

(a) On Wednesday, May 2, 2012, SEI Investments Company issued a press release announcing its financial and operating results for the first quarter ended March 31, 2012. A copy of the press release is attached as Exhibit 99.1 to this Quarterly Report on Form 10-Q.

**Item 6. Exhibits.**

The following is a list of exhibits filed as part of the Form 10-Q.

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

|         |                                                                                                                                                                 |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1    | Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.                                                                                              |
| 31.2    | Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.                                                                                              |
| 32      | Section 1350 Certifications.                                                                                                                                    |
| 99.1    | Press Release dated May 2, 2012 of SEI Investments Company related to the Company's financial and operating results for the first quarter ended March 31, 2012. |
| 101.INS | XBRL Instance Document                                                                                                                                          |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                         |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                           |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                            |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                 |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                          |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEI INVESTMENTS COMPANY

Date: May 3, 2012

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

Page 37 of 37