

SEI INVESTMENTS CO
Form 10-Q
May 04, 2009

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, 2009

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
(State or other jurisdiction of
incorporation or organization)

23-1707341
(IRS Employer
Identification Number)

1 Freedom Valley Drive, Oaks, Pennsylvania 19456-1100

(Address of principal executive offices)

(Zip Code)

(610) 676-1000

(Registrant's telephone number, including area code)

N/A

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(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

SEC 1296 (04-09) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 29, 2009: 190,892,479 shares of common stock, par value \$.01 per share.

(Cover page 1 of 1)

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

	March 31, 2009	December 31, 2008
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 428,084	\$ 416,643
Restricted cash	16,400	14,000
Receivables from regulated investment companies	22,591	28,364
Receivables, net of allowance for doubtful accounts of \$2,904 and \$2,656 (Note 4)	166,291	179,845
Deferred income taxes	43,082	84,830
Other current assets	55,232	15,989
Total Current Assets	731,680	739,671
Property and Equipment, net of accumulated depreciation and amortization of \$142,743 and \$142,240 (Note 4)	145,551	148,124
Capitalized Software, net of accumulated amortization of \$56,988 and \$52,113	279,368	270,606
Investments Available for Sale (Note 6)	71,733	75,380
Trading Securities (Note 6)	74,400	11,313
Goodwill (Notes 2 and 3)	22,842	22,842
Intangible Assets, net of accumulated amortization of \$25,437 and \$23,523 (Notes 2 and 3)	50,604	52,518
Other Assets	20,219	21,261
Total Assets	\$ 1,396,397	\$ 1,341,715

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, 2009	December 31, 2008
<u>Liabilities and Equity</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 6,400	\$ 7,200
Accounts payable	9,054	12,308
Payable to regulated investment companies	42	97
Accrued liabilities (Note 4)	94,866	134,776
Capital Support Agreements (Notes 5 and 7)	57,945	173,983
Deferred revenue	1,370	1,530
Total Current Liabilities	169,677	329,894
Long-term Debt	216,286	24,332
Deferred Income Taxes	106,244	104,548
Other Long-term Liabilities (Note 11)	4,752	4,067
Commitments and Contingencies		
Equity:		
SEI Investments Company shareholders' equity:		
Common stock, \$.01 par value, 750,000 shares authorized; 190,824 and 191,195 shares issued and outstanding	1,908	1,912
Capital in excess of par value	489,698	485,721
Retained earnings	319,135	289,682
Accumulated other comprehensive loss, net	(9,563)	(8,163)
Total SEI Investments Company shareholders' equity	801,178	769,152
Noncontrolling interest	98,260	109,722
Total Equity	899,438	878,874
Total Liabilities and Equity	\$ 1,396,397	\$ 1,341,715

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,	
	2009	2008
Revenues:		
Asset management, administration and distribution fees	\$ 169,364	\$ 260,059
Information processing and software servicing fees	62,217	60,139
Transaction-based and trade execution fees	17,030	13,710
Total revenues	248,611	333,908
Expenses:		
Commissions and fees	37,553	45,295
Compensation, benefits and other personnel	76,868	83,892
Consulting, outsourcing and professional fees	21,150	26,757
Data processing and computer related	11,515	10,548
Facilities, supplies and other costs	15,433	17,385
Depreciation and amortization	12,562	11,520
Total expenses	175,081	195,397
Income from operations	73,530	138,511
Net loss from investments	(14,450)	(24,046)
Interest and dividend income	1,711	4,138
Interest expense	(799)	(967)
Net income before income taxes	59,992	117,636
Income taxes	8,929	29,175
Net income	51,063	88,461
Less: Net income attributable to the noncontrolling interest	(16,863)	(39,515)
Net income attributable to SEI Investments Company	\$ 34,200	\$ 48,946
Basic earnings per common share	\$.18	\$.25
Diluted earnings per common share	\$.18	\$.25

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,	
	2009	2008
Net income	\$ 51,063	\$ 88,461
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(1,770)	(2,922)
Unrealized holding loss on investments:		
Unrealized holding losses during the period, net of income tax (expense) benefit of \$(242) and \$134	(89)	(242)
Less: reclassification adjustment for gains realized in net income, net of income tax expense of \$11 and \$395	(27)	(671)
	(116)	(913)
Total other comprehensive loss, net of tax	(1,886)	(3,835)
Comprehensive income	\$ 49,177	\$ 84,626
Comprehensive income attributable to the noncontrolling interest	(16,377)	(38,544)
Comprehensive income attributable to SEI Investments Company	\$ 32,800	\$ 46,082

