

SEI INVESTMENTS CO
Form 10-Q
April 20, 2016

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, 2016

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

0-10200
(Commission File Number)

SEI INVESTMENTS COMPANY
(Exact name of registrant as specified in its charter)

Pennsylvania 23-1707341
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)
1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100
(Address of principal executive offices)

(Zip Code)
(610) 676-1000
(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer Accelerated filer

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

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 19, 2016 was 161,993,066.

SEI Investments Company

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

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

	March 31, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$638,253	\$ 679,661
Restricted cash	5,500	5,500
Receivables from investment products	51,633	48,098
Receivables, net of allowance for doubtful accounts of \$700 and \$649	229,558	223,023
Securities owned	21,264	21,235
Other current assets	28,829	26,207
Total Current Assets	975,037	1,003,724
Property and Equipment, net of accumulated depreciation of \$266,022 and \$259,501	141,790	143,977
Capitalized Software, net of accumulated amortization of \$270,313 and \$259,358	289,044	290,522
Investments Available for Sale	78,356	81,294
Investments in Affiliated Funds, at fair value	4,183	4,039
Investment in Unconsolidated Affiliates	44,247	49,580
Deferred Income Taxes	4,117	—
Other Assets, net	14,072	15,492
Total Assets	\$1,550,846	\$ 1,588,628
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$4,354	\$4,511
Accrued liabilities	165,005	217,587
Deferred revenue	2,936	2,385
Total Current Liabilities	172,295	224,483
Deferred Income Taxes	66,410	63,028
Other Long-term Liabilities	11,676	11,397
Total Liabilities	250,381	298,908
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, \$.01 par value, 750,000 shares authorized; 161,908 and 163,733 shares issued and outstanding	1,619	1,637
Capital in excess of par value	912,506	910,513
Retained earnings	408,684	402,860
Accumulated other comprehensive loss, net	(22,344)	(25,290)
Total Shareholders' Equity	1,300,465	1,289,720
Total Liabilities and Shareholders' Equity	\$1,550,846	\$ 1,588,628

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,	
	2016	2015
Revenues:		
Asset management, administration and distribution fees	\$251,437	\$246,768
Information processing and software servicing fees	73,399	70,653
Transaction-based and trade execution fees	9,427	8,023
Total revenues	334,263	325,444
Expenses:		
Subadvisory, distribution and other asset management costs	39,195	38,517
Software royalties and other information processing costs	7,748	7,509
Brokerage commissions	7,108	5,972
Compensation, benefits and other personnel	101,931	94,186
Stock-based compensation	3,789	3,750
Consulting, outsourcing and professional fees	38,506	35,628
Data processing and computer related	15,718	13,400
Facilities, supplies and other costs	15,997	17,059
Amortization	11,012	10,358
Depreciation	6,447	5,995
Total expenses	247,451	232,374
Income from operations	86,812	93,070
Net (loss) gain from investments	(126) 250
Interest and dividend income	1,083	969
Interest expense	(114) (113
Equity in earnings of unconsolidated affiliates	29,192	34,033
Gain on sale of subsidiary	2,791	2,791
Income before income taxes	119,638	131,000
Income taxes	42,141	46,389
Net income	77,497	84,611
Basic earnings per common share	\$0.48	\$0.51
Shares used to compute basic earnings per share	163,013	166,695
Diluted earnings per common share	\$0.47	\$0.50
Shares used to compute diluted earnings per share	166,145	170,703

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

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

	Three Months Ended March 31,	
	2016	2015
Net income	\$77,497	\$84,611
Other comprehensive gain (loss), net of tax:		
Foreign currency translation adjustments	2,429	(8,783)
Unrealized gain (loss) on investments:		
Unrealized gains during the period, net of income taxes of \$(191) and \$(25)	330	7
Less: reclassification adjustment for losses (gains) realized in net income, net of income taxes of \$(103) and \$52	187 517	(94) (87)
Total other comprehensive gain (loss), net of tax	2,946	(8,870)
Comprehensive income	\$80,443	\$75,741

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

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

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$77,497	\$84,611
Adjustments to reconcile net income to net cash provided by operating activities (See Note 1)	524	(6,681)
Net cash provided by operating activities	78,021	77,930
Cash flows from investing activities:		
Additions to restricted cash	—	(4)
Additions to property and equipment	(4,609)	(7,386)
Additions to capitalized software	(9,477)	(7,989)
Purchases of marketable securities	(8,652)	(4,107)
Prepayments and maturities of marketable securities	12,090	7,375
Sales of marketable securities	185	—
Receipt of contingent payment from sale of SEI AK	2,791	2,791
Other investing activities	200	(1,000)
Net cash used in investing activities	(7,472)	(10,320)
Cash flows from financing activities:		
Purchase and retirement of common stock	(78,372)	(67,534)
Proceeds from issuance of common stock	6,476	19,209
Tax benefit on stock options exercised	624	3,268
Payment of dividends	(42,677)	(40,178)
Net cash used in financing activities	(113,949)	(85,235)
Effect of exchange rate changes on cash and cash equivalents	1,992	(6,561)
Net decrease in cash and cash equivalents	(41,408)	(24,186)
Cash and cash equivalents, beginning of period	679,661	667,446
Cash and cash equivalents, end of period	\$638,253	\$643,260
The accompanying notes are an integral part of these consolidated financial statements.		