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,	
	2009	2008
Cash flows from operating activities:		
Net income attributable to SEI Investments Company	\$ 34,200	\$ 48,946
Adjustments to reconcile net income to net cash provided by operating activities	15,352	19,319
Net cash provided by operating activities	49,552	68,265
Cash flows from investing activities:		
Additions to restricted cash	(2,400)	(12,515)
Additions to property and equipment	(2,967)	(5,545)
Additions to capitalized software	(13,638)	(12,178)
Purchase of marketable securities	(194,913)	
Prepayments and maturities of marketable securities	4,154	486
Sale of marketable securities		926
Net cash used in investing activities	(209,764)	(28,826)
Cash flows from financing activities:		
Payments on long-term debt	(3,846)	(5,187)
Proceeds from borrowings on long-term debt	195,000	
Purchase and retirement of common stock	(5,900)	(50,916)
Proceeds from issuance of common stock	1,600	4,182
Tax benefit on stock options exercised	96	1,547
Payment of dividends	(15,297)	(13,607)
Net cash provided by (used in) financing activities	171,653	(63,981)
Net increase (decrease) in cash and cash equivalents	11,441	(24,542)
Cash and cash equivalents, beginning of period	416,643	360,921
Cash and cash equivalents, end of period	\$ 428,084	\$ 336,379

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

Notes to Consolidated Financial Statements

(all figures are in thousands except per share data)

Note 1. Summary of Significant Accounting Policies

Nature of Operations

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

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

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

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2008. 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 to present fairly the financial position of the Company as of March 31, 2009, the results of operations for the three months ended March 31, 2009 and 2008, and cash flows for the three month periods ended March 31, 2009 and 2008. 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, 2008.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 160 (SFAS 160), Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 in January 2009. SFAS 160 established accounting and reporting standards that require the ownership interests in subsidiaries not held by the parent to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. This statement also required the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income.

Except as disclosed herein, there have been no significant changes in significant accounting policies during the three months ended March 31, 2009 as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Variable Interest Entities

The Company has involvement with various variable interest entities (VIE or VIEs). These VIEs consist of LSV Employee Group, two SEI-sponsored money market funds, and other investment products in the form of Cayman Island investment companies (Cayman companies) and collective investment trusts.

The Company provided an unsecured guaranty with the lenders of LSV Employee Group in order to facilitate the acquisition of partnership interest in LSV. It was determined that LSV Employee Group is a VIE because the partners of LSV Employee Group do not have any equity at risk because the Company guaranteed the loan. The Company determined it was the primary beneficiary through its guaranty of the debt (See Note 2).

The Company entered into Capital Support Agreements with some of its money market funds to protect the money market fund shareholders from absorbing the credit losses associated with senior notes issued by structured investment vehicles (SIV or SIVs). At the time the Company provided the Capital Support Agreements, the funds became VIEs; however, management concluded the Company was not the primary beneficiary. Management compared the credit risk absorbed through the Capital Support Agreements due to the SIV securities and the interest rate and credit risk associated with the non-SIVs absorbed by the money market funds shareholders to determine if the Company's risk represented the majority. This analysis determined that the interest rate and credit risk absorbed by the money market fund shareholders was more variable than the credit risk absorbed by the Company. Therefore, the Company is not bearing more than 50 percent of the expected losses on the money market funds and the Company is not the primary beneficiary (See Note 7).

Other variable interest entities are in the form of Cayman companies and collective investment trusts established for the purpose of offering alternative investment products to clients. Clients of the Company are the equity holders in all of these VIEs. The Company governs all decision making authority of the Cayman companies and the collective investment trusts. The Company has no equity investment in the Cayman companies or the collective investment trusts. As a result, the Company has no variable interest in these entities and, therefore, is not the primary beneficiary.

Cash and Cash Equivalents

Cash and cash equivalents includes \$304,585 and \$282,155 at March 31, 2009 and December 31, 2008, respectively, primarily invested in SEI-sponsored open-ended money market mutual funds. Cash includes \$44,425 and \$60,515 at March 31, 2009 and December 31, 2008, respectively, from LSV.

Restricted Cash

Restricted cash includes \$16,400 and \$14,000 at March 31, 2009 and December 31, 2008, 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 \$13,638 and \$12,178 of software development costs during the three months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, capitalized software placed into service included on the accompanying Consolidated Balance Sheet had a weighted average remaining life of approximately 13.1 years. Amortization expense related to capitalized software was \$4,876 and \$4,200 during the three months ended March 31, 2009 and 2008, respectively.

The Company placed the initial version of the Global Wealth Platform into service in July 2007 and has subsequently implemented enhancements and upgrades to the platform through a series of releases. The total amount of capitalized software development costs related to the platform placed into service and being amortized as of March 31, 2009 was \$279,503, which includes \$55,160 related to a release placed into service in January 2009. The Global Wealth Platform has an estimated useful life of 15 years. Amortization expense related to the platform was \$4,432 and \$3,636 during the three months ended March 31, 2009 and 2008, respectively.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. The Company adopted the provisions of SFAS 157 in January 2008. However, in February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted the provisions of SFAS 157 as they relate to nonfinancial assets and liabilities in January 2009. The adoption of SFAS 157 for nonfinancial assets and liabilities did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. See Note 5 for information on related disclosures regarding fair value measurements.

Earnings per Share

The calculations of basic and diluted earnings per share for the three months ended March 31, 2009 and 2008 are:

	For the Three Month Period Ended March 31, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per common share	\$ 34,200	191,084	\$.18

Dilutive effect of stock options