Notes to Consolidated Financial Statements

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

Note 1. Summary of Significant Accounting Policies

Nature of Operations

SEI Investments Company (the Company), a Pennsylvania corporation, provides investment processing, investment management, and investment operations solutions to financial institutions, financial advisors, institutional investors, investment managers and ultra-high-net-worth families in the United States, Canada, the United Kingdom, continental Europe and various other locations throughout the world. Investment processing 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 which are recognized in Transaction-based and trade execution fees.

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 have been condensed or omitted. The interim financial information is unaudited but reflects all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of financial position of the Company as of March 31, 2016, the results of operations for the three months ended March 31, 2016 and 2015, and cash flows for the three month periods ended March 31, 2016 and 2015. 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, 2015.

There have been no significant changes in significant accounting policies during the three months ended March 31, 2016 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 with the exception of the adoption of Accounting Standards Update (ASU) No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis (See Note 3) and ASU No. 2015-07, Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (See Note 5).

Cash and Cash Equivalents

Cash and cash equivalents includes \$402,910 and \$448,957 at March 31, 2016 and December 31, 2015, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. The SEI-sponsored mutual funds are Level 1 assets.

Restricted Cash

Restricted cash includes \$5,000 at March 31, 2016 and December 31, 2015 segregated for regulatory purposes related to trade-execution services conducted by SEI Investments (Europe) Limited. Restricted cash also includes \$500 at

March 31, 2016 and December 31, 2015, respectively, segregated in special reserve accounts for the benefit of customers of the Company's broker-dealer subsidiary, SEI Investments Distribution Co. (SIDCO), in accordance with certain rules established by the Securities and Exchange Commission for broker-dealers.

Capitalized Software

The Company capitalized \$9,477 and \$7,989 of software development costs during the three months ended March 31, 2016 and 2015, respectively. The Company's software development costs primarily relate to the continued development of the SEI Wealth PlatformSM (the Platform). The Company capitalized \$7,645 and \$7,330 of software development costs for

significant enhancements to the Platform during the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, the net book value of the Platform was \$282,311. The Platform has an estimated useful life of 15 years and a weighted average remaining life of 6.3 years. Amortization expense for the Platform was \$10,955 and \$10,301 during the three months ended March 31, 2016 and 2015, respectively. The Company also capitalized \$1,832 and \$659 of software development costs during the three months ended March 31, 2016 and 2015, respectively, related to new technological capabilities for the Investment Managers segment.

Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended March 31, 2016 and 2015 are:

	For the Three Months Ended		
	March 31, 2016		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
Basic earnings per common share	\$77,497	163,013,000	\$ 0.48
Dilutive effect of stock options	—	3,132,000	
Diluted earnings per common share	\$77,497	166,145,000	\$ 0.47

	For the Three Months Ended		
	March 31, 2015		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
Basic earnings per common share	\$84,611	166,695,000	\$ 0.51
Dilutive effect of stock options	—	4,008,000	
Diluted earnings per common share	\$84,611	170,703,000	\$ 0.50

Employee stock options to purchase 10,506,000 and 10,051,000 shares of common stock, with an average exercise price of \$34.05 and \$30.02, were outstanding during the three months ended March 31, 2016 and 2015, respectively, but not included in the computation of diluted earnings per common share because either the performance conditions have not been satisfied or would have been satisfied if the reporting date was the end of the contingency period or the option's exercise price was greater than the average market price of the Company's common stock and the effect on diluted earnings per common share would have been anti-dilutive.

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:

	2016	2015
Net income	\$77,497	\$84,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,447	5,995
Amortization	11,012	10,358
Equity in earnings of unconsolidated affiliates	(29,192)	(34,033)
Distributions received from unconsolidated affiliate	34,525	37,003
Stock-based compensation	3,789	3,750
Provision for losses on receivables	51	(117)
Deferred income tax expense	(1,029)	(102)
Gain from sale of SEI AK	(2,791)	(2,791)
Net loss (gain) from investments	126	(250)
Change in other long-term liabilities	279	464
Change in other assets